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

Independent Auditor's Reports
and Basic Financial Statements

For the Year Ended June 30, 2018

Certified
Public
Accountants

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ
For the Year Ended June 30, 2018

Table of Contents

MGO Certified Public Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Successor Agency of the Redevelopment Agency of the City of San José (SARA), a component unit of the City of San José (City), California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the SARA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SARA as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

Other Matter

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018 on our consideration of the SARA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SARA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SARA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2018

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ
(A Component Unit of the City of San José, California)
Statement of Fiduciary Net Position
For the Year Ended June 30, 2018

Assets:	
Cash and investments	$ 14,539,423
Receivables, net of $443,213	1,940,379
Restricted cash and investments	138,277,532
Advances to the City of San José	739,000
Loans receivable, net	4,215,261
Accrued interest receivable, net	984,413
Deposits	106,202
Property held for resale	33,456,710
Capital assets:	
Nondepreciable	47,677,113
Depreciable, net	57,478,064
Total assets	299,414,097
Deferred outflows of resources:	
Loss on deferred amount on refunding	44,466,006
Liabilities:	
Due to the City of San José	106
Accounts payable	3,128,547
Accrued interest payable	23,183,047
Unearned revenues	144,692
Deposits	7,100
Noncurrent liabilities:	
Due within one year	117,475,757
Due in more than one year	1,674,637,364
Total liabilities	1,818,576,613
Net position (deficit) held in trust	$ (1,474,696,510)

See accompanying notes to basic financial statements.

SUCCESSOR AGENCY TO THE
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ
(A Component Unit of the City of San José, California)
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018

Additions:	
Redevelopment property tax revenues	$ 200,357,001
Investment income	1,458,412
Rent	304,985
Charges for current services	298,402
Development fees	151,484
Gain on sale of revenue participation	22,696,868
Gain on sale of property, net	1,914,479
Grant revenue	4,207,760
Other	3,193,820
Total additions	234,583,211
Deductions:	
General and administrative:	
Salaries, wages and benefits	475,347
Materials, supplies and other services	1,880,621
Project expenses	688,642
Pass-through amount to the County of Santa Clara	41,915,781
Depreciation	2,077,047
Interest on debt	54,039,986
Allowance for loan losses	57,482
Total deductions	101,134,906
Change in net position	133,448,305
Net position (deficit), beginning of year	(1,608,144,815)
Net position (deficit), end of year	$ (1,474,696,510)

See accompanying notes to basic financial statements.

NOTE 1 – REPORTING ENTITY

The former Redevelopment Agency of the City of José ("Agency") was established in 1956 by the San José City Council as a public entity legally separate from the City of San José ("City"). In January 1975, the City Council declared itself the Agency Board, replacing a separate board. Until June 28, 2011, the Agency had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a "Redevelopment Area". Redevelopment projects were developed in cooperation with private developers. Public redevelopment projects were also developed under cooperation agreements between the Agency and the City or other public entity that would own the project.

On June 29, 2011, Assembly Bill X1 26 ("AB X1 26") was enacted. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. AB X1 26 was subsequently amended on June 27, 2012 by Assembly Bill 1484 and on September 22, 2015 by Senate Bill 107, AB X1 26, as so amended, is referred to herein as the Redevelopment Dissolution Law. The legislation provides for successor agencies and oversight boards to be responsible for overseeing the dissolution process and the wind down of redevelopment activity. On January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency of the City of San José ("SARA" or "Successor Agency"), effective February 1, 2012. The SARA is a component unit of the City. Also upon dissolution, the City Council elected to retain the housing assets as well as the functions and powers previously performed by the Agency.

The SARA is a separate public entity from the City, subject to the direction and oversight of a Board consisting of the Mayor and the other members of the City Council. The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an Oversight Board. Through June 30, 2018, the Oversight Board was comprised of seven member representatives from local government bodies: two appointed by the Mayor; two appointed by the County of Santa Clara ("County"); one appointed by the County Superintendent of Education; one appointed by the Chancellor of California Community Colleges; and one appointed by the largest special district taxing entity in the Merged Project Area (currently the Santa Clara Valley Water District).

Beginning July 1, 2018, pursuant to Health and Safety Code section 34179(j), the individual oversight boards within Santa Clara County were combined into one county-wide Oversight Board. The county-wide Oversight Board is comprised of seven member representatives with one member appointed by each of the following: County Board of Supervisors, the city selection committee established pursuant to Section 50270 of the Government Code, the independent special district selection committee established pursuant to Section 56332 of the Government Code, the County Superintendent of Education, the Chancellor of the California Community Colleges, a public appointment made by the County Board of Supervisors, and the recognized employee organization representing the largest number of successor agency employees in the County. The county-wide Oversight Board is staffed by the County of Santa Clara Auditor-Controller and tasks have been delegated among the County Finance Agency, the Office of the County Executive, the Clerk of the Board of Supervisors, and Office of the County Counsel.

NOTE 1 – REPORTING ENTITY – Continued

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis of Accounting

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Investments

The SARA records investment transactions on the trade date. Investments are reported at fair value in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income, including unrealized gains and losses, is recognized as revenue.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Redevelopment Property Tax Trust Fund Revenues

The Redevelopment Dissolution Law requires the County Auditor-Controller to collect funds formerly received by the Agency as tax increment and currently referred to herein as redevelopment property tax revenues. After deducting its administration costs, the County Auditor-Controller must distribute the collected redevelopment property tax revenues into the SARA's Redevelopment Property Tax Trust Fund ("RPTTF") to the extent necessary to pay the SARA's enforceable obligations, subject to the review and approval of the State Department of Finance. The Redevelopment Dissolution Law requires the County Auditor-Controller to distribute funds from the RPTTF twice each year as follows:

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

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

Redevelopment Property Tax Trust Fund Revenues

The County Auditor-Controller administers the RPTTF for the benefit of local taxing agencies and the holders of the SARA's enforceable obligations. The Redevelopment Dissolution Law requires the County Auditor-Controller to disburse funds from the RPTTF in the following order: (1) for payments local agencies and schools would have received from the collected revenue before dissolution and for any pass-through payments pursuant to agreement unless such payments are subordinate to the payment of items described in (2) below and certain conditions are satisfied (including the timely filing of a Notice of Insufficient by the SARA); (2) for payment of the former Agency's enforceable obligations with debt service payments (and amounts required to replenish the related reserve funds, if any) scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the ROPS; (3) for payment of the SARA's administrative cost allowance (equal to the greater of $250,000 or three percent of the revenue allocated to the SARA), and (4) any moneys remaining in the RPTTF after payments of items (1) through (3) above, to local taxing agencies.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Redevelopment Property Tax Trust Fund Revenues, continued

On December 21, 2017, the SARA issued the 2017 Senior Tax Allocation Refunding Bonds and the 2017 Subordinate Tax Allocation Refunding Bonds (the "2017 Refunding Bonds") to refund certain bonds and other enforceable obligations of the former Agency. The payment of debt service on the 2017 Refunding Bonds and the other obligations under the related indenture are payable from certain tax revenues on a basis senior to the payment (i) of all AB1290 statutory pass-through payments except AB1290 payments to the San José Unified School District and (ii) the negotiated pass-through payments to Santa Clara County. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made with funds on deposit in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment debt service on the 2017 Refunding Bonds) unless there are insufficient funds to pay such debt service and certain other conditions are satisfied. Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose.

In the event there are insufficient tax revenues from the RPTTF to pay debt service on the 2017 Refunding Bonds, a Notice of Insufficiency is filed timely by the SARA , certain other conditions under the Redevelopment Dissolution Law are satisfied, and tax revenues from the RPTTF would be distributed as follows: (1) administrative fees of the County Auditor-Controller; (2) San José Unified AB1290 pass-through; (3) debt service on the 2017 Refunding Bonds; (4) all other AB1290 and negotiated pass-through payments due to Santa Clara County; (4) all other enforceable obligations; and (5) the SARA's administrative cost allowance. All funds remaining in the RPTTF after payment of items (1) through (5) above, would be paid to the applicable taxing entities. See Note 7 for additional information regarding the 2017 Refunding Bonds.

Restricted Assets

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

Property Held for Resale

Property held for resale is recorded as an asset at the lower of cost or net realizable value. The SARA recorded certain capital assets originally received from the Agency as property held for resale. On September 8, 2014, the State Department of Finance ("DOF") approved the Long-Range Property Management Plan ("LRPMP"), which specifies the disposition of the SARA properties. The SARA properties designated for sale under the LRPMP are to be sold in accordance with the Asset Disposition Schedule and the Disposition Process For Sale of Properties, both of which are subject to the approval of the Oversight Board.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

The SARA defines capital assets as assets with an initial individual cost of at least $5,000 and an estimated useful life in excess of one year. The capital assets consist of both depreciable and non-depreciable assets. Capital assets are recorded in the financial statements at historical cost and are being depreciated using the straight-line method over the estimated useful life of 40 years for parking structures and buildings, 25 years for leasehold improvements, and 5 years for equipment.

Original Issue Discounts, Premiums, and Refundings

Original issue discounts and premiums are amortized using the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable bond discounts and/or premiums. Gains or losses occurring from refunding of debt are reported as deferred outflows of resources or deferred inflows of resources, respectively; and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is recorded as a component of interest expense.

Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – CASH AND INVESTMENTS

The SARA's cash and investments consist of the following at June 30, 2018:

Cash & Investments		Amount
Cash and Investments	$	14,539,423
Restricted Cash and Investments		138,277,532
Total Cash and Investments	$	152,816,955

Investments

The SARA follows provisions of the California Government Code and the City's Municipal Code as set forth in the City's investment policy. The City Council adopted an investment policy (the "Policy") on April 2, 1985, related to the City's cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy. The Policy was last reviewed and approved, with no changes, on March 6, 2018.

NOTE 3 – CASH AND INVESTMENTS - Continued

Investments, continued

The following table identifies the investment types that are authorized by the Policy as of June 30, 2018:

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

* Represents where the City's Policy is more restrictive than the California Government Code.

NOTE 3 – CASH AND INVESTMENTS - Continued

Investments, continued

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Agriculture Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Investment in Farmer Mac may not exceed 10% of the total portfolio.

- Purchases of Supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated “Aa3, AA or AA” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence at the time of purchase.

- Purchases of Bankers’ Acceptances (“BAs”) are limited to issues by domestic U.S. or foreign banks. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence at the time of purchase.

- Deposits up to $10,000,000 may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Depositories must have a short-term rating of “P1, A1, or F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. Deposits shall be either insured by Federal Deposit Insurance Corporation (“FDIC”) or collateralized in the manner prescribed by State law for depositories.

- Commercial paper eligible for investment must be rated “P1, A1 or F1” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of $500,000,000 and shall issue debt, other than commercial paper, if any, that is rated “A3, A- or A-” or higher, by Moody’s, S&P, or Fitch, respectively.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer short-term rating of “P1, A1, F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence at the time of purchase.

NOTE 3 – CASH AND INVESTMENTS - Continued

Investments, continued

- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of the repurchase agreement's face value.

- Reverse repurchase agreements under the Policy are limited to the lesser of $25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.

- Corporate medium term notes eligible for investment must be rated "A3, A- or A-" or better by two of the three nationally recognized rating services; Moody's, S&P, or Fitch, respectively.

- Funds invested in Local Agency Investment Fund ("LAIF"), a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is $65,000,000.

- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission ("SEC") and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years of experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of $500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and must be maintained at no less than $1.00 per share.

- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be rated "A3, A- or A-" or better by two of the three nationally recognized rating services; Moody's, S&P, or Fitch, respectively.

NOTE 3 – CASH AND INVESTMENTS - Continued

Investments, continued

- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a provider's inability to meet its contractual obligations.

- Mortgage backed securities and collateralized mortgage obligations must be issued by a U.S. government agency and must be AAA rated or better by a nationally recognized rating service.

- Asset backed securities must be AAA rated or better by a nationally recognized rating service. The issuer of any asset backed security must have an "A3, A- or A-" rating or better by Moody's, S&P, or Fitch, respectively, of its underlying debt.

The Policy permits the City Director of Finance acting as CFO for the SARA to authorize investments that depart from the Policy's numerical limits if such an action is in the best interest of the SARA and is otherwise consistent with the Policy and applicable City, state and federal laws.

The SARA also has investments subject to provisions of the bond indentures of the former Agency's various bond issues until December 21, 2017 when the former Agency's bond issues were refunded by the SARA's 2017 Tax Allocation Refunding Bonds (see Note 7) and as of December 21, 2017 the indenture for the 2017 Tax Allocation Refunding Bonds. According to the bond indentures, the SARA is permitted to invest in the City's cash and investment pool, LAIF, obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

At June 30, 2018, the SARA invested an amount of $14,004,850 with LAIF, which is restricted for future debt service payments. The weighted average maturity of LAIF was 193 days at June 30, 2018.

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2018 was approximately $22.5 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The PMIA is not registered with the Securities and Exchange Commission ("SEC"), but is required to invest according to California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2018 was approximately $88.8 billion and of that amount, 66.37% was invested in U.S. Treasuries and agencies, 24.33% in depository securities, 8.44% in commercial paper, and 0.83% in loans.

Fair Value Measurement Categorization

The SARA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Money Market Mutual Funds and LAIF are valued by net asset value. The inputs and techniques used for securities are not necessarily an indication of risk associated with investing in these securities. The SARA's investments in Money Market Mutual Funds and LAIF are not subject to fair value hierarchy.

NOTE 3 – CASH AND INVESTMENTS - Continued

Fair Value Measurement Categorization, continued

The LAIF is part of the State's Pooled Money Investment Account that allows cities, counties and special districts to place money into the fund. LAIF operating accounts allow a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than $5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal every 30 days.

Custodial Credit Risk

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

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

As of June 30, 2018, $268,043 of the SARA's bank balance was exposed to custodial credit risk because it was uninsured beyond the Federal Deposit Insurance Corporation ("FDIC") insurance coverage limit of $250,000. However, all uninsured balances are collateralized by the pledging financial institutions as required by Section 52652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent, in the SARA's name. The actual book balance of certificates of deposit and bank deposits amounted to $557,168 at June 30, 2018.

The SARA invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the SARA employs the trust department of a bank or trustee as the custodian of certain SARA investments, regardless of their form.

NOTE 3 – CASH AND INVESTMENTS - Continued

Interest Rate Risk

The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. One of the ways that the SARA manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

Credit Risk

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

The following schedule indicates the interest rate and credit risk of the SARA's investments at June 30, 2018:

	Credit	Maturity (in Days)			Balance
	Rating	Under 30	31-180	181-365	at June 30
Investments:					
LAIF	Not rated	$ -	$ -	$ 14,004,850	$ 14,004,850
Money Market Mutual Funds	Aaa	138,254,937	-	-	138,254,937
Subtotal Investments		$ 138,254,937	$ -	$ 14,004,850	152,259,787
Certificates of Deposit					22,595
Bank Deposits					534,573
Total Cash and Investments					$ 152,816,955

Concentration of Credit Risk

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

NOTE 3 – CASH AND INVESTMENTS - Continued

Restricted Cash and Investments:

Held with Fiscal Agents

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, reserve requirements, and temporary investments of unexpended bond proceeds. At June 30, 2018, the amounts held by the trustee for the 2017 Tax Allocation Refunding Bonds aggregated to $138,254,937. All restricted investments held by the trustee at June 30, 2018 were in compliance with the bond indentures.

Held in Escrow Accounts

Pursuant to contracts and agreements, certain funds are required to be held in escrow accounts and are restricted for a particular purpose. These funds remain the property of the SARA until used. At June 30, 2018, the escrow accounts are as follows:

Project/Program	Amount
Center for Employment Training Toxic Fund (Convention Center South Hall Site)	$ 22,595

Upon the sale of the Convention Center South Hall Site to the City on October 10, 2018, the Toxic Fund was assigned to the City.

NOTE 4 – LOANS RECEIVABLE

Composition of loans receivable at June 30, 2018 is as follows:

	Description	Loan Receivable	Accrued Interest Receivable	Allowance	Net
1	Parcels of land sold to developers	$ 1,728,360	$ -	$ (1,728,360)	$ -
2	HUD Section 108 loans	1,051,100	32,933	(1,032,936)	51,097
3	Historic home relocation loans	1,768,922	-	(1,768,922)	-
4	Rehabilitation of residential units	107,595	31,512	(107,595)	31,512
5	Commercial building loans	8,218,713	919,968	(4,021,616)	5,117,065
6	Residential housing projects	-	55,227	(55,227)	-
7	Rehabilitation of historic hotel building	5,265,000	-	(5,265,000)	-
	Total	$ 18,139,690	$ 1,039,640	$ (13,979,656)	$ 5,199,674

NOTE 4 – LOANS RECEIVABLE - Continued

1. Over the years, parcels of land had been sold to commercial real estate developers in various mixed-use projects. In one downtown residential condominium project located at 360 South Market Street in San Jose, the original developer entered into a Disposition and Development Agreement ("DDA") with the Agency in 2005 to develop a mixed use project on the property ("360 Residences Project"). The 360 Residences Project was acquired by a new owner at a foreclosure sale on March 25, 2011 subject to the original DDA. On April 26, 2011, the DDA was amended to give the new owner the right to convert the project from for-sale to rental. The DDA was also amended to give the new owner the authority to subsequently convert any units back to for-sale units. Under the amended DDA, the new owner also executed a new promissory note payable to the Agency in the principal amount of $1,728,360. The principal under the new promissory note is due and payable when all proceeds of sold condominium units exceed an invested capital threshold. At June 30, 2018, the amount due from the new owner was $1,728,360. A provision for doubtful accounts was recorded for the entire balance due under the promissory note because the likelihood of the payment criteria being met is questionable in the foreseeable future.

2. In 1997 and 2007, the Agency extended loans to developers using funds obtained from the U.S. Department of Housing and Urban Development Section 108 loan proceeds. These loans have a 20-year repayment schedule, bear interest at an annual rate of 3%, and require principal and interest payments to the SARA on a monthly basis. At June 30, 2018, the amount due from the developers was $1,084,033. An allowance for doubtful accounts in the amount of $1,032,936 was made in prior years to account for the principal balance of a loan due to amounts in arrears. The allowance is adjusted based on the payments received during the year. The Agency receives interest payments from developers, therefore, no allowance on interest is necessary.

3. The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were sold to families and a non-profit agency. The owners made interior and exterior improvements using loans provided by the Agency. The loans are to be paid only in the event of non-compliance with the terms and conditions of the agreements. At the time residential occupancy of the house ceases or the property is transferred to anyone other than the owner by any method other than inheritance, the unamortized portion of the loan shall become due and payable in full. Unpaid principal shall bear an interest rate of 8% per annum. The total loans of $1,768,922 have been offset with a provision for doubtful accounts as it is anticipated that these loans will be fully amortized over the period of the loans.

4. The Agency extended various bank-assisted loans to aid first-time homebuyers and to aid with the rehabilitation of homes. The loans accrue interest at various interest rates and are due when the related properties are sold. At June 30, 2018, the total amount due from such loans was $139,107. An allowance for doubtful accounts in the amount of $107,595 was made for potential write-offs.

5. The Agency extended and amended various loans to property owners for the rehabilitation and improvements of commercial buildings. The loans are due within 10 to 25 years. The principal amount of the loans vary and they bear different interest rates. At June 30, 2018, the total amount due from these loans was $9,138,681. An allowance for doubtful accounts in the amount of $4,021,616 was made for potential write-offs.

NOTE 4 – LOANS RECEIVABLE - Continued

6. The Agency entered into Disposition and Development Agreements with Market Gateway, LLC (Market Gateway Housing Project) and Japantown Development, L.P. (Miraido Mixed-Use Development Project) for the construction of residential housing units in redevelopment project areas. The housing units were constructed on real property ground leased to the developers and the Agency retained fee title to the underlying real property. The financial improvement assistance provided to the developers by the Agency for such projects was to be repaid from Participation Rent due the Agency as landlord under each Ground Lease. The financial improvement assistance bears an interest rate ranging from 3.5% to 4%. Upon the sale of the underlying fee title of the real property by the SARA, the SARA's interest as landlord under each Ground Lease, and its right to receive Participation Rent, would transfer to the owner/buyer of the underlying fee title and the SARA would no longer receive any repayment of the financial improvement assistance.

   In July 2017, the SARA sold the Miraido Property to AFE Urban, Inc. (the buyer) for $2,800,000. With a net book value of $5,350,115, the SARA recognized a net loss of $2,559,690 after transaction costs. The SARA received net sale proceeds of $2,790,425. JPMorgan and the County each waived their respective liens on the Miraido project and the proceeds were used to partially call bonds associated with development of the Miraido project. The bonds involved were the Series 1996AB, 1997, 1999, 2004A, 2005A, and 2006CD. The SARA's interest as landlord under the Ground Lease and its right to receive Participation Rent was transferred to the buyer and the SARA would no longer receive any repayment of the financial improvement assistance in the amount of $11,659,497.

   In June 2018, the SARA sold the Market Gateway to the County (the buyer) for $2,635,000. With a net book value of $3,253,517, the SARA recognized a net loss of $620,874 after transaction costs of $2,357. At the close of escrow, the net sale proceeds of $2,632,643 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code. The SARA accrued revenue participation interest of $55,227, which was fully reserved in the allowance for doubtful accounts.

7. In May 2005, the Agency amended and restated a Disposition and Development Agreement with a developer recognizing a loan for the rehabilitation of a historic hotel building. The loan has a 60-year repayment schedule, bears no interest, and requires principal payments on a semi-annual basis starting in FY 2021. At June 30, 2018, the amount due from the developer was $5,265,000. A provision for doubtful accounts was provided for the entire loan balance due to the extended timeline before payments commence.

Small Business Loan Program

In June 2002, the Agency Board approved the creation of the Small Business Loan Program to be administered by the City's Office of Economic Development ("OED") and to be funded by the Agency with non-tax increment funds. The program offered reduced-rate loans to small businesses located in Downtown and Neighborhood Business Districts. In July 2008, administration of the program was transferred from OED to the Agency. The Agency has not funded the program since 2008. In June 2018, the Agency Board approved the write-off of the remaining loans in the Small Business Loan Program in the amount of $119,920.

NOTE 5 – PROPERTY HELD FOR RESALE

A summary of changes of the property held for resale during the year ended June 30, 2018 is as follows:

Property Description	July 1, 2017	Addition	Disposal	Reclassification	June 30, 2018
N. San Pedro Housing site (1)	$ 32,391,886	$ 4,730,826	$ (4,642,697)	$ 976,695	$ 33,456,710

(1) The valuation is based on the construction costs incurred. The asset is currently under construction.

In November 2017, the SARA sold property commonly known as Blocks A & C to TM San Jose 78, LLC for $6,544,722. The property had the net book value of $4,642,697 and the SARA recognized a gain of $1,882,340, after closing costs of $19,685. The net sale proceeds were paid to the County under the 2011 Settlement Agreement (see Note 7), which amount was applied against accrued interest.

Julian Street Realignment Construction Project has been reclassified from Construction in Progress (see Note 6) to Property Held for Resale.

NOTE 6 – CAPITAL ASSETS

A summary of changes in the SARA's capital assets for the year ended June 30, 2018, is as follows:

	July 1, 2017	Addition	Disposal	Reclassification	June 30, 2018
Capital Assets, Not Being Depreciated:					
Land	$ 59,773,754	$ 315,778	$ (12,412,419)	$ -	$ 47,677,113
Construction in Progress	976,695	-	-	(976,695)	-
Total Capital Assets, Not Being Depreciated	60,750,449	315,778	(12,412,419)	(976,695)	47,677,113
Capital Assets, Being Depreciated:					
Buildings	82,610,412	-	-	-	82,610,412
Building and other Improvements	107,985	-	-	-	107,985
Equipment	1,144,956	-	-	-	1,144,956
Total Capital Assets, Being Depreciated	83,863,353	-	-	-	83,863,353
Less Accumulated Depreciation:					
Buildings	23,102,092	2,069,848	-	-	25,171,940
Building and other Improvements	61,194	7,199	-	-	68,393
Equipment	1,144,956	-	-	-	1,144,956
Total Accumulated Depreciation	24,308,242	2,077,047	-	-	26,385,289
Total Capital Assets, Being Depreciated, net	59,555,111	(2,077,047)	-	-	57,478,064
Total Capital Assets, net	$ 120,305,560	$ (1,761,269)	$ (12,412,419)	$ (976,695)	$ 105,155,177

Various Agency-owned real estate assets with an aggregate book value of $13,377,149 were used to secure Letters of Credit obtained from JPMorgan Chase Bank ("JPMorgan") supporting the Agency's 1996 and 2003 variable rate revenue bonds. The 1996 and 2003 bonds were paid in full from the SARA refunding bonds proceeds in December 2017 and all of the real-estate assets used as collateral for those bonds either have been sold or are being sold.

NOTE 6 – CAPITAL ASSETS - Continued

In addition, the Convention Center – South Hall, José Theatre, and Arena Lot 5A were used as collateral to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development. Convention Center - South Hall was sold to the City on October 10, 2018 and the HUD loans were paid in full from a portion of the sales proceeds. The other properties used as collateral are projected to be sold in FY 2019 as well.

On August 27, 2015, the Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the Disposition Process For Sale of Properties, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. Additional amendments to the Asset Disposition Schedule were approved by the Oversight Board on January 14, 2016, April 28, 2016, October 27, 2016, and April 13, 2017.

In FY 2018, the SARA disposed the following properties:

- In July 2017, the SARA sold one property (520 North 6th Street) to AFE Urban, Inc. for $2,800,000. The property had the book value of $5,350,115 and the SARA recognized a loss of $2,559,690 after transaction costs of $9,575. The SARA received net proceeds of $2,790,425, of which were used to partially call bonds associated with the development of the Miraido project. The bonds involved were the Series 1996A/B, 1997, 1999, 2004A, 2005A, and 2006C/D.

- In May 2016, pursuant to a Compensation Agreement, the SARA transferred to the City properties necessary for the construction of the Autumn Street extension with a book value of $315,778, with a condition which required the property to be reverted to SARA and sold if the property was no longer needed for public right of way. In May 2017, after construction of the Autumn Street extension, a portion of the property (Bulb parcel, Old W. Julian Street) was not required for the Autumn Street extension and was considered surplus to the needs of the City. Pursuant to the Compensation Agreement, the surplus parcel was to revert to the SARA and be sold. In August 2017, the City, SARA, and the buyer (Akatiff Revocable Trust) entered into a Purchase and Sale Agreement ("PSA") to sell the surplus parcel to the buyer for the amount of $33,500. In September 2017, the property (Bulb parcel, Old Julian St) was transferred directly to the Akatiff Revocable Trust for $33,500. The SARA recognized a loss of $282,278. The net sale proceeds were delivered to SARA and used to pay enforceable obligations.

- In December 2017, the SARA sold one property (551 West Julian Street) to TC Agoge Associates, LLC for $650,000. The property had the book value of $975,819 and the SARA recognized a loss of $329,026 after transaction costs of $3,207. The net sale proceeds of $646,793 were used to pay the accrued interest owed to the County under the 2011 Settlement Agreement (see Note 7).

NOTE 6 – CAPITAL ASSETS - Continued

- In December 2017, the SARA sold one property (201 South 2nd Street) to 201 S. 2nd Ground Only LLC for $726,000. The property had the book value of $563,101 and the SARA recognized a gain of $159,523 after transaction costs of $3,376. The net sale proceeds of $722,624 were used to pay the accrued interest owed to the County under the 2011 Settlement Agreement (see Note 7).

- In December 2017, the SARA sold one property (1343 The Alameda) to Investment Property Exchange Services as Qualified Intermediary for Grizzly Hachett, LLC for $363,000. The property had the book value of $426,632 and the SARA recognized a loss of $65,379 after transaction costs of $1,747. The net sale proceeds were paid to the County under the 2011 Settlement Agreement (see Note 7), which amount was applied against accrued interest.

- In January 2018, the SARA sold one property (366 South 1st Street) to Two Fish Design for $1,050,000. The property had the book value of $1,075,927 and the SARA recognized a loss of $25,927. The net sale proceeds were delivered to SARA and used to pay enforceable obligations.

- In January 2018, the SARA sold one property (292 Stockton Avenue) to Diridon Hospitality LLC for $4,000,000. The property had the book value of $82,937 and the SARA recognized a gain of $3,904,349 after transaction costs of $12,714. The net sale proceeds were delivered to SARA and used to pay enforceable obligations.

- In May 2018, the SARA sold one property (1770 Alum Rock Ave) to the City for $221,050. The property had the book value of $368,593 and the SARA recognized a loss of $148,559 after transaction costs of $1,016. At the close of escrow, the net sale proceeds of $219,999 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

- In June 2018, the SARA sold one property Market Gateway (525 South Market Street) to the County (the buyer) for $2,635,000. The property had the net book value of $3,253,517 and the SARA recognized a net loss of $620,874 after transaction costs of $2,357. At the close of escrow, the net sale proceeds of $2,632,643 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

NOTE 7 – DEBT

The following is a summary of long-term debt of the SARA at June 30, 2018 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2018 Balance
Senior Tax Allocation Bonds:							
2017 Refunding Bonds Series A	Refunding - merged area projects	$ 79,825	12/21/2017	8/1/2035	5.00%	$0 - 53,810	$ 79,825
2017 Refunding Boonds Series A-T	Refunding - merged area projects	1,333,325	12/21/2017	8/1/2034	1.90-3.38%	$32,910 - 93,735	1,333,325
Total Senior Tax Allocation Bonds							1,413,150
Subordinate Tax Allocation Bonds:							
2017 Refunding Bonds Series B	Refunding - merged area projects	264,390	12/21/2017	8/1/2029	2.00-5.00%	$7,820 - 29,835	264,390
Other Long-Term Debt:							
HUD Section 108 Loan (CIM) **	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	$775 - 1,135	7,715
HUD Section 108 Loan (Story & King) **	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	$1,080 - 1,570	10,485
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2020	3.00%	$0 - 15,561	15,561
City of San José (SERAF) Loan	Fund the State's SERAF Payment	10,000	2010-2011	6/30/2020	3.00%	$0 - 12,441	12,441
City of San José - Parking Fund Loans	Fund debt service	13,528	2006-2011	6/30/2020	3.00%	$0 - 13,528	17,925
City of San José - Reimbursement Agreement	Reimbursement Agreement *	1,421	2018	6/30/2019	LAIF Rate	$1,421	1,421
Total Other Long-Term Debt							65,548
Total Long-Term Debt							$ 1,743,088

* See Long-Term Reimbursement Agreement below for additional disclosures.

** Paid in fulll in October 2018.

NOTE 7 – DEBT- Continued

The following summarizes the changes in long-term debt and other obligations for the year ended June 30, 2018 (in thousands):

	June 30, 2017	Additions	Reductions	June 30, 2018	Amount Due One Year
Senior Tax Allocation Bonds:					
1997 Merged *	$ 4,030	$ -	$ (4,030)	$ -	$ -
1999 Merged *	12,920	-	(12,920)	-	-
2003 Merged *	124,840	-	(124,840)	-	-
2004 Merged Refunding Series A *	77,440	-	(77,440)	-	-
2005 Merged Refunding Series A *	109,570	-	(109,570)	-	-
2006 Merged Series A-T *	13,300	-	(13,300)	-	-
2006 Merged Series B *	67,000	-	(67,000)	-	-
2006 Merged Refunding Series C *	423,430	-	(423,430)	-	-
2006 Merged Refunding Series D *	260,325	-	(260,325)	-	-
2007 Merged Series A-T	2,670	-	(2,670)	-	-
2007 Merged Series B *	191,600	-	(191,600)	-	-
2008 Merged Series A *	8,955	-	(8,955)	-	-
2008 Merged Series B *	80,145	-	(80,145)	-	-
1997 Housing Series E *	15,100	-	(15,100)	-	-
2003 Housing Series J *	22,275	-	(22,275)	-	-
2003 Housing Series K *	4,670	-	(4,670)	-	-
2005 Housing Series A *	10,445	-	(10,445)	-	-
2005 Housing Series B *	92,885	-	(92,885)	-	-
2010 Housing Series A-1 *	54,055	-	(54,055)	-	-
2010 Housing Series A-2	495	-	(495)	-	-
2017 Refunding Bonds Series A	-	79,825	-	79,825	-
2017 Refunding Bonds Series A-T	-	1,333,325	-	1,333,325	85,725
Subtotal Senior Tax Allocation Bonds	1,576,150	1,413,150	(1,576,150)	1,413,150	85,725
Subordinate Tax Allocation Bonds:					
1996 Merged Series A *	16,900	-	(16,900)	-	-
1996 Merged Series B *	16,900	-	(16,900)	-	-
2003 Merged Revenue Series A *	10,835	-	(10,835)	-	-
2003 Merged Revenue Series B *	15,000	-	(15,000)	-	-
2010 Housing Series C *	74,885	-	(74,885)	-	-
2017 Refunding Bonds Series B	-	264,390	-	264,390	24,235
Subtotal Subordinate Tax Allocation Bonds	134,520	264,390	(134,520)	264,390	24,235
Other Long-Term Debt:					
Pledge Agreement - Revenue Bonds 2001A	23,930	-	(23,930)	-	-
Reimb Agreement - Refunding Rev Bonds 2001F	78,680	-	(78,680)	-	-
HUD Section 108 Loan (CIM)	8,490	-	(775)	7,715	810
HUD Section 108 Loan (Story & King)	11,510	-	(1,025)	10,485	1,080
City of San José - SERAF Loans (Principal)	22,816	-	-	22,816	-
City of San José - SERAF Loans (Interest)	4,502	684	-	5,186	-
City of San José - Commercial paper program	4,727	-	(4,727)	-	-
City of San José - Parking Fund Loans (Principal)	13,528	-	-	13,528	-
City of San José - Parking Fund Loans (Interest)	807	3,590	-	4,397	-
Other Long-Term Obligation - County Settlement Agreement (Principal)	9,424	-	(9,424)	-	-
Other Long-Term Obligation - County Settlement Agreement (Interest)	1,696	2,617	(4,313)	-	-
City of San José - Reimbursement agreement (Principal)	29,979	1,549	(30,107)	1,421	1,421
City of San José - Reimbursement agreement (Interest)	413	98	(511)	-	-
Subtotal Other Long-Term Debt	210,502	8,538	(153,492)	65,548	3,311
Subtotal Long-Term Debt before Unamortized	1,921,172	1,686,078	(1,864,162)	1,743,088	113,271
Issuance Premium (discount), Net	19,487	51,127	(21,589)	49,025	4,205
Total Long-Term Obligations	$ 1,940,659	$ 1,737,205	$ (1,885,751)	$ 1,792,113	$ 117,476

* Bonds redeemed, defeased or prepaid with proceeds from the 2017 Refunding Bonds.

NOTE 7 – DEBT- Continued

Total RPTTF revenue distributed by the County to the SARA in the FY 2018 was $155,705,335 which was used to pay debt service and debt related expenses on the Successor Agency Senior and Subordinate Tax Allocation Bonds and enforceable obligations. During the year ended June 30, 2018, the County withheld $44,651,666 in RPTTF for payments of its prior and current year's pass-through payments. During FY 2018, the outstanding principal and interest of County Settlement were paid in full.

2017 Tax Allocation Refunding Bonds

On December 21, 2017, the SARA issued the 2017 Refunding Bonds pursuant to an Indenture of Trust dated as of December 1, 2017 (the "2017 Indenture"), by and between the SARA and Wilmington Trust, National Association, as trustee ("Wilmington Trust"). The 2017 Refunding Bonds were issued in the aggregate principal amount of $1,677,540,000, in two senior series and one subordinate series: (i) $79,825,000 of the tax-exempt senior lien 2017 Series A Bonds (the "2017A Bonds"); (ii) $1,333,325,000 of taxable senior lien 2017 Series A-T Bonds (the "2017A-T Bonds") and collectively (the "2017 Senior Tax Allocation Refunding Bonds"); and (iii) $264,390,000 of tax-exempt subordinate lien 2017 Series B Bonds (the "2017 Subordinate Tax Allocation Refunding Bonds" or " 2017B Bonds").

Proceeds of the 2017 Refunding Bonds were used to (i) redeem and defease or prepay 23 series of Successor Agency Senior and Subordinate Tax Allocation Bonds, the 4th and San Fernando Parking Facility Pledge Agreement entered into in connection with the City of San José Financing Authority's (the "Financing Authority") Series 2001A Bonds and the Second Amended and Restated Reimbursement Agreement entered into in connection with the Financing Authority's Series 2001F and 2001G Bonds (paid in full in September 2018), all as listed in the previous table and (ii) pay the costs of issuing the 2017 Refunding Bonds, including the cost of debt service reserve insurance policies. The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debt in a refunding transaction) and the net carrying amount of the Refunded Obligations of $22,882,420. This difference is reported as deferred outflows of resources in the Statement of Fiduciary Net Position. The 2017 Refunding Bonds generated total debt service savings of $253,855,595 over the next eighteen years and net present value savings of $185,599,774 (discounted at the all-in true interest cost) or 10.82% of the Refunded Obligations.

NOTE 7 – DEBT- Continued

2017 Tax Allocation Refunding Bonds, continued

The 2017 Refunding Bonds are secured and payable from Tax Revenues and certain funds and accounts held by Wilmington Trust. Tax Revenues is generally defined in the 2017 Indenture as the portion of property tax revenues collected in the Merged Project Area derived from incremental growth in assessed property values over the initial base year values in each of 17 component areas, less certain County administrative fees and the AB1290 statutory pass-through payment to the San José Unified School District and excluding the amounts collected pursuant to the pension override or State Water Project override provisions of the Redevelopment Dissolution Law. All other AB1290 statutory pass-through payments and the negotiated pass-through payments to Santa Clara County are subordinate to the payment of debt service on the 2017 Refunding Bonds and other payment obligations under the 2017 Indenture. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made from funds on deposits in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment debt service on the 2017 Refunding Bonds unless there are insufficient funds to pay such debt service and other payment obligations under the 2017 Indenture and certain other conditions are satisfied. Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose. The SARA has covenanted in the 2017 Indenture to comply with the provisions of the Redevelopment Dissolution Law related to placing its obligations under the 2017 Indenture on the recognized obligations under the 2017 Indenture on the recognized obligation payment schedules throughout the term of the 2017 Refunding Bonds and, if applicable, file a Notice of Insufficiency in the event that are insufficient Tax Revenue to make payment of debt service or other payment obligations under the 2017 Indenture. See Note 2 for a general description of the provisions of the Redevelopment Dissolution Act regarding distributions from the RPTTF and order of priority of payments therefrom.

The SARA has covenanted in the 2017 Indenture to take such actions as required under the Redevelopment Dissolution Law to include in each annual Recognized Obligation Payment Schedule the amount of debt service on the 2017 Refunding Bonds so as to enable the County Auditor-Controller to distribute from the RPTTF to SARA on each January 2 and June 1 the amounts required for the SARA to pay principal of, and interest on, the 2017 Refunding Bonds coming due in the respective six-month period. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF the amounts to be held by the SARA as a reserve until the next six-month period, as contemplated by the Redevelopment Dissolution Law, that are necessary to comply with the 2017 Indenture.

NOTE 7 – DEBT- Continued

2017 Tax Allocation Refunding Bonds, continued

A separate municipal bond debt service reserve policy issued by Build America Mutual Assurance Company ("BAM") was deposited in the Senior Bonds Reserve Account of the Bond Reserve Fund for the 2017 Senior Tax Allocation Refunding Bonds (the "2017 Senior Bonds Reserve Policy") and in the Subordinate Bonds Reserve account of the Bond Reserve Fund for the 2017 Subordinate Tax Allocation Bonds (the "2017 Subordinate Bonds Reserve Policy"). The 2017 Senior Bonds Reserve Policy is in the amount of $112,102,119, which is equal to the Senior Bonds Reserve Requirement under the 2017 Indenture. The 2017 Subordinate Bonds Reserve Policy is in the amount of $30,978,128, which is equal to the Subordinate Bonds Reserve Requirement under the 2017 Indenture.

The 2017 Senior Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Senior Tax Allocation Refunding Bonds are no longer outstanding under the 2017 Indenture and (ii) August 1, 2035. The 2017 Subordinate Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Subordinate Tax Allocation Refunding Bonds are no longer outstanding under the Indenture and (ii) August 1, 2029. Per the terms of the 2017 Indenture, the SARA is not obligated to replace either reserve policy or to fund either reserve account with cash if, at any time that the 2017 Senior Tax Allocation Refunding Bonds or 2017 Subordinate Tax Allocation Refunding Bonds are outstanding, amounts are not available under such policy or if the rating of the claims-paying ability of BAM is downgraded, suspended or withdrawn.

The 2017 Senior Tax Allocation Refunding Bonds were rated "AA" by Standard & Poor's and Fitch and the 2017 Subordinate Tax Allocation Refunding Bonds were rated "AA-" by Standard & Poor's and Fitch.

2017 Senior Tax Allocation Refunding Bonds - The 2017 Senior Tax Allocation Refunding Bonds were issued in two series – the tax-exempt 2017A Bonds and the taxable 2017A-T Bonds, with a parity senior lien on Tax Revenues. The 2017A Bonds are structured as two serial maturities in 2034 and 2035; both maturities bear interest at 5% per annum. The 2017A-T Bonds are structured as serial maturities in 2018 through and including 2029, and a term bond of $361,845,000 maturing in 2034 with mandatory payment of principal beginning on August 1, 2030 through final maturity on August 1, 2034. The 2017A-T Bonds bear interest at rates ranging from 1.898% to 3.375% per annum. The 2017A-T Bonds have approximately $183 million in par subject to call on or after August 1, 2027. The total debt service payments (interest only) on the 2017 Senior Tax Allocation Refunding Bonds was $4,795,189 for the year ended June 30, 2018. The principal and interest remaining on the 2017 Senior Tax Allocation Refunding Bonds as of June 30, 2018 is $1,836,506,879.

NOTE 7 – DEBT- Continued

2017 Subordinate Tax Allocation Refunding Bonds - The 2017 Subordinate Tax Allocation Refunding Bonds are structured as serial tax-exempt bonds with maturities in 2018 through 2029; and bear interest at rates ranging from 2% to 5% per annum. The 2017 Subordinate Tax Allocation Refunding Bonds are callable on or after August 1, 2027 at par. In total, approximately $97 million in par is subject to this ten-year par call. The 2017 Subordinate Tax Allocation Refunding Bonds are payable from Tax Revenues on a subordinate basis to the 2017 Senior Tax Allocation Refunding Bonds. The debt service payment (interest only) on the 2017 Subordinate Tax Allocation Refunding Bonds was $1,448,617 for the year ended June 30, 2018. The principal and interest remaining on the 2017 Subordinate Tax Allocation Refunding Bonds as of June 30, 2018 is $339,414,775.

Senior Merged Area Tax Allocation Bonds Redeemed in FY 2018 by the 2017 Refunding Bonds

Senior Merged Area Tax Allocation Bonds Series 1997, Series 1999, Series 2003, Series 2004A, Series 2005A, Series 2006A-T, Series 2006B, Series 2006C, Series 2006D, Series 2007B were redeemed on January 8, 2018. The proceeds of the 2017 Refunding Bonds in the amount of $1,248,677,073 paid the outstanding principal of $1,223,365,000 and the interest of $25,312,073 through an escrow account held by Union Bank. Prior to the issuance of the 2017 Refunding Bonds, the total principal and interest paid on the Senior TABs was $101,617,454 in FY 2018.

Senior Housing Set-Aside Tax Allocation Bonds Redeemed in FY 2018 by the 2017 Refunding Bonds

Senior Housing Set-Aside Tax Allocation Bonds Series 2003J, 2003K, 2005A, and 2005B were redeemed January 8, 2018. The proceeds of the 2017A-T Bonds in the amount of $126,045,952 paid the outstanding principal of $123,230,000 and the interest of $2,815,952 through an escrow account held by Wells Fargo Bank. The Senior Housing Set-Aside Tax Allocation Bonds Series 1997E were redeemed on January 22, 2018. The proceeds of the 2017A-T Bonds in the amount of $15,016,252 paid the outstanding principal of $14,625,000 and the interest of $391,252 through an escrow account held by Wells Fargo Bank. Prior to the issuance of the 2017 Refunding Bonds, the total principal and interest paid on the Senior Housing TABs was $14,532,041 in FY 2018.

Subordinate Merged Area Tax Allocation Bonds – Variable-Rate Redeemed in FY 2018 by 2017 Refunding Bonds

Subordinate Merged Area Revenue Bonds Series 1996A/B and Series 2003A/B were redeemed on December 21, 2017. The proceeds of the 2017 Refunding Bonds in the amount of $54,542,526 paid the outstanding principal of $54,490,000 and the interest of $52,526 through an escrow account held by Union Bank. Prior to the issuance of the 2017 Refunding Bonds, the total principal and interest paid on the Subordinate TABs was $5,375,375 in the FY 2018.

NOTE 7 – DEBT- Continued

Subordinate Housing Set-Aside Tax Allocation Bonds – Variable-Rate Redeemed in FY 2018 by 2017 Refunding Bonds

Subordinate Housing Set-Aside Tax Allocation Variable Rate Bonds Series 2010C were redeemed on December 21, 2017. The proceeds of the 2017 Refunding Bonds in the amount of $71,840,875 paid the outstanding principal of $71,625,000 and the interest of $215,875. Prior to the issuance of the 2017 Refunding Bonds, the total principal and interest paid on the 2010C Bonds was $4,057,750 in FY 2018.

4th and San Fernando Parking Facility Project Pledge Agreement

In March 2001, the Financing Authority, issued Revenue Bonds, Series 2001A ("Authority Series 2001A Bonds") in the amount of $48,675,000 to finance the construction of the Fourth Street and San Fernando Parking Facility Project. The Agency entered into an Agency Pledge Agreement with the Financing Authority, which was assumed by the SARA, whereby the payments are payable from and secured by surplus "Agency Revenues".

The Authority Series 2001A Bonds were redeemed on January 8, 2018. The 2017A-T Bonds proceeds of $24,351,963 paid the outstanding principal of $23,930,000 and the interest of $421,963 through an escrow account held by Wells Fargo Bank.

Convention Center Refunding Reimbursement Agreement

In July 2001, the Financing Authority issued the Convention Center Lease Revenue Refunding Bonds, Series 2001F (tax-exempt) ("Authority 2001F Bonds") and Series 2001G (taxable) in the amounts of $186,150,000 and $4,580,000, respectively, to refund the Authority's 1993 Revenue Bonds, Series C. The Series 2001G Bonds were paid in full prior to FY 2018.

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 was obligated to use redevelopment property tax revenues or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Second Amended and Restated Reimbursement Agreement was assumed by the SARA.

The Financing Authority Series 2001F bonds were redeemed on January 8, 2018. The proceeds of the 2017A-T Bonds in the amount of $68,268,310 paid the outstanding principal of $67,085,000 and the interest of $1,183,310 from an escrow account held by U.S. Bank. Prior to the issuance of the 2017 Refunding Bonds, the total principal and interest paid on the 2001F Bonds was $13,561,863 in FY 2018.

NOTE 7 – DEBT- Continued

As of June 30, 2018, the amounts to be paid from the escrow funds established for the Refunded Obligations are as follows (in thousands):

Redevelopment Agency Bonds Refunded in 2017 Escrow Accounts (December 21, 2017)	Amount	Redemption Date
RDA Tax Allocation Bonds Series 2008A	$ 4,600	8/1/2018
RDA Tax Allocation Bonds Series 2008B	80,145	8/1/2018
RDA Housing Set-Aside Tax Allocation Bonds Series 2010A-1	52,820	8/1/2020
Total	$ 137,565	

HUD Section 108 Loans

In 2006, the Agency received loan proceeds totaling $31,000,000 under the provisions of HUD Section 108 program. The proceeds were used to finance the CIM Mix-used Project (Central Place/ Tower 88) ($13,000,000) and for reimbursement of costs incurred on the Story/King Retail Project ($18,000,000).

As of June 30, 2018, the outstanding loans due to HUD total $18,200,000. The notes payable to HUD mature annually through August 2025 and bear interest at 20 basis points above the monthly LIBOR index. The average rate for the FY 2018 was 1.72%. The HUD loans were secured by several SARA owned capital assets (Convention Center – South Hall, José Theatre, and Arena Lot 5A) and Community Development Block Grant (CDBG) funds that are awarded to the City. For the year ended June 30, 2018, the loans were repaid through CDBG funds due to insufficiency of redevelopment property tax revenues. During the year ended June 30, 2018, the SARA received $2,023,731 from the City's CDBG fund to fund debt service of the HUD 108 loans.

On October 10, 2018, the HUD 108 loans were repaid in full (see Note 11).

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan

On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of $2,050,000,000 of property tax increment in a Supplemental Educational Revenue Augmentation Funds ("SERAF") to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's SERAF obligation was $62,247,530 in FY 2010 ("2010 SERAF Obligation") and $12,815,668 in FY 2011 ("2011 SERAF Obligation"). Payments were made by May 10 of each respective fiscal year.

NOTE 7 – DEBT- Continued

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of \$75,063,198 to pay the 2010 SERAF Obligation and the 2011 SERAF Obligation ("SERAF Loan"). The sources of the SERAF Loan to pay the 2010 SERAF Obligation (\$62,247,530) were \$40 million from the City's Low and Moderate Income Housing Fund that had been made available following the issuance of the 2010 Housing Series C Bonds, which was specifically authorized by the legislation, and idle moneys from the City special funds (\$10,000,000) and \$12 million from the Financial Authority's Commercial Paper Program. The source of the SERAF Loan to pay the 2011 SERAF Obligation was \$12,815,668 from the City's Low and Moderate Income Housing Fund. The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA as more particularly discussed below in the Parking Fund Loans section. As such, the \$10,000,000 used to pay a portion of the 2010 SERAF Obligation and its related accumulated interest in the amount \$160,143 from the City special funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA's extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of \$2,940,000 were also invalidated in 2012.

The remaining source of the SERAF Loan used to pay the 2010 SERAF Obligation (\$40 million of 2010 Series C Housing Bonds and \$12 million from the Financing Authority's Commercial Paper program (See Commercial Paper Section below) were assumed by the SARA and were listed in the ROPS as enforceable obligations. The source of funds used to pay the 2011 SERAF Obligation was determined to be a housing asset and was transferred to the City as the Successor Housing Agency and was also listed on the ROPS as an enforceable obligation.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan used to pay a portion of the 2010 SERAF Obligation (\$40 million of 2010 Housing Series C Bonds and \$12 million from the Financing Authority's Commercial Paper program) should not be reported in the ROPS as an enforceable obligation since the sources of the SERAF Loan were already listed on the ROPS.

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

NOTE 7 – DEBT- Continued

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan, continued

On May 17, 2017, the DOF approved the ROPS 17-18, which included the SERAF loans from the City in the principal amount of $22,815,668.

As of June 30, 2018, the remaining portion of the SERAF Loan has an outstanding principal and accumulated accrued interest balance of $22,815,668 and $5,186,930, respectively, and bears a simple interest rate of 3%.

Commercial Paper Obligation

As discussed above, the City and the Agency entered into a SERAF Loan, a portion of which was funded by the Financing Authority's issuance of $12,000,000 of commercial paper notes through the Financing Authority's Commercial Paper Program and deposited the funds in the Low and Moderate Income Housing Asset Fund. The Oversight Board and the SARA Board approved the inclusion of this obligation along with accrued interest and fees totaling $14,227,000 as an enforceable obligation on ROPS 15-16B of the SARA, on September 24, 2015. The final payment of $4,727,000 was made by the SARA in June 2018 and the obligation is paid in full.

Parking Fund Loans

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB XI 26, and with narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB XI 26, which was subsequently amended by AB 1484 and SB 107. However, with the approval of AB 1484 in June 2012, certain loans may be reinstated as enforceable obligations of the SARA contingent upon the following: 1) a finding by the DOF that certain specified audits of the SARA have been completed (evidenced by a Finding of Completion), and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of AB 1484, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

The Parking Fund Loans were reinstated as enforceable obligations on ROPS 17-18 in accordance with Health and Safety Code Section 34191.4 (b) with Oversight Board approval on January 12, 2017. The DOF approved the Parking Fund Loans on March 28, 2017. Because the loans are reinstated City loans, the principal outstanding will accrue 3% simple interest and be paid on ROPS 19-20. As of June 30, 2018, the Parking Fund Loans have outstanding principal and accumulated accrued interest balance of $13,528,293 and $4,396,510, respectively.

NOTE 7 – DEBT- Continued

Tax Sharing Agreement with the County of Santa Clara

Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement ("Original Agreement") under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (the "County Pass-Through Payment"). On December 16, 1993, the Agency, the County, and the City entered into a settlement agreement, which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (the "Amended Agreement"), which amended and restated the Original Agreement in its entirety. In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and required the Agency to transfer funds to the County to pay for such projects (the "Delegated Payment"). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency's Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

The Amended Agreement provides that the payments due to the County from the SARA are subordinate to all the SARA's debt. The County and the SARA settled litigation related to the Amended Agreement in August 2017 (see Note 10).

As of August 1, 2017, the outstanding past due pass-through owed to the County was $2,626,878. For FY 2018, the pass-through amount owed plus the past due pass-through amount owed were paid in full from the January and June 2018 RPTTF distributions (see Note 10).

2011 Settlement Agreement

On March 16, 2011 the County, the Agency, and the City, along with the Diridon Authority, entered into a Settlement Agreement of a lawsuit filed by the County in which the County alleged, among other things, that the Agency had failed to make timely payment of the County Pass-Through Payment for FYS 2009, 2010, and 2011 in an aggregate amount, as of June 30, 2011, of $58,270,000 ("2011 Settlement Agreement").

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

NOTE 7 – DEBT- Continued

2011 Settlement Agreement, continued

As security for payments due to the County under the 2011 Settlement Agreement, the Agency also (i) executed and recorded for the benefit of the County, a subordinated Deed of Trust on various Agency-owned real estate assets, (ii) assigned to the County one-half (1/2) of the Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties (see Note 5).

The SARA paid the outstanding balances of the 2017 and 2018 pass-through settlement obligations with proceeds from the sale of the North San Pedro Properties and the January 2018 RPTTF distribution. The principal and interest of $9,424,000 and $4,313,000, respectively, was paid in FY 2018 and the SARA has no further obligations under the 2011 Settlement Agreement.

Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest, except HUD Section 108 Loans, which bear interest at variable rates. For purposes of calculating the annual debt service requirements for variable rate debt at June 30, 2018, the following assumed effective rate has been used:

Debt	Effective Interest Rate
HUD Section 108 Loans	2.53%

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2018, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending	Merged Tax Allocation		HUD Section 108 Loans *		Obligations with the City		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 109,960	$ 54,866	$ 1,890	$ 77	$ 1,421	$ -	$ 113,271	$ 54,943
2020	90,760	52,292	1,990	68	-	-	92,750	52,360
2021	93,250	49,704	2,100	59	-	-	95,350	49,763
2022	95,940	46,890	2,205	49	-	-	98,145	46,939
2023	98,880	43,842	2,315	38	-	-	101,195	43,880
2024-2028	546,645	165,176	7,700	46	-	-	554,345	165,222
2029-2033	472,435	74,308	-	-	-	-	472,435	74,308
2034-2038	169,670	11,304	-	-	36,344	9,584	206,014	20,888
Total	$ 1,677,540	$ 498,382	$ 18,200	$ 337	$ 37,765	$ 9,584	$ 1,733,505	$ 508,303

* Paid in full in October 2018.

NOTE 8 –TRANSACTIONS WITH THE CITY OF SAN JOSÉ

Advances to the City

The Agency advanced a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has recorded a long-term receivable in the amount of $739,000 at June 30, 2018.

Long-Term Reimbursement Agreement

When redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City Council has committed other sources of funding to cover costs related to the following obligations: Education Revenue Augmentation Fund ("ERAF") payments; and the SARA annual administrative budget and City support service expenses. On September 26, 2013 (as amended on August 27, 2015), the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement in order to establish an obligation for the SARA to repay the City for these advances.

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

Administrative Advances from the City

During the year ended June 30, 2018, the SARA incurred $322,608 of direct administrative costs and $1,115,954 of indirect general and administrative costs for support services of designated City employees allocated to the SARA administrative activities and $16,112 for rent of City office space. As of June 30, 2018, the SARA has recorded a payable due to the City for direct administrative services and indirect City supporting services in the amounts of $293,701 and $1,081,802, respectively.

In August 2017, the SARA received $13,130,288 pursuant to the 2017 Settlement Agreement (see Note 10) which was used to repay bonded debt. In January 2018, the Fairmont property was sold and the SARA received proceeds of $22,665,082 under an Operation, Ownership and Participation Agreement dated March 28, 1996, which proceeds in the amount of $17,302,369 were used to repay bonded debt, administrative, and enforceable obligations advances. There was also an interest entry correction deduction from previous years for $182,226.

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

The following summarizes the changes in the City's advances to the SARA for the year ended June 30, 2018:

Description	July 1, 2017	Additions	Deductions	June 30, 2018
Reimbursement Agreement:				
Lease Revenue Bonds, Series 2001F (Convention Center)	$ 9,949,489	$ 125,845	$ (10,075,334)	$ -
Revenue Bonds Series 2001A				
(4th and San Fernando Street Parking Facility Project)	6,324,547	28,086	(6,352,633)	-
Total Reimbursement Agreement	16,274,036	153,931	(16,427,967)	-
ERAF Loan	1,639,635	-	(1,639,635)	-
Other Administrative Advances:				
Direct SARA Administrative services	5,218,730	322,608	(5,247,638)	293,701
Indirect City Support Services	5,950,140	1,115,954	(5,984,292)	1,081,802
Unsecured Enforceable Obligations	1,108,992	52,233	(1,115,357)	45,868
Support Services from the Prior Year	199,994	-	(199,994)	-
Total other Administrative Advances	12,477,856	1,490,795	(12,547,281)	1,421,370
Total Administrative Advances	$ 30,391,527	$ 1,644,726	(30,614,883)	$ 1,421,370

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Risk Management

The SARA is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities, workers' compensation, and unemployment claims for which the SARA carries a worker's compensation insurance policy, a property and casualty insurance policy, or is self-insured. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated using actuarial methods or other estimating techniques. The technique to estimate claims is based on many complex factors, such as inflation, changes in legal doctrines, past settlements, and damages awarded. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimated claims liability will include amounts of incremental claims adjustment expense related to specific claims.

The SARA does not have any claims liabilities outstanding at June 30, 2018.

Environmental Land Remediation Obligation

During the year ended June 30, 2010, a review of the property currently held by SARA, revealed that there was no current pollution remediation required based on their current uses (i.e. surface parking and other uses), except the Miraido property and Convention Center South Hall Site as discussed below. In the unlikely possibility, given dissolution, a land remediation obligation occurs on a property due to a change in the purpose (i.e., convert to housing or retail project), the SARA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

NOTE 9 – COMMITMENTS AND CONTINGENCIES - Continued

Environmental Land Remediation Obligation, continued

Miraido Property - On December 2, 2010, the Agency received a Notice of Responsibility from the County for soil remediation at the Miraido Village Site located at 520 North 6th Street in San José. The Agency, as owner of the underlying land, leased the site under a ground lease (the "Ground Lease") to the Japantown Development Limited Partnership ("Miraido"). Miraido constructed an apartment complex on the Ground Lease site. The Agency received a Notice of Responsibility as an additional responsible party. The cleanup process is currently underway with Miraido's consultant working with the Santa Clara County Department of Environmental Health on finalizing the details of the cleanup process.

Miraido was responsible for all cleanup activities under its Ground Lease with the Agency. Miraido's consultant has estimated that the cost to achieve case closure is approximately $450,000 at Miraido's cost, with which the SARA's consultant concurs. Under the Ground Lease, Miraido was required to indemnify the SARA if the SARA incurs any costs as a result of the condition of the property.

The Miraido Property was sold in "as-is" condition in July 2017 (see Note 4).

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

The South Hall Site was sold in "as-is" condition on October 10, 2018. (see Note 11).

Arbitrage Obligation

The SARA paid positive arbitrage owed to the Internal Revenue Service from the SARA Refunding Bonds Series 2017 A-T proceeds from the cost of issuance account in December 2017. The total amount paid was $3,888,978. Positive arbitrage was earned from RDA 1999 Tax Allocation Bonds ($3,878,838) and RDA 1996 Subordinate Tax Allocation Bonds Series AB ($10,140).

NOTE 9 – COMMITMENTS AND CONTINGENCIES - Continued

Contractual Commitments

At June 30, 2018, the SARA had $750,118 for contracted obligations and commitments. In addition, the SARA has unpaid contractual obligations in the amount of $1,375,064.

Defined Contribution Retirement Plan

In January 1995, the Agency Board adopted a defined contribution retirement plan, the Redevelopment Agency of the City of San José Retirement Plan (the "Plan"), which provides retirement benefits for its employees. For eligible employees who contribute 3.5% of their annual base salary, the SARA contributes approximately 9.0%. The SARA contributions are based on a formula taking into account employee annual base salary and length of service. The total payroll for the year ended June 30, 2018 for the SARA's direct employees was $345,946. Both the SARA and the participating employees made contributions to the Plan amounting to $61,073 and $23,930, respectively. The SARA's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. The Plan was terminated on June 30, 2018.

Leases

A schedule by years of future minimum rental payments required under the SARA's non-cancelable operating leases for office facilities, business equipment, and land at June 30, 2018, is as follows (in thousands):

Year Ending June 30		Minimum Payments
2019	$	870
2020		300
2021		236
2022		176
2023		176
Total	$	1,758

The total rent expense for operating leases during the year ended June 30, 2018 was $713,066.

NOTE 10 – LITIGATION

Litigation Against County Auditor-Controller

The City, on its own behalf, and the SARA filed a lawsuit on June 26, 2012, entitled *City of San Jose as Successor Agency to the San Jose Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.,* Case No. 34-2012-8000190, in the Superior Court for Sacramento County ("PERS Levy Lawsuit"). The suit sought to compel the County Auditor-Controller to disburse funds to the SARA, which the Agency previously received as tax increment. In June 2012, the County began withholding a portion of defined tax increment claiming the withheld amounts were special levies, including a contribution to the County's employees' retirement program (the "PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District (the "Water District Levy"). The County asserted that, although it previously disbursed these funds to the Agency as tax increment, the Agency was never entitled to receive funds attributable to these levies. The lawsuit also sought to determine the priority of the County's pass-throug h payments under the Amended Agreement.

The Sacramento Superior Court ruled that the County Auditor-Controller could not withhold funds attributable to the PERS Levy from the SARA and the Redevelopment Dissolution Law did not require the County to subordinate its pass-through payments to any Agency debt other than secured bond debt. The Superior Court did not rule on the Water District Levy.

In August 2017, the SARA, the City, and the County entered into a Settlement Agreement resolving the PERS Levy Lawsuit ("2017 Settlement Agreement"). At the time the 2017 Settlement Agreement was entered into by the parties, the County was holding $31,866,310 attributable to the PERS Levy and the Water District Levy. Pursuant to the 2017 Settlement Agreement, the City was reimbursed $12,897,777 for the debt-related SARA expenses paid FY 2012-2015, the Santa Clara Valley Water District was paid $312,309 for the AB1290 portion, and the remaining $18,656,224 was used to pay down the County pass-through obligations as of June 30, 2017.

NOTE 11 – SUBSEQUENT EVENTS

On August 28, 2018, the SARA sold property commonly known as Block D to TM San Jose 78, LLC for $1,584,620. At the close of escrow, the net sale proceeds of $1,575,934 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

On September 19, 2018, the SARA sold property commonly known as Block E to First American Exchange Company, LLC as Qualified Intermediary for San Pedro Life I, LLC for $4,704,627. At the close of escrow, the net sale proceeds of $4,689,993 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

On September 27, 2018, the SARA sold property commonly known as Blocks B/F to 171 W. Julian Street Apartments Investors LLC for $10,288,633. At the close of escrow, the net sale proceeds of $10,258,738 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

NOTE 11 – SUBSEQUENT EVENTS – Continued

On October 9, 2018, the SARA sold one property (490 South 1st Street) to San Jose Stage Company for $2,300,000. At the close of escrow, the net sale proceeds of $2,291,728 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

On October 10, 2018, the SARA sold one property (Convention Center South Hall Site) to the City for $47,000,000. The property was used as collateral for several HUD loans associated with the former Agency and the HUD loans ($16,310,000 principal plus $81,747 accrued interest) were paid in full at closing. The net sale proceeds of $30,593,788 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

This page intentionally left blank.

MGO Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Successor Agency of the Redevelopment Agency of the City of San José (SARA), a component unit of the City of San José (City), California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the SARA'S basic financial statements, and have issued our report thereon dated November 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SARA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SARA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SARA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SARA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2018