

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2007B Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. Interest on the 2007A-T Bonds is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2007 Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein.

\$21,330,000

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE
Merged Area Redevelopment Project
Taxable Tax Allocation Bonds
Series 2007A-T**

\$191,600,000

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE
Merged Area Redevelopment Project
Tax Allocation Bonds
Series 2007B**

Dated: Date of Delivery**Due:** August 1, as shown on inside cover

The Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T (the "2007A-T Bonds") and the Merged Area Redevelopment Project Tax Allocation Bonds, Series 2007B (the "2007B Bonds" and collectively with the 2007A-T Bonds, the "2007 Bonds") of the Redevelopment Agency of the City of San José (the "Agency") will be issued as fully registered bonds and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2007 Bonds. Individual purchases of interests in the 2007 Bonds will be made in book-entry form only. Interest on the 2007 Bonds is payable on February 1, 2008 and semi-annually thereafter on each February 1 and August 1. The 2007 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Principal of, premium, if any, and interest on the 2007 Bonds is payable by Union Bank of California, N.A., as Trustee (the "Trustee") directly to DTC. Upon receipt of payments of the 2007 Bonds, DTC will in turn remit such payments to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 2007 Bonds. See APPENDIX E – "Book-Entry Only System" herein.

Proceeds of the 2007 Bonds will be used to (i) finance redevelopment activities within or of benefit to the Agency's Merged Area Redevelopment Project (the "Merged Area"), (ii) fund a debt service reserve account for the 2007A-T Bonds and the 2007B Bonds by paying the premium for a debt service reserve fund surety bond to be provided by XL Capital Assurance Inc., (iii) capitalize approximately one year's interest on the 2007 Bonds and (iv) pay the costs of issuing the 2007 Bonds. See "PLAN OF FINANCING" herein.

The 2007 Bonds are secured primarily by a pledge of certain tax increment revenues (the "Tax Revenues"), consisting of a portion of the ad valorem taxes levied upon taxable property within certain of the redevelopment project areas constituting the Merged Area, as further discussed herein. The 2007 Bonds are not a debt of the City of San José (the "City"), the State of California (the "State") or any of its political subdivisions other than the Agency, and neither the City, the State nor any of its political subdivisions other than the Agency is liable therefor, nor in any event will the 2007 Bonds be payable out of any funds or properties other than those of the Agency pledged therefor.

The 2007 Bonds are secured by a pledge of the Tax Revenues on a parity with other Merged Area Redevelopment Project Tax Allocation Bonds of the Agency that are outstanding in a total aggregate amount of \$1,503,330,000 as of October 1, 2007.

The 2007 Bonds are subject to redemption prior to maturity as more fully described herein. See "THE 2007 BONDS - Optional Redemption" and "Mandatory Sinking Fund Redemption" herein.

Payment of principal of and interest on the 2007A-T Bonds and the 2007B Bonds will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of the 2007 Bonds by XL Capital Assurance Inc. ("XL Capital Assurance" or the "2007 Bonds Insurer").



This cover page is intended for quick reference only. It is not intended to be a summary of the security for or the terms of the 2007 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

Maturities, Principal Amounts, Interest Rates, and Prices or Yields for the 2007 Bonds
(See Inside Cover)

The 2007 Bonds are offered, when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Agency by its General Counsel. Jones Hall is acting as Disclosure Counsel to the Agency. It is expected that the 2007 Bonds will be available for delivery through the DTC book-entry system on or about November 7, 2007.

Dated: October 24, 2007

\$21,330,000
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Merged Area Redevelopment Project
Taxable Tax Allocation Bonds
Series 2007A-T

MATURITY SCHEDULE

\$21,330,000 5.10% Term 2007A-T Bond due August 1, 2017, Yield: 5.10% CUSIP 798147 T61

\$191,600,000
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Merged Area Redevelopment Project
Tax Allocation Bonds
Series 2007B

MATURITY SCHEDULE

<u>Due August 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP (798147)</u>
2018	\$ 1,970,000	4.25%	3.90%*	T79
2019	2,050,000	5.00	4.05*	T87
2020	3,570,000	4.25	4.10*	T95
2021	3,340,000	4.25	4.20*	U28
2022	3,290,000	4.25	4.29	U36
2023	2,710,000	4.25	4.37	U44
2024	2,830,000	4.25	4.45	U51
2025	2,960,000	4.25	4.48	U69
2026	17,515,000	5.00	4.31*	U77
2027	19,360,000	5.00	4.34*	U85
2028	16,240,000	5.00	4.37*	U93
2029	15,730,000	5.00	4.40*	V27
2030	1,525,000	4.50	4.62	V35
2031	17,700,000	5.00	4.44*	V43
2032	18,500,000	5.00	4.45*	V50
2033	9,000,000	4.50	4.66	V68

\$53,310,000 4.25% Term 2007B Term Bond due August 1, 2036, Yield: 4.70% CUSIP 798147 V76

* Priced to first par call date of August 1, 2017

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

AGENCY BOARD AND CITY COUNCIL

Chuck Reed, *Chair and Mayor*
Pete Constant, *Member, District 1*
Forrest Williams, *Member, District 2*
Sam Liccardo, *Member, District 3*
Kansen Chu, *Member, District 4*
Nora Campos, *Member, District 5*
Pierluigi Oliverio, *Member, District 6*
Madison Nguyen, *Member, District 7*
David D. Cortese, *Member, District 8, and Vice Mayor*
Judy Chirco, *Member, District 9*
Nancy Pyle, *Member, District 10*

AGENCY STAFF

Harry S. Mavrogenes, *Executive Director*
Norberto Duenas, *Deputy Executive Director*
David C. Baum, *Chief Financial Officer and Director of Finance*
Abraham M. Andrade, *Assistant Director of Finance and Administration*
Richard Doyle, *General Counsel*
Patricia A. Deignan, *Chief Deputy General Counsel*

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San Francisco, California

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Los Angeles, California

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This map illustrates the San Francisco Bay Area and its surrounding regions. Key features include:

- Major Cities:** San Francisco, Oakland, San Jose, San Diego, Sacramento, and many others.
- Highways:** I-5, I-805, SR-99, and various state routes.
- Counties:** Alameda, Contra Costa, San Francisco, Santa Clara, and others.
- Geographical Features:** The Pacific Ocean, San Francisco Bay, and various rivers.
- Scale and Orientation:** A scale bar indicates distances up to 20 miles, and a north arrow is provided.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the 2007 Bonds are available from David Baum, Chief Financial Officer and Director of Finance, Redevelopment Agency of the City of San José, 200 East Santa Clara Street, San José, CA 95113, telephone (408) 535-8500. The Agency may impose a charge for copying, mailing and handling.

No dealer, broker, salesperson or other person has been authorized by the Agency to give any information or to make representations other than as contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the Agency. The issuance and sale of the 2007 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder by Section 3(a)(2) for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor will there be any sale of the 2007 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2007 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to in this Official Statement do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each such documents, statutes and constitutional provisions.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no change in the affairs of the Agency since the date of this Official Statement. This Official Statement is submitted in connection with the sale of the 2007 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2007 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

OFFICIAL STATEMENT

\$21,330,000
REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE
Merged Area Redevelopment Project
Taxable Tax Allocation Bonds
Series 2007A-T

\$191,600,000
REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE
Merged Area Redevelopment Project
Tax Allocation Bonds
Series 2007B

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description, and is qualified by more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the bonds described in this Official Statement to potential investors is made only by means of the entire Official Statement. References to, and summaries of, provisions of the laws of the State of California or any other document referred to in this Official Statement do not purport to be complete and such references are qualified in their entirety by reference to the original source document.

General

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish information in connection with the sale by the Redevelopment Agency of the City of San José (the “**Agency**”) of the following series of bonds (collectively, the “**2007 Bonds**”):

2007A-T Bonds: Redevelopment Agency of the City of San José (the “**Agency**”) Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T.

2007B Bonds: Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2007B.

The 2007 Bonds are issued pursuant to an Indenture, dated as of December 1, 1993 (the “**Original Indenture**”) between the Agency and Union Bank, as succeeded in merger by Union Bank of California, N.A., as trustee (the “**Trustee**”), as such Original Indenture has been supplemented and amended by several supplemental indentures authorizing issues of parity bonds including, with respect to the 2007 Bonds, an Eleventh Supplemental Indenture, dated as of October 1, 2007 (collectively, the “**Supplemental Indentures**”). The Original Indenture together with the Supplemental Indentures are referred to in this Official Statement as the “**Indenture**”.

Capitalized terms used in this Official Statement and not otherwise defined will have the meanings assigned to such terms in the Indenture.

The Original Indenture and the various Supplemental Indentures were entered into by the Agency in connection with issuance of the following bonds, all of which are secured by Revenues (as defined below), consisting primarily of Tax Revenues (as defined below), on a parity with the 2007 Bonds:

Original Indenture, First Supplemental Indenture: The Original Indenture and the First Supplemental Indenture were entered into for the purpose of the issuance of Merged Area Redevelopment Project Tax Allocation Bonds, Series 1993 in the original principal amount of \$692,075,000 (the “**1993 Bonds**”). As of October 1, 2007, the 1993 Bonds were outstanding in the principal amount of \$71,970,000. The Agency satisfies the debt service reserve fund requirement for the 1993 Bonds, the 1997 Bonds (defined below) and the 2004 Bonds (defined below) with a surety bond provided by MBIA Insurance Company (“**MBIA**”) in the amount of \$63,387,457.56.

Second Supplemental Indenture: The Second Supplemental Indenture was entered into by the Agency for the purpose of the issuance of the Merged Area Redevelopment Project Tax Allocation Bonds Series 1997 in the original principal amount of \$106,000,000 (the “**1997 Bonds**”). As of October 1, 2007, the 1997 Bonds were outstanding in the principal amount of \$6,940,000. The Agency satisfies the debt service reserve fund requirement for the 1993 Bonds, the 1997 Bonds and the 2004 Bonds (defined below) with a surety bond provided by MBIA.

Third Supplemental Indenture: The Third Supplemental Indenture was entered into by the Agency for the purpose of the issuance of the Merged Area Redevelopment Project Tax Allocation Bonds Series 1998 in the original principal amount of \$175,000,000 (the “**1998 Bonds**”). As of October 1, 2007, the 1998 Bonds were outstanding in the principal amount of \$2,050,000. The Agency satisfies the debt service reserve fund requirement for the 1998 Bonds with a surety bond provided by Financial Security Assurance, Inc.

Fourth Supplemental Indenture: The Fourth Supplemental Indenture was entered into by the Agency for the purpose of the issuance of the Merged Area Redevelopment Project Tax Allocation Bonds Series 1999 in the original principal amount of \$240,000,000 (the “**1999 Bonds**”). As of October 1, 2007, the 1999 Bonds were outstanding in the principal amount of \$12,920,000. The Agency satisfies the debt service reserve fund requirement for the 1999 Bonds and the 2005B Bonds (defined below) with a surety bond provided by Ambac Assurance Corporation (“**Ambac**”).

Fifth Supplemental Indenture: The Fifth Supplemental Indenture was entered into by the Agency for the purpose of the issuance of the Merged Area Redevelopment Project Tax Allocation Bonds Series 2002 in the original principal amount of \$350,000,000 (the “**2002 Bonds**”). As of October 1, 2007, the 2002 Bonds were outstanding in the principal amount of \$22,565,000. The Agency satisfies the debt service reserve fund requirement for the 2002 Bonds with a surety bond provided by XL Capital Assurance Inc. (“**XL Capital Assurance**”) in the amount of \$25,643,198.60.

Sixth Supplemental Indenture: The Sixth Supplemental Indenture was entered into by the Agency for the purpose of the issuance of the Merged Area Redevelopment Project Tax Allocation Bonds Series 2003 in the original principal amount of \$185,000,000 (the “**2003 Bonds**”). As of October 1, 2007, the 2003 Bonds were outstanding in the principal amount of \$127,545,000. The Agency satisfies the debt

service reserve fund requirement for the 2003 Bonds with a surety bond provided by XL Capital Assurance in the amount of \$12,442,828.

Seventh Supplemental Indenture: The Seventh Supplemental Indenture was entered into by the Agency for the purpose of the issuance of the Merged Area Redevelopment Project Tax Allocation Refunding Bonds Series 2004A in the original principal amount of \$281,985,000 (the “**2004 Bonds**”). As of October 1, 2007, the 2004 Bonds were outstanding in the principal amount of \$257,885,000. The Agency satisfies the debt service reserve fund requirement for the 1993 Bonds, the 1997 Bonds and the 2004 Bonds with a surety bond provided by MBIA.

Eighth Supplemental Indenture: The Eighth Supplemental Indenture was entered into by the Agency for the purpose of the issuance of (i) the Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2005A in the original principal amount of \$152,950,000 (the “**2005A Bonds**”) and (ii) the Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2005B in the original principal amount of \$67,130,000 (the “**2005B Bonds**”, and together with the 2005A Bonds, the “**2005 Bonds**”). As of October 1, 2007, the 2005 Bonds were outstanding in the principal amount of \$219,970,000. The Agency satisfies the debt service reserve fund requirement for the 2005A Bonds with a surety bond provided by MBIA Insurance Company in the amount of \$13,848,548.97. The Agency satisfies the debt service reserve fund requirement for the 1999 Bonds and the 2005B Bonds with a surety bond provided by Ambac.

Ninth Supplemental Indenture: The Ninth Supplemental Indenture was entered into by the Agency for the purpose of the issuance of (i) the Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2006A-T in the original principal amount of \$14,300,000 (the “**2006A-T Bonds**”) and (ii) the Merged Area Redevelopment Project Tax Allocation Bonds, Series 2006B in the original principal amount of \$67,000,000 (the “**2006B Bonds**” and together with the 2006A-T Bonds, the “**2006 New Money Bonds**”). The 2006A-T Bonds and the 2006B Bonds were issued on November 14, 2006. The Agency satisfies the debt service reserve fund requirements for the 2006A-T Bonds and the 2006B Bonds with surety bonds provided by Radian Asset Assurance Inc. As of October 1, 2007, the 2006A-T Bonds were outstanding in the principal amount of \$13,300,000 and the 2006B Bonds were outstanding in the principal amount of \$67,000,000.

Tenth Supplemental Indenture: The Tenth Supplemental Indenture was entered into by the Agency for the purpose of the issuance of (i) the Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2006C in the original principal amount of \$423,430,000 (the “**2006C Bonds**”) and (ii) the Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2006D in the original principal amount of \$277,755,000 (the “**2006D Bonds**” and, together with the 2006C Bonds, the “**2006 Refunding Bonds**”). The 2006C Bonds and 2006D Bonds were issued on December 15, 2006. The Agency satisfies the debt service reserve fund requirement for the 2006 Refunding Bonds with a cash deposit. As of October 1, 2007, the 2006C Bonds were outstanding in the principal amount of \$423,430,000 and the 2006D Bonds were outstanding in the principal amount of \$277,755,000.

The 1993 Bonds, the 1997 Bonds, the 1998 Bonds, the 1999 Bonds, the 2002 Bonds, the 2003 Bonds, the 2004 Bonds, the 2005 Bonds, the 2006 New Money Bonds, the 2006 Refunding Bonds and the 2007 Bonds, and any Parity Debt (as defined in this Official Statement) issued as additional bonds under the Indenture, are collectively referred to in this Official Statement as the “**Bonds**”.

See "SECURITY FOR THE BONDS - Bond Reserve Fund" for a discussion of the uses of the accounts established within the Bond Reserve Fund for the various series of Bonds.

Authorization and Purpose

The 2007 Bonds are being issued pursuant to authority granted under the Community Redevelopment Law of the State of California (the “**Law**”).

On October 16, 2007, the Agency adopted a Resolution (the “**Resolution**”) that authorized the issuance, sale and delivery of the 2007 Bonds. Also on October 16, 2007, the City Council approved the issuance of the 2007 Bonds.

The 2007 Bonds are being issued to (i) finance redevelopment activities within or of benefit to the Agency's Merged Area Redevelopment Project, (ii) fund a debt service reserve account for the 2007 Bonds, (iii) capitalize approximately one year's interest on the 2007 Bonds and (iv) pay the costs of issuing the 2007 Bonds. See “PLAN OF FINANCING” in this Official Statement.

The Agency and the Merged Area

The Agency was activated by the City Council of the City of San José (the “**City**”) in October, 1956, upon the determination by the City Council that there was a need for redeveloping portions of the City. On January 14, 1975, the City Council replaced an appointed governing board and declared itself to be the Agency board. See “THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE” in this Official Statement.

The Merged Area was formed in 1981 from the merger of existing Agency project areas. Other project areas have been subsequently established and added to the Merged Area Redevelopment Project. Only 16 of these merged project areas are authorized to generate tax increment revenue; these project areas are referred to as the “**Tax Increment Generating Area of the Merged Area**”.

The Tax Increment Generating Area of the Merged Area is composed of approximately 8,110 acres. For fiscal year 2007-08, the Tax Increment Generating Area of the Merged Area has a total assessed valuation of approximately \$18,053,653,752, which is an increase of approximately 12.2% from the fiscal year 2006-07 assessed valuation (\$16,091,802,071) and down from a high of approximately \$18.7 billion in fiscal year 2002-03, which the Agency attributes to reductions in unsecured personal property value and assessment reductions by the Santa Clara County Assessor (the “**County Assessor**”) with respect to research and development and office properties under its Proposition 8 authority in recognition of economic weakness existing at the time. See “THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Historic Assessed Value and Tax Increment Revenue” in this Official Statement.

The Tax Increment Generating Area of the Merged Area is expected to generate gross tax increment of \$179,765,641 in fiscal year 2007-08. The Agency's ability to collect tax

increment throughout the term of the Bonds may be affected by the tax increment cap applicable to the Tax Increment Generating Area of the Merged Area, which limits the Agency's receipt of tax increment revenues to \$7.6 billion (the "**Tax Increment Revenue Limit**"); the \$7.6 billion Tax Increment Revenue Limit applies not only to Tax Revenues available to pay debt service on the Bonds but also to tax increment the Agency (i) deposits into the Agency's Low and Moderate Income Housing Fund and (ii) uses to pay pass-through obligations and the County's tax administration fee. In the event that the Agency reaches its Tax Increment Revenue Limit, it would not collect any additional tax increment to pay debt service on the Bonds.

Whether or not the Agency reaches the Tax Increment Revenue Limit during the term of the 2007 Bonds (the final maturity of the 2007 Bonds is August 1, 2036) depends on the rate of tax increment growth in the Tax Increment Generating Area of the Merged Area. The Report of Urban Analytics LLC, the Agency's fiscal consultant (the "**Fiscal Consultant**") projects that, with a 2% average rate of growth commencing with fiscal year 2007-08 assessed values, the Tax Increment Revenue Limit would be reached in fiscal year 2031-32. With higher rates of growth, the Tax Increment Revenue Limit would be reached even sooner.

Through fiscal year 2007-08, the average annual growth of the assessed values in the Tax Increment Generating Area of the Merged Area since fiscal year 1995-96 has been 8.2% (despite declines in assessed values in fiscal years 2003-04 through 2005-06) and over the past 5 years it has been 0.3%. The Agency's five-year capital improvement budget (through fiscal year 2011-12) forecasts annual assessed value growth of approximately 10%.

The Agency is obligated by the Indenture, under certain circumstances, to escrow tax increment revenue and to use such amounts to retire or defease Bonds in order to ensure that all of the Bonds and the interest thereon is paid in full prior to the \$7.6 billion Tax Increment Revenue Limit being reached. Based on the growth forecasts set forth in the Agency's five-year capital improvement budget, the Agency expects to begin escrowing tax increment revenue and retiring and/or defeasing Bonds in fiscal year 2010-11. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Tax Increment Revenue Limitation" in this Official Statement.

Security for the Bonds

General. The Redevelopment Law authorizes the financing of redevelopment projects through the use of tax increment revenue (also referred to as tax allocation revenue). This method provides that the taxable valuation of the property within a redevelopment project area on the assessment roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year assessment roll. The increase in taxable valuation of such property in subsequent years over the base year becomes the increment upon which taxes are levied and may be allocated to a redevelopment agency. All taxes collected after the base year upon the incremental taxable valuation (the increase in taxable valuation above the base year assessment roll) that are allocated to a redevelopment agency for the repayment of debt may be pledged to the payment of debt service on the obligations issued to finance the redevelopment project.

Pledge of Revenues. As noted above, the 2007 Bonds will be issued under the Indenture. Under the Indenture, the Agency has pledged, for the payment of the principal of and redemption premium and interest on the Bonds and any additional series of parity bonds and other parity debt (collectively, the "**Parity Debt**") issued pursuant to the Indenture, and has granted a first lien upon:

(1) all taxes eligible for allocation to the Agency pursuant to the Redevelopment Law in connection with the Tax Increment Generating Area of the Merged Area, excluding any amounts required to be deposited by the Agency in the Low and Moderate Income Housing Fund pursuant to the Redevelopment Law, amounts, if any, received pursuant to Section 16111 of the California Government Code, and amounts, if any, required to be paid to any other taxing agency pursuant to any agreements entered into pursuant to former Section 33401 of the Redevelopment Law, except to the extent such payments are subordinate to the payment of the Bonds (in the Indenture, the Agency covenants that so long as any Bonds are Outstanding, it will not enter into or amend any such agreement unless its obligations thereunder are made expressly subordinate and junior to the Agency's obligations under the Indenture and the Bonds) (collectively, the **"Tax Revenues"**);

(2) all interest, profits and other income received from the investment of Tax Revenues (other than amounts in the Rebate Fund) together with all payments received pursuant to any contract between the Agency and any other parties to provide for an interest rate swap, cap, collar, floor or other hedging arrangement permitted under the terms of the Indenture (the Tax Revenues and such additional amounts described above at (1) and (2) above are referred to in this Official Statement collectively as the **"Revenues"**); and

(3) all amounts held by the Trustee under the Indenture and all proceeds of the Bonds, including earnings thereon, held by the Agency in any fund or account established under the Indenture (other than amounts in the Rebate Fund), subject in all cases to the provisions of the Indenture, including without limitation certain other applications of the Revenues.

See "SECURITY FOR THE BONDS - Introduction" and " - Pledge of Revenues" and "THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE - Historic Assessed Value and Tax Increment Revenue" below.

Bond Insurance; Debt Service Reserve Fund Surety Bond

Payment of the principal of and interest on the 2007A-T Bonds and the 2007B Bonds, respectively, when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the 2007 Bonds by XL Capital Assurance Inc. (**"XL Capital Assurance"** or the **"2007 Bonds Insurer"**).

The 2007 Bonds Insurer will also be issuing a reserve fund surety bond (the **"2007 Debt Service Reserve Fund Surety Bond"**) in connection with the issuance of the 2007A-T Bonds and the 2007B Bonds.

See "FINANCIAL GUARANTY INSURANCE POLICY; DEBT SERVICE RESERVE FUND SURETY BOND" below.

Additional Obligations

The Bonds; Additional Parity Debt. Under the Indenture, the Agency may issue additional Parity Debt payable from the Revenues, provided that the conditions to issuing such Parity Debt specified in the Indenture are met. See “SECURITY FOR THE BONDS – Additional Indebtedness” and APPENDIX C – “SUMMARY OF THE INDENTURE.”

The Indenture also authorizes the Agency to incur variable rate debt and to enter into interest rate swaps, caps, collars and other hedging agreements payable from tax increment revenues pledged to the Bonds on a parity with any outstanding Bonds, but subject in each case to the receipt of a Rating Confirmation Notice from each rating agency then rating the Bonds. The Agency does not currently have outstanding under the Indenture any variable rate debt, any interest rate swaps, collars or hedging agreements. A summary of the provisions of the Indenture is contained in APPENDIX C hereto. The 2007 Bonds, 2006 Refunding Bonds, 2006 New Money Bonds, 2005 Bonds, 2004 Bonds, 2003 Bonds, 2002 Bonds, 1999 Bonds, 1998 Bonds, 1997 Bonds and 1993 Bonds are the only Bonds or Parity Debt of the Agency currently outstanding under the Indenture that are secured by a senior lien pledge of the Tax Revenues. See “THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE - Indebtedness” below.

Subordinate Obligations. The Agency has previously issued bonds and entered into obligations, and may in the future issue additional bonds and enter into additional obligations payable from tax increment revenue on a basis subordinate to the payment of debt service on the bonds. For a description of these currently outstanding subordinate bonds and obligations, see “THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Indebtedness” below.

The Revenues are also pledged (on a subordinate basis to the Bonds and Parity Debt) to secure the payment of any fees and expenses owing to the provider of a letter of credit, insurance policy or surety bond which is used to satisfy all or a portion of the Bond Reserve Requirement (collectively, the “**Bond Reserve Costs**”). See APPENDIX C – “SUMMARY OF THE INDENTURE” hereto.

Bond Reserve Fund; Surety Bond

A Reserve Account for the 2007 Bonds (the “**2007 Reserve Account**”) is held within the Bond Reserve Fund pursuant to the Indenture. The 2007 Debt Service Reserve Fund Surety Bond expected to be issued by the 2007 Bond Insurer in the stated amount of \$18,293,881 will be made available to the 2007 Reserve Account. See “SECURITY FOR THE BONDS – Bond Reserve Fund” below. For information concerning the 2007 Bonds Insurer, see “BOND INSURANCE POLICY; DEBT SERVICE RESERVE FUND SURETY BOND” below.

The Agency has established separate accounts in the Bond Reserve Fund for each series of Bonds (with one account covering the 1993 Bonds, the 1997 Bonds and the 2004 Bonds, and another account covering the 1999 Bonds and the 2005B Bonds) and calculates the Bond Reserve Requirement for each series. Pursuant to the Indenture, funds in one account are only available to pay debt service on the related series of Bonds. In the event Revenues are insufficient in any year to pay debt service on the Bonds, the Trustee will use available Revenues to pay debt service on the various series of Bonds on a pro rata basis (based on the outstanding principal amount of each series of Bonds) and, to the extent necessary, will use amounts in the various accounts in the Bond Reserve Fund to make up shortfalls with respect to the related series of Bonds.

Redemption

The 2007 Bonds are subject to optional redemption and mandatory sinking account redemption prior to their respective stated maturities as described in this Official Statement.

PLAN OF FINANCING

The Project

Proceeds deposited into the Series 2007A-T Project Fund and the Series 2007B Project Fund will be held and disbursed for purposes of financing redevelopment activities within or of benefit to the Merged Area, including projects designated by the County of Santa Clara (collectively, the “**Project**”).

The various elements of the Project are not security for the 2007 Bonds and the Agency can provide no assurance that the elements of the Project will not change.

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds for the 2007 Bonds.

TABLE 1
REDEVELOPMENT AGENCY OF CITY OF SAN JOSE
Sources and Uses of Funds

Sources of Funds:	<u>2007A-T Bonds</u>	<u>2007B Bonds</u>	<u>Total</u>
Par Amount	\$21,330,000.00	\$191,600,000.00	\$212,930,000.00
Plus Net Original Issue Premium	<u>0.00</u>	<u>1,128,708.90</u>	<u>1,128,708.90</u>
Total Sources	\$21,330,000.00	\$192,728,708.90	\$214,058,708.90
Uses of Funds:			
Deposit to Series 2007A-T Project Fund	\$20,190,000.00		\$20,190,000.00
Deposit to Series 2007B Project Fund		\$179,810,000.00	179,810,000.00
Deposit to Interest Fund ⁽¹⁾	930,000.00	9,800,000.00	10,730,000.00
Costs of Issuance ⁽²⁾	185,470.50	2,215,115.64	2,400,586.14
Underwriters' Discount	<u>24,529.50</u>	<u>903,593.26</u>	<u>928,122.76</u>
Total Uses	\$21,330,000.00	\$192,728,708.90	\$214,058,708.90

⁽¹⁾ To pay approximately one year's interest on the 2007A-T Bonds and approximately one year's interest on the 2007B Bonds.

⁽²⁾ Includes the Agency's direct expenses, trustee, bond insurance and reserve surety premiums, ratings, financial advisor fees and expenses, legal fees and expenses and other miscellaneous expenses associated with issuance of the 2007 Bonds.

Debt Service Schedule and Estimated Coverage

Table 2 sets forth the annual debt service on the Bonds. Included in the table is a pro forma statement of annual Tax Revenues through the term of the Bonds. Debt service coverage is based on estimates of fiscal year 2007-08 Tax Revenue held constant through the term of the Bonds (declines in Tax Revenues represent termination of component project areas).

TABLE 2
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA DEBT SERVICE AND ESTIMATED COVERAGE
PARITY DEBT⁽¹⁾

Year Ending (August 1)	2007A-T Bonds Principal	2007A-T Bonds Interest	2007B Bonds Principal	2007B Bonds Interest	Parity Debt Debt Service	Total Bond Debt Service	Tax Revenues ⁽²⁾	Coverage
2008	\$1,880,000.00	\$797,742.00		\$6,579,851.67	\$102,054,173	\$111,311,766	\$142,732,470	1.28
2009	1,660,000.00	991,950.00		8,972,525.00	110,844,073	122,468,548	142,732,470	1.17
2010	1,755,000.00	907,290.00		8,972,525.00	110,831,483	122,466,298	142,732,470	1.17
2011	1,950,000.00	817,785.00		8,972,525.00	110,825,433	122,565,743	142,732,470	1.16
2012	2,050,000.00	718,335.00		8,972,525.00	110,817,389	122,558,249	142,732,470	1.16
2013	2,160,000.00	613,785.00		8,972,525.00	110,812,809	122,559,119	142,732,470	1.16
2014	2,275,000.00	503,625.00		8,972,525.00	110,812,681	122,563,831	142,732,470	1.16
2015	2,400,000.00	387,600.00		8,972,525.00	110,821,494	122,581,619	142,732,470	1.16
2016	2,530,000.00	265,200.00		8,972,525.00	110,814,894	122,582,619	142,732,470	1.16
2017	2,670,000.00	136,170.00		8,972,525.00	110,816,265	122,594,960	142,732,470	1.16
2018			\$1,970,000.00	8,972,525.00	110,813,364	121,755,889	142,732,470	1.17
2019			2,050,000.00	8,888,800.00	110,816,676	121,755,476	142,732,470	1.17
2020			3,570,000.00	8,786,300.00	109,385,804	121,742,104	142,732,470	1.17
2021			3,340,000.00	8,634,575.00	109,765,151	121,739,726	142,732,470	1.17
2022			3,290,000.00	8,492,625.00	109,960,265	121,742,890	142,732,470	1.17
2023			2,710,000.00	8,352,800.00	103,612,655	114,675,455	134,607,372	1.17
2024			2,830,000.00	8,237,625.00	103,615,020	114,682,645	134,607,372	1.17
2025			2,960,000.00	8,117,350.00	103,614,338	114,691,688	134,607,372	1.17
2026			17,515,000.00	7,991,550.00	87,691,275	113,197,825	134,607,372	1.19
2027			19,360,000.00	7,115,800.00	86,703,025	113,178,825	134,607,372	1.19
2028			16,240,000.00	6,147,800.00	70,263,994	92,651,794	109,314,256	1.18
2029			15,730,000.00	5,335,800.00	70,213,015	91,278,815	107,822,913	1.18
2030			1,525,000.00	4,549,300.00	69,293,590	75,367,890	89,620,319	1.19
2031			17,700,000.00	4,480,675.00	53,828,330	76,009,005	89,620,319	1.18
2032			18,500,000.00	3,595,675.00	53,923,418	76,019,093	89,620,319	1.18
2033			9,000,000.00	2,670,675.00	37,503,400	49,174,075	59,024,998	1.20
2034			23,940,000.00	2,265,675.00	22,732,500	48,938,175	59,024,998	1.21
2035			23,970,000.00	1,248,225.00	18,287,500	43,505,725	52,118,570	1.20
2036			5,400,000.00	229,500.00		5,629,500	6,666,467	1.18
Total	\$21,330,000.00	\$6,139,482.00	\$191,600,000.00	\$201,445,851.67	\$2,531,474,010	\$2,951,989,344		

⁽¹⁾ Numbers may not total due to rounding.

⁽²⁾ Fiscal year 2007-08 Tax Revenues as estimated (assuming 0% growth) in Table 14 of APPENDIX A – "REPORT OF THE FISCAL CONSULTANT" attached hereto. Tax Revenues equals gross tax increment (including supplemental assessments and unitary revenues) less amounts the Agency is obligated to deposit into its Low and Moderate Income Housing Fund less net unsubordinated statutory pass-through obligations. Declines in Tax Revenues represent termination of component project areas.

THE 2007 BONDS

General

The 2007 Bonds will bear interest at the rates and mature in the amounts and on the dates set forth on the cover page of this Official Statement. The 2007 Bonds will be dated their date of issuance and will be issued as fully registered bonds in the denomination of \$5,000 each or any integral multiple thereof. The Trustee will maintain books for registration, exchange and transfer of the 2007 Bonds at its corporate trust office in Los Angeles, California (the “**Trust Office**”).

Interest on the 2007 Bonds is payable on February 1, 2008 and semi-annually thereafter each February 1 and August 1 (each an “**Interest Payment Date**”). Except as described in APPENDIX E – “BOOK-ENTRY ONLY SYSTEM”, interest on the 2007 Bonds is payable by check mailed by first class mail, postage prepaid, to the Owners whose names appear on the registration books of the Trustee as of the close of business on the fifteenth day of the month immediately preceding each Interest Payment Date (each, a “**Record Date**”) at the address of such Owners as they appear on the registration books as of the applicable Record Date or, upon written notice filed with the Trustee on or prior to the Record Date by an Owner of 2007 Bonds in the aggregate principal amount of \$1,000,000 or more, by wire transfer in immediately available funds at the address of such Owner as it appears on the bond registration books of the Trustee, or to an account designated by such Owner in such written request. Principal of and redemption premium, if any, on any 2007 Bond is payable at maturity or redemption upon presentation and surrender thereof at the Trust Office or such other office as the Trustee may designate. For a description of the manner of payment of the principal of and interest on the 2007 Bonds while they are in book-entry-only form, see APPENDIX E – “BOOK-ENTRY ONLY SYSTEM” below.

Each 2007 Bond will be dated as of its delivery, and will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the Interest Payment Date to which interest has previously been paid next preceding the date of authentication thereof, unless (i) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (ii) it is authenticated on or before January 15, 2008, in which event it will bear interest from the date of delivery; provided, however, that if, as of the date of authentication of any 2007 Bond, interest thereon is in default, such 2007 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon in full.

Optional Redemption

2007A-T Bonds. The 2007A-T Bonds are not subject to optional redemption prior to maturity.

2007B Bonds. The 2007B Bonds maturing on or before August 1, 2017, are not subject to optional redemption prior to their stated maturities. 2007B Bonds maturing on or after August 1, 2018, are subject to redemption prior to their respective stated maturities, at the option of the Agency, from any source of available funds, as a whole or in part on any date (by such maturities and in such amounts as may be specified by the Agency and by lot within a maturity) on or after August 1, 2017, at a redemption price equal to the principal amount of the Series 2007B Bonds called for redemption, without premium, plus accrued interest thereon to the date of redemption. See “FACTORS AFFECTING TAX ALLOCATION FINANCING – Tax

Increment Revenue Limitation” in this Official Statement for a discussion of the Agency’s Tax Increment Revenue Limitation and the Agency’s expectation to begin escrowing tax increment and defeasing or redeeming Bonds beginning in fiscal year 2010-11.

Mandatory Sinking Fund Redemption

2007A-T Bonds. The Series 2007A-T Bonds maturing on August 1, 2017, are also subject to redemption prior to their stated maturity, in part, from mandatory sinking account payments in the following amounts on August 1 in the following years commencing August 1, 2008, at the principal amount thereof redeemed plus accrued interest thereon to the date fixed for redemption, without premium:

<u>Mandatory Sinking Account Payment Dates (August 1)</u>	<u>Mandatory Sinking Account Payments</u>
2008	\$1,880,000
2009	1,660,000
2010	1,755,000
2011	1,950,000
2012	2,050,000
2013	2,160,000
2014	2,275,000
2015	2,400,000
2016	2,530,000
2017 (Maturity)	2,670,000

The Trustee will effect each mandatory sinking account redemption of Series 2007A-T Bonds by redeeming from each person who is the registered owner of each such Series 2007A-T Bond subject to mandatory sinking account redemption on the Record Date immediately preceding a redemption date, an amount of such Series 2007A-T Bonds determined by (i) multiplying the principal amount of such Series 2007A-T Bonds to be redeemed on the applicable redemption date by a fraction the numerator of which is the principal amount of the such Series 2007A-T Bonds owned by such registered owner and the denominator of which is the principal amount of such Series 2007A-T Bonds outstanding immediately prior to such date of redemption, and (ii) then rounding the product down to the next lower integral multiple of \$5,000. The Trustee will apply, to the extent possible, any remaining amount of a sinking account payment to redeem \$5,000 units of such Series 2007A-T Bonds and will select by lot the units to be redeemed from all such Series 2007A-T Bonds registered owners.

2007B Bonds. The Series 2007B Bonds maturing on August 1, 2036, are also subject to redemption prior to their stated maturity, in part, by lot, from mandatory sinking account payments in the following amounts on August 1 in the following years commencing August 1, 2034, at the principal amount thereof redeemed plus accrued interest thereon to the date fixed for redemption, without premium:

<u>Mandatory Sinking Account Payment Dates (August 1)</u>	<u>Mandatory Sinking Account Payments</u>
2034	\$23,940,000
2035	23,970,000
2036 (Maturity)	5,400,000

Selection of 2007B Bonds for Redemption

The Agency may specify which maturities of 2007B Bonds are to be redeemed. Whenever less than all of the 2007B Bonds of any maturity are to be redeemed, the Trustee will select the 2007B Bonds to be redeemed from all 2007B Bonds of a maturity not previously called for redemption, in Authorized Denominations, by lot in any manner which the Trustee in its sole discretion deems appropriate and fair.

Notice of Redemption

The Trustee will give written notice of redemption by mail not less than 30 days nor more than 60 days prior to the Redemption Date to each registered owner of a 2007 Bond designated for redemption. So long as the 2007 Bonds are held in book-entry form, notice of redemption required to be sent to Bond Owners will be mailed only to Cede & Co. as the sole registered owner of the 2007 Bonds. The Trustee will also give written notice of redemption to the Securities Depositories and to two or more Information Services and each Credit Facility Provider (as defined in the Indenture). Neither failure to mail such notice to any Securities Depositories, any Information Service or any Credit Facility Provider, nor failure of any registered owner to receive such notice nor any defect therein will affect the sufficiency of the proceedings for the redemption of any of the 2007 Bonds. Notice of redemption may be rescinded at the option of the Agency.

The Indenture provides that notice of optional redemption of the Series 2007A-T Bonds or the Series 2007B Bonds, as applicable, will be given by the Trustee only if sufficient funds have been deposited with the Trustee to pay the Redemption Price of the Series 2007A-T Bonds or the Series 2007B Bonds, as applicable, to be redeemed, unless such Redemption Price is to be derived from the issuance of Refunding Bonds. If the Redemption Price is to be derived from the issuance of Refunding Bonds, any notice of optional redemption shall state that it may be rescinded on or prior to the date fixed for redemption, and such rescission shall not be an Event of Default, and neither the Agency nor the Trustee shall have any liability to the Owner or any other person arising from such rescission.

Effect of Redemption

From and after the date fixed for redemption, if funds available for the payment of the principal of and interest, and premium, if any, on the 2007 Bonds so called for redemption will have been duly provided, such 2007 Bonds so redeemed will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price therefor, and no interest will accrue thereon from and after the redemption date specified in such notice.

SECURITY FOR THE BONDS

Introduction

The Bonds are secured under the Indenture by a pledge of the Revenues, consisting primarily of Tax Revenues. See “Pledge of Revenues” below. Tax Revenues pledged to debt service on the Bonds are tax increment revenues reduced by housing set-aside funds and statutory pass-through obligations and may include estimated revenue derived from property value added due to completed construction and changes in ownership as well as estimated unitary property taxes. See “THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – “Historic Assessed Value and Tax Increment Revenues”, “– Twenty Largest Taxpayers”, and “– Assessment Appeals” and “PLAN OF FINANCING – Projected Debt Service Coverage” below.

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a project area. The taxable valuation of a project area last equalized prior to adoption of the redevelopment plan, or base roll, is established in the base year. Thereafter, except for any period during which the taxable valuation drops below the base year level, the taxing bodies receive the taxes produced by the levy of the then-current tax rate upon the base roll. Taxes collected upon any increase in taxable valuation over the base roll (with the exception of taxes derived from increases in the tax rate imposed by taxing agencies to support new bonded indebtedness) are allocated to the redevelopment agency and may be pledged to the repayment of any indebtedness incurred in financing or refinancing redevelopment. Redevelopment agencies themselves have no authority to levy property taxes and must look exclusively to such allocation of taxes.

As provided in the redevelopment plans, as amended, of the Tax Increment Generating Area of the Merged Area, and pursuant to Article 6 of Chapter 6 of the Redevelopment Law (commencing with Section 33670) and Section 16 of Article XVI of the Constitution of the State of California, taxes (other than taxes imposed by taxing agencies for the purpose of paying for bonded indebtedness approved by the voters after January 1, 1989 (see “FACTORS AFFECTING TAX ALLOCATION FINANCING – Proposition 87” below)) levied upon taxable property in the Tax Increment Generating Area of the Merged Area each year by and for the benefit of the State of California and any city, county, city and county or other public corporation for fiscal years beginning after the effective dates of each of the respective redevelopment projects, are divided for each project area as follows:

(1) To taxing agencies: The portion equal to the amount of those taxes which would have been produced by the current tax rate, applied to the taxable valuation of such property in the redevelopment project area as last equalized prior to the establishment of the redevelopment project, or base roll, is paid into the funds of those respective taxing agencies as taxes by or for said taxing agencies; and

(2) To the Agency: The portion of said levied taxes each year in excess of the amount referred to in (1) above is allocated to, and when collected, is paid into the Special Fund of the Agency. Such excess is referred to as “tax revenue” or “tax increment revenue”.

The Redevelopment Law requires generally that, unless a specified finding is made, redevelopment agencies set aside 20% of all tax increment revenue derived from

redevelopment project areas into a low and moderate income housing fund, to be used for the purpose of increasing, improving and/or preserving the supply of low and moderate income housing. Section 33487 of the Redevelopment Law dictates the low and moderate income housing set-aside required for merged project areas, and thus governs the Merged Area. Section 33487 currently requires generally that 20% of the tax increment revenue must be set aside for low and moderate income housing purposes. **Tax increment revenue required to be set aside for low and moderate income housing is not included in Tax Revenues and is not available to pay debt service on the Bonds.**

Section 33677 of the Redevelopment Law provides that the calculation of the amount of tax increment revenue will be made separately for each of the project areas comprising the Merged Area. As a result, a reduction in assessed value of property within any project area below the base year value for that project area will not cause a reduction in the tax revenue eligible for allocation to the Agency from any of the other project areas.

Pledge of Revenues

Under the Indenture, the Agency has pledged to secure the payment of the principal of and any redemption premium and interest on the Bonds and any additional series of parity bonds and other parity debt (collectively, the **"Parity Debt"**) issued pursuant to the Indenture:

(1) all taxes eligible for allocation to the Agency pursuant to the Redevelopment Law in connection with the Merged Area, excluding any amounts required to be deposited by the Agency in the Low and Moderate Income Housing Fund pursuant to the Redevelopment Law, amounts, if any, received pursuant to Section 16111 of the California Government Code, and amounts, if any, required to be paid to any other taxing agency pursuant to any agreements entered into pursuant to former Section 33401 of the Redevelopment Law, except to the extent such payments are subordinate to the payment of the Bonds (in the Indenture, the Agency covenants that so long as any Bonds are outstanding, it will not enter into or amend any such agreement unless its obligations thereunder are made expressly subordinate and junior to the Agency's obligations under the Indenture and the Bonds) (collectively, the **"Tax Revenues"**);

(2) all interest, profits and other income received from the investment of Tax Revenues (other than amounts in the Rebate Fund), together with all payments received pursuant to any contract between the Agency and any other parties to provide for an interest rate swap, cap, collar, floor or other hedging arrangement permitted under the terms of the Indenture; (the Tax Revenues and such additional amounts described in subparagraphs (1) and (2) of this definition are referred to in this Official Statement collectively as the **"Revenues"**); and

(3) all amounts held by the Trustee under the Indenture and all proceeds of the Bonds, including earnings thereon, held by the Agency in any fund or account established under the Indenture (other than amounts in the Rebate Fund), subject in all cases to the provisions of the Indenture, including without limitation certain other applications of the Revenues.

See "THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE - Historic Assessed Value and Tax Increment Revenue" below.

The Indenture authorizes the Agency to incur variable rate debt as well as to enter into interest rate swaps, caps, collars and other hedging agreements payable from tax increment revenues pledged to the Bonds on a parity with any outstanding bonds, but subject in each case to the receipt of a Rating Confirmation Notice from each rating agency then rating the Bonds. The Agency does not currently have outstanding under the Indenture any variable rate debt, any interest rate swaps, collars or hedging agreements. A summary of the provisions of the Indenture is contained in APPENDIX C hereto. The Revenues are also pledged (on a subordinate basis to the Bonds and Parity Debt) to secure the payment of any fees and expenses owing to the provider of a letter of credit, insurance policy or surety bond which is used to satisfy all or a portion of the Bond Reserve Requirement (collectively, the “**Bond Reserve Costs**”). See APPENDIX C – “SUMMARY OF THE INDENTURE “ hereto.

The Agency has previously issued bonds and entered into obligations, and may in the future issue additional bonds and enter into additional obligations payable from tax increment revenue on a basis subordinate to the payment of debt service on the bonds. For a description of these currently outstanding subordinate bonds and obligation, see “THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Indebtedness” below.

Limited Liability

The 2007 Bonds are not a debt of the City, the State or any of its political subdivisions, other than the Agency, and neither the City, the State nor any of its political subdivisions, other than the Agency, is liable therefor, nor in any event will the 2007 Bonds be payable out of any funds or properties, other than those of the Agency as set forth in the Indenture. Neither the members of the governing body of the Agency nor any persons executing the 2007 Bonds are liable personally on the 2007 Bonds by reason of their issuance.

Bond Reserve Fund

The Indenture establishes a Bond Reserve Fund. A 2007 Reserve Account within the Bond Reserve Fund is established in the Eleventh Supplemental Indenture solely for the 2007 Bonds (the “**Series 2007 Reserve Account**”). The 2007 Reserve Account (but not amounts on deposit or available in the other reserve accounts established in connection with other series of Bonds, as described in the following paragraph) will be available for payment of principal of and interest on the 2007 Bonds, to the extent other moneys are not available. See “BOND INSURANCE POLICY; DEBT SERVICE RESERVE FUND SURETY BOND” for information about the 2007 Bonds Insurer.

The Bond Reserve Requirement for the 2007 Bonds will be satisfied with a Debt Service Reserve Fund Surety Bond in the stated amount of \$18,293,881 issued by the 2007 Bonds Insurer for the benefit of the 2007 Reserve Account.

The Agency has established separate accounts in the Bond Reserve Fund for each series of Bonds (with one account covering the 1993 Bonds, the 1997 Bonds and the 2004 Bonds, and another account covering the 1999 Bonds and the 2005B Bonds) and calculates the Bond Reserve Requirement for each series. Pursuant to the Indenture, funds in one account are only available to pay debt service on the related series of Bonds. In the event Revenues are insufficient in any year to pay debt service on the Bonds, the Trustee will use available Revenues to pay debt service on the various series of Bonds on a pro rata basis (based on the outstanding principal amount of each series of Bonds) and, to the extent necessary, will use

amounts in the various accounts in the Bond Reserve Fund to make up shortfalls with respect to the related series of Bonds.

The series of Bonds covered by the various accounts in the Bond Reserve Fund and the form of security within those accounts are identified below:

Series of Bonds Covered By Accounts in the Bond Reserve Fund	Surety Bond Provider	Stated Amount
1993 Bonds, 1997 Bonds 2004 Bonds, 2006C Bonds	MBIA Insurance Company	\$63,645,976
1998 Bonds	Financial Security Assurance Inc.	1,542,625
1999, 2005B, 2006D	Ambac Assurance Corporation	27,775,500
2002 Bonds	XL Capital Assurance Inc.	25,643,198.60
2003 Bonds	XL Capital Assurance Inc.	12,939,323
2005A Bonds	MBIA Insurance Company	13,848,549
2006A-T Bonds	Radian Asset Assurance Inc.	1,430,000
2006B Bonds	Radian Asset Assurance Inc.	6,700,000
2007 Bonds	XL Capital Assurance Inc.	18,293,881

Additional Indebtedness

Additional Bonds and Parity Debt. Under the Indenture, the Agency may issue one or more series of bonds, in addition to the Bonds payable on a parity from the Revenues, provided that the conditions to issuing such bonds specified in the Indenture are met. See APPENDIX C – “SUMMARY OF THE INDENTURE.” These conditions include, without limitation, the requirement that prior to the issuance of such bonds, the Agency delivers a certificate to the Trustee certifying that the amount of Tax Revenues received for the fiscal year in which such bonds will become outstanding, as such Tax Revenues may be adjusted for certain allowances as described under the Indenture, will be at least equal to 1.15 times Maximum Annual Debt Service on all Bonds and Parity Debt then outstanding and the additional bonds then proposed to be issued. Such debt service coverage requirement is not required if the additional Bonds are Refunding Bonds. See “– Refunding Bonds” below.

The Agency may incur any indebtedness (including variable rate debt) or enter into any interest rate swap agreement, cap, collar, floor, option or similar hedging agreement, installment sale obligation, lease obligation or other obligation having a lien and charge upon the Revenues equal to the lien and charge of the Bonds (“**Parity Debt**”), including additional bonds and refunding bonds, provided that certain conditions precedent to the issuance of such Parity Debt, as set forth in the Indenture, are satisfied, including the following conditions:

- (1) No event of default under the Indenture will have occurred and then be continuing.
- (2) Unless such Parity Debt is for the refunding purposes described below in “Refunding Bonds,” the Agency will have certified to the Trustee (on the basis of calculations as of the date of delivery of such Parity Debt) that the debt service coverage requirements for the issuance of Additional Bonds described in “Additional Bonds” above have been met with respect to such Parity Debt.

(3) If such Parity Debt is Variable Rate Indebtedness and/or involves any Public Finance Contract (as defined in APPENDIX C hereto), the Agency and the Trustee will have received a Rating Confirmation Notice with respect to such Parity Debt and any other Outstanding Bonds or Parity Debt.

The Agency does not currently have outstanding under the Indenture any variable rate debt, any interest rate swaps, collars or hedging agreements.

Refunding Bonds. Refunding Bonds may be authorized and issued by the Agency without compliance with the provisions described immediately above provided that Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding following the issuance of such refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding prior to the issuance of such refunding Bonds.

Subordinate Obligations. The Agency may also issue or incur obligations (the “Subordinate Obligations”) payable from Revenues, the payment of which is junior and subordinate to the prior payment of all amounts due to be paid with respect to the Bonds and Parity Debt, and to the payment of Bond Reserve Costs, all as the same will become due and payable. See “THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Indebtedness” for a description of certain outstanding subordinate obligations of the Agency.

FINANCIAL GUARANTY INSURANCE POLICY; DEBT SERVICE RESERVE FUND SURETY BOND

The following information has been furnished by the 2007 Bonds Insurer for use in this Official Statement. Reference is made to Appendix H for a specimen of the policy to be issued by the 2007 Bonds Insurer for the 2007A-T Bonds and the 2007B Bonds (the “**2007 Bonds Policy**”) and to Appendix I for a specimen of the debt service reserve fund surety bond to be issued by the 2007 Bonds Insurer for the 2007 Reserve Account. No representation is made by the Agency as to the accuracy or completeness of the following information.

The 2007 Bonds Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the 2007 Bonds Insurer and its affiliates set forth under this heading. In addition, the 2007 Bonds Insurer makes no representation regarding the 2007 Bonds or the advisability of investing in the 2007 Bonds.

General

XL Capital Assurance Inc. (the “**2007 Bonds Insurer**” or “**XLCA**”) is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The 2007 Bonds Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The 2007 Bonds Insurer is an indirect wholly owned subsidiary of Security Capital Assurance Ltd (“**SCA**”), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd currently beneficially owns approximately 46% of SCA’s outstanding shares.

The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). SCA is not obligated to pay the debts of or claims against the 2007 Bonds Insurer.

Financial Strength and Financial Enhancement Ratings of the 2007 Bonds Insurer

The 2007 Bonds Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("**Fitch**"). In addition, the 2007 Bonds Insurer has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the 2007 Bonds Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. ("**XLFA**") described under "Reinsurance" below.

The above ratings are not recommendations to buy, sell or hold securities, including the 2007 Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the 2007 Bonds. The 2007 Bonds Insurer does not guaranty the market price of the 2007 Bonds nor does it guaranty that the ratings on the 2007 Bonds will not be revised or withdrawn.

Reinsurance

The 2007 Bonds Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the 2007 Bonds Insurer. Pursuant to this reinsurance agreement, the 2007 Bonds Insurer expects to cede up to 75% of its business to XLFA. The 2007 Bonds Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the 2007 Bonds Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the 2007 Bonds Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the 2007 Bonds Policy.

Based on the audited financial statements of XLFA, as of December 31, 2006, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$2,007,395,000, \$874,028,000, \$54,016,000 and \$1,079,351,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("**US GAAP**"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the 2007 Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the 2007 Bonds Insurer described in this section, the owners of the 2007 Bonds will have direct recourse against the 2007 Bonds Insurer only, and XLFA will not be directly liable to the owners of the 2007 Bonds.

Capitalization of the 2007 Bonds Insurer

Based on the audited financial statements of XLCA, as of December 31, 2006, XLCA had total assets, liabilities, and shareholder's equity of \$1,224,735,000, \$974,230,000, and \$250,505,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2006 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$429,073,000, total liabilities of \$222,060,000, total capital and surplus of \$207,013,000 and total contingency reserves of \$20,876,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("**SAP**").

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "**Commission**") by SCA and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by SCA pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 and all documents filed or furnished by SCA on Current Report on Form 8-K pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the 2007 Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA and the Current Reports on Form 8-K of SCA, no other information contained in the reports filed with the Commission by SCA is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the 2007 Bonds Insurer

The 2007 Bonds Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the 2007 Bonds Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the 2007 Bonds Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The 2007 Bonds Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments

and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE 2007 BONDS INSURER, INCLUDING THE 2007 BONDS POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the 2007 Bonds Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

FACTORS AFFECTING TAX ALLOCATION FINANCING

Property Tax Collection Procedures

Classifications. In California, property which is subject to ad valorem taxes is classified as “secured” or “unsecured”. Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens on the secured property, regardless of the time of the creation of such other liens.

Generally, ad valorem taxes are collected by a county (the “**Taxing Authority**”) for the benefit of the various entities (cities, school districts and special districts) that share in the ad valorem tax (each a taxing entity) and redevelopment agencies eligible to receive tax increment revenues.

Collections. Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has three ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; and (3) seizure and sale of the personal property, improvement or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent.

Penalty. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, on or about June 30 of the fiscal year, property on the secured roll on which taxes are delinquent is declared in default by operation of law and declaration of the tax collector. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the county tax collector. A 10% penalty also applies to delinquent taxes on property on unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on varying dates related to the tax bill mailing date. It is the County's practice to retain all such penalties and interest.

Delinquencies. The County currently allocates property taxes to the Agency based on 100% of the tax levy, notwithstanding any delinquencies. However, there can be no assurance the County will continue such practice.

The valuation of property is determined as of the January 1 lien date as equalized in August of each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31.

Supplemental Assessments. A bill enacted in 1983, Senate Bill (“SB”) 813 (Statutes of 1983, Chapter 498), provides for the supplemental assessment and taxation of property upon the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessments. As enacted, Chapter 498 allows for increased revenue to redevelopment agencies to the extent that supplemental assessments of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the January 1 lien date, as equalized in August. To the extent such supplemental assessments occur within the Merged Area, Agency tax increment revenues may increase.

Property Tax Administrative Costs. In 1990, the Legislature enacted SB 2557 (Statutes of 1990, Chapter 466) which allows counties to charge fees to local jurisdictions (including redevelopment agencies) for the cost of preparing and overseeing the tax roll. For fiscal year 2007-08 the estimated administrative fees being charged to the Agency by the County for such services is approximately \$1,920,106, which is approximately 1.07% of the total Gross Tax Allocations for the Tax Increment Generating Area of the Merged Area. By agreement between the County and the Agency, the administrative fee is payable on a subordinate basis to the Bonds.

Filing of Statement of Indebtedness. Under the Redevelopment Law, the Agency must file with the County a statement of indebtedness for the Merged Area by October 1 of each year. As described below, the statement of indebtedness controls the amount of tax increment revenue that will be paid to the Agency in each fiscal year. Each statement of indebtedness is filed on a form prescribed by the State Controller and specifies, among other things: (i) the total amount of principal and interest payable on all loans, advances or indebtedness (including the Bonds and all Parity Obligations) (the “**Debt**”), both over the life of the Debt and for the current fiscal year, and (ii) the amount of “available revenue” as of the end of the previous fiscal year. “**Available Revenue**” is calculated by subtracting the total payments on Debt during the previous fiscal year from the total revenues (both tax increment revenues and other revenues) received during the previous fiscal year, plus any carry forward from the prior fiscal year.

The County may pay tax increment revenue to the Agency in any fiscal year only to the extent that the total remaining principal and interest on all Debt exceeds the amount of available revenues as shown on the statement of indebtedness. The statement of indebtedness constitutes prima facie evidence of the indebtedness of the Agency; however, the County may dispute the statement of indebtedness in certain cases within certain time limits established under State law. Any such dispute may be adjudicated in court, but only the amount of the Debt – not its validity (or any related contract or expenditures) – may be contested. No challenge can be made to payments to a trustee or fiscal agent in connection with a bond issue or payments to

a public agency in connection with payments by that public agency with respect to a lease or a bond issue.

Property Tax Limitations - Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax roll under “full cash value”, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any ad valorem tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Both the United States Supreme Court and the California Supreme Court have upheld the validity of Article XIII A. While it appears that the constitutional challenges to Article XIII A are exhausted, the Agency cannot predict what impact any future developments might have on the Agency’s receipt of tax increment revenues.

In the general election held November 4, 1986, voters of the State approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms “purchase” and “change of ownership”, for the purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. This amendment to Article XIII A may reduce the rate of growth of local property tax revenues.

Proposition 60 amended Article XIII A to permit the Legislature to allow persons over the age of 55 who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence assessed value to the new residence. As a result of the Legislature’s action, the growth of property tax revenues may decline.

Legislation enacted by the Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value (except as noted). Tax rates for voter approved bonded indebtedness and pension liabilities are also applied to 100% of assessed value.

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. The principal effect of Article XIII B is to

limit the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The starting point for establishing such appropriation limit is fiscal year 1978-79 and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Appropriations subject to Article XIIB include generally the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds.

Effective September 30, 1980, the Legislature added Section 33678 to the Redevelopment Law which provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness will not be deemed the receipt by the agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIIB or any statutory provision enacted in implementation thereof.

The constitutionality of Section 33678 has been upheld by the Second and Fourth District Courts of Appeal in two decisions: *Bell Redevelopment Agency v. Woosely* and *Brown v. the Redevelopment Agency of the City of Santa Ana*.

Articles XIIC and XIID of the California Constitution

At the election held on November 5, 1996, Proposition 218 was passed by the voters of California. The initiative added Articles XIIC and XIID to the California Constitution. Provisions in the two articles affect the ability of local government to raise revenues. The 2007 Bonds are secured by sources of revenues that are not subject to limitation by Proposition 218.

Proposition 87

On November 8, 1988, the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the California Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on bonded indebtedness issued by a taxing entity (not the Agency) and approved by the voters of the taxing entity after January 1, 1989 will be allocated solely to the payment of such indebtedness and not to redevelopment agencies. Because this provision is not retroactive, such bonded indebtedness approved prior to January 1, 1989 will continue to provide tax overrides to the Agency so long as such indebtedness remains outstanding. See "THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Tax Rates" below.

Unitary Property

Assembly Bill ("AB") 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive that same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated to each tax rate area on a pro-rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive

a pro-rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property is changed from March 1 to January 1.

AB 454 (Statutes of 1987, Chapter 921) further modifies chapter 1457 regarding the distribution of tax revenues derived from property assessed by the State Board of Equalization. Chapter 921 provides for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provides for a new method of establishing tax rates on State-assessed property and distribution of property tax revenue derived from State-assessed property to taxing jurisdictions within each county in accordance with a new formula. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

Chapters 1457 and 921 provide for redevelopment agencies to receive their appropriate share of revenue generated from the property assessed by the State Board of Equalization. The Agency's collection of tax increment revenue from such State-assessed property for fiscal year 2007-08 for the Tax Increment Generating Area of the Merged Area is estimated to be \$1,944,878.

Tax Increment Revenue Limitation

The Agency was required in 1986 to adopt a limit on the amount of tax increment revenue the Agency may receive with respect to the Tax Increment Generating Area of the Merged Area. The maximum amount of tax increment revenue the Agency may receive from the Tax Increment Generating Area of the Merged Area was set at \$7.6 billion. Based on Agency records, as of June 30, 2007, the Agency has received \$2,298,801,640 of tax increment revenue from the Tax Increment Generating Area of the Merged Area. Pursuant to SB 1045 and SB 1096, the Agency's ERAF payments in fiscal years 2002-03 through 2005-06 may be deducted from the tax increment revenue applied against the Tax Increment Revenue Limit. The \$2,298,801,640 received through June 30, 2007 reflects the deduction of approximately \$48 million in ERAF payments for fiscal years 2002-03 through 2005-06.

Whether or not the Agency reaches the Tax Increment Revenue Limit during the term of the 2007 Bonds (the final maturity of the 2007 Bonds is August 1, 2036) depends on the rate of tax increment growth in the Tax Increment Generating Area of the Merged Area. The Report of the Fiscal Consultant projects that, with a 2% average rate of growth commencing with fiscal year 2007-08 assessed values, the Tax Increment Revenue Limit would be reached in fiscal year 2031-32. With higher rates of growth, the Tax Increment Revenue Limit would be reached even sooner.

Through fiscal year 2007-08, the average annual growth of the assessed values in the Tax Increment Generating Area of the Merged Area since fiscal year 1995-96 has been 8.2% (despite declines in assessed values in fiscal years 2003-04 through 2005-06) and over the past 5 years it has been 0.3%. The Agency's five-year capital improvement budget (through fiscal year 2011-12) forecasts annual assessed value growth of approximately 10%.

The Fiscal Consultant's various projections as to the date on which the \$7.6 billion Tax Increment Revenue Limit will be reached (as shown in Table 14 of the Fiscal Consultant Report) are based on the allocation of gross tax increment to the Agency. The Fiscal Consultant's 5% and 7% growth projections also reflect an effective limit on Tax Revenues available to pay debt service on the Bonds (i.e., tax increment remaining after deposits to the Agency's Low and

Moderate Income Housing Fund and payment of senior pass-through obligations and the County's tax administration fee) of approximately \$3.9 billion.

In the event that the Agency reaches its Tax Increment Revenue Limit, it would not collect any additional tax increment to pay debt service on the Bonds. However, in the Indenture, the Agency covenants to calculate annually the remaining amount available under its Tax Increment Revenue Limit and the amount of obligations that exist to be paid from tax increment revenue. If, based on such review, the allocation of tax increment revenue to the Agency in any of the next three succeeding fiscal years will cause an amount equal to 90% of the tax increment revenue remaining to be allocated under the Tax Increment Generating Area of the Merged Area Redevelopment Plans to fall below the obligations payable from the tax increment revenues, the Agency will be obligated to either use tax increment revenue not needed to pay such obligations to retire or defease the Bonds or to adopt a plan approved by a qualified redevelopment consultant which demonstrates the Agency's continuing ability to pay debt service on the Bonds. See APPENDIX C – “SUMMARY OF THE INDENTURE – Covenants of the Issuer – Annual Review of Tax Revenues.”

Based on the growth forecasts set forth in the Agency's five-year capital improvement budget, the Agency expects to begin escrowing tax increment revenue and retiring and/or defeasing Bonds in fiscal year 2010-11.

Redevelopment Time Limits

AB 1290. In 1993, the State Legislature passed AB 1290, which, among other things, required redevelopment agencies to adopt time limits in each redevelopment plan specifying: 1) the last date to incur debt for a redevelopment project; 2) the last date to undertake redevelopment activity within a project area; and 3) the last date to collect tax increment revenue from a project area to repay debt. Pursuant to AB 1290, which took effect January 1, 1994, the San José City Council adopted ordinances amending each redevelopment plan in the Tax Increment Generating Area of the Merged Area to impose limits on plan activity in each area, as well as a date past which tax increment revenue could not be collected.

SB 211. In 2001, the California Legislature enacted SB 211, Chapter 741, Statutes 2001, effective January 1, 2002 (“**SB 211**”), which authorized, among other things, a legislative body to delete by ordinance of the AB 1290 limitation on incurring indebtedness contained in a redevelopment plan adopted prior to January 1, 1994. On November 5, 2002, the City Council adopted an ordinance, pursuant to the authorization contained in SB 211, deleting the limit on the Agency's authority to incur loans, advances and indebtedness with respect to the Tax Increment Generating Area of the Merged Area for redevelopment plans adopted prior to January 1, 1994.

SB 1045; SB 1096. Senate Bill 1045, Chapter 260, Statutes 2003, effective September 1, 2003 (“**SB 1045**”) provides, among other things, that, for the purpose of determining whether the limit on the tax increment revenue that may be allocated to the Agency has been reached, the aggregate amount of Education Revenue Augmentation Fund (“**ERAF**”) payments made by the Agency in prior fiscal years from tax increment revenue may be deducted from the amount of tax increment revenue deemed to have been received by the Agency. SB 1045 also permits the redevelopment plan to be amended to add one year to the duration of the plan and to the period for collection of tax increment revenues and the repayment of debt. The San José City Council has amended each of the redevelopment plans within the Tax Increment Generating

Area of the Merged Area to add one year to each of the redevelopment plans' effectiveness dates and tax increment collection dates.

Legislation passed in 2004 (SB 1096) permits redevelopment agencies to extend their ability to collect tax increment in certain project areas by one year for each ERAF payment made in fiscal year 2004-05 and 2005-06. The extensions apply by right to plans with existing limits on the effectiveness of the plan that are less than 10 years from the last day of the fiscal year in which the ERAF payment is made. Plans that have effective dates expiring between 10 and 20 years from the last day of the fiscal year of the ERAF payment may also be extended by one year, but only if certain findings are made by the City Council. Those findings are that (1) the Agency is in compliance with the 20% Housing Set-Aside requirements; (2) the Agency is in compliance with the Implementation Plan requirements of the Redevelopment Law; (3) the Agency is in compliance with the inclusionary housing and replacement housing requirements of the Redevelopment Law; and (4) the Agency is not subject to sanctions for having an excess surplus in the 20% Housing Set-Aside Fund.

On March 29, 2005, the City Council approved ordinances necessary to extend the qualifying plans by one year for the 2004-05 ERAF payment. Final adoption of the ordinances occurred on April 5, 2005 and became effective on May 5, 2005.

On August 15, 2006, the City Council approved ordinances necessary to extend the qualifying plans by one year for the 2005-06 ERAF payment. Final adoption of the ordinances occurred on August 29, 2006 and became effective on September 28, 2006.

Current Plan Expiration Dates. With the ERAF-related extensions, the plan expiration dates for the Tax Increment Generating Area of the Merged Area range from January 1, 2012 (Park Center Plaza and San Antonio Plaza) to April 7, 2029 (Almaden Gateway). The Agency can repay indebtedness with tax increment in each of the sub-areas for ten years after the plan termination dates, with the exception of Monterey Corridor; adopted after January 1, 1994, Monterey Corridor is subject to a statutory limit from the plan adoption date for the repayment of indebtedness (currently December 13, 2041). As noted above, the Tax Increment Generating Area of the Merged Area has a Tax Increment Revenue Limit of \$7.6 billion that may take effect prior to the time limit on the repayment of indebtedness. In the event that the Agency reaches its Tax Increment Revenue Limit, it would not collect any additional tax increment to pay debt service on the Bonds.

The time limits apply individually to each plan within the Tax Increment Generating Area of the Merged Area, as well as individually to specific territory added by amendments to redevelopment plans. See also "SPECIAL RISK FACTORS – Concentration of Largest Assessees".

Table 3 below sets forth the estimated fiscal year 2007-08 tax increment revenue, the approximate size, and the last date on which the Agency can repay debt from tax increment revenue for each of the 16 existing project areas that generate tax increment revenue and constitute the Tax Increment Generating Area of the Merged Area. The Agency's bond issues have been structured to take these termination dates into account. Project areas in Table 3 have been organized by debt termination dates.

TABLE 3
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJECT
Project Area Acreage, Debt Termination,
Estimated Tax Increment Revenue and Other Information
for Tax Increment Generating Area of the Merged Area

	Approximate Size (Acres) ⁽¹⁾	Plan Adoption Date	Plan Termination Date ⁽²⁾	Last Day to Repay Debt ⁽²⁾	Fiscal Year 2007-08 Tax Increment Revenues ⁽³⁾
Park Center	61	7/24/1961	1/1/2012	1/1/2022	\$4,400,646
San Antonio Plaza	50	1/3/1968	1/1/2012	1/1/2022	3,724,453
Rincon Original	1,872	7/16/1974	7/16/2017	7/16/2027	25,293,116
Pueblo Uno	12	7/8/1975	7/8/2018	7/8/2028	1,491,342
Edenvale	1,050	7/15/1976	7/15/2019	7/15/2029	11,784,727
Julian Stockton	330	7/15/1976	7/15/2019	7/15/2029	4,712,789
Olinder	158	7/15/1976	7/15/2019	7/15/2029	1,705,078
Rincon Expansion	1,224	7/3/1979	7/3/2022	7/3/2032	30,595,321
Edenvale East	995	9/1/1981	9/1/2024	9/1/2034	6,906,427
Rincon North ⁽⁴⁾	1,699	6/8/1982	6/8/2025	6/8/2035	33,396,624
Rincon South ⁽⁴⁾	--	6/8/1982	6/8/2025	6/8/2035	12,055,480
Guadalupe Auzerais	73	5/19/1983	5/19/2026	5/19/2036	2,682,449
Century Center	18	11/8/1983	11/8/2026	11/8/2036	1,161,107
Market Gateway	32	11/8/1983	11/8/2026	11/8/2036	557,515
Almaden Gateway	21	4/7/1988	4/7/2030	4/7/2039	896,171
Monterey Corridor	515	12/13/1994	12/13/2026	12/13/2041	1,369,224
	8,110				142,732,470

(1) Acreages reflect an in-depth GIS analysis of the tax generating projects as of December 21, 2004.

(2) Reflects extensions as permitted according to SB 1045 and SB 1096.

(3) Includes unitary revenue and does not include amounts required to pay unsubordinated pass-through obligations and the amount the Agency is required to deposit into its low and moderate income housing fund.

(4) Acreage for Rincon South has been combined with Rincon North.

Source: The Agency.

Low and Moderate Income Housing

Redevelopment Law requires the Agency to set aside not less than 20% of all tax increment revenues into a low and moderate income housing fund to be used for the purpose of increasing, improving and/or preserving the supply of low and moderate income housing. **Tax increment revenue required to be set aside for low and moderate income housing purposes is not included in Tax Revenues and is not available to pay debt service on the Bonds.**

Redevelopment agencies are monitored by the State Department of Housing and Community Development to ensure that they do not build up unexpended and unencumbered housing funds beyond a certain level. Agencies that exceed this level are found to have an 'excess surplus' of housing funds and must eliminate that condition or face penalties, including the inability to further collect tax increment. The Agency maintains an active housing program and reports that it does not have, nor does it expect to have, an excess surplus condition.

Pass-Through Obligations

The Agency is obligated to pay a portion of the tax increment generated in the Merged Area to (i) the County pursuant to a negotiated tax sharing agreement and (ii) taxing agencies within the boundaries of the Merged Area. See "THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – The County Pass-Through Agreement" and " – Statutory Tax Sharing".

Future Initiatives and Legislation

Propositions 13, 4, and 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting tax increment revenue or the Agency's ability to expend tax increment revenue.

Similarly, the Redevelopment Law can be amended at any time by the California Legislature. Any such amendment could affect the Agency's future tax increment revenue, or the Agency's ability to expend tax increment revenue.

SPECIAL RISK FACTORS

Investment in the 2007 Bonds involves risks. The following information should be considered by prospective investors in evaluating the 2007 Bonds. However, this is not an exclusive listing of risks and other considerations that may be relevant to investing in the 2007 Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks and considerations.

The various legal opinions to be delivered concurrently with the issuance of the 2007 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

Tax Increment Revenue Limitation

The Agency's ability to collect tax increment is limited not only by the time limits on the repayment of debt, but also by the \$7.6 billion Tax Increment Revenue Limit. The Tax Increment Revenue Limit applies not only to Tax Revenues available to pay debt service on the Bonds but also to tax increment the Agency (i) deposits into the Agency's Low and Moderate Income Housing Fund and (ii) uses to pay pass-through obligations and the County's tax administration fee. The total amount of tax increment received by the Agency through June 30, 2007 is \$2,298,801,640.

The Fiscal Consultant has prepared a tax increment projection and sensitivity analysis that projects the Agency's Tax Increment Generating Area of the Merged Area tax increment revenues over time, assuming various increment growth rates. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Tax Increment Revenue Limitation" and APPENDIX A – "REPORT OF THE FISCAL CONSULTANT – Tax Increment Cap" and "– Tax Increment Projection and Sensitivity Analysis".

In the event that the Agency reaches the Tax Increment Revenue Limit, it would not collect any additional tax increment to pay debt service on the Bonds. However, in the Indenture, the Agency covenants to take certain actions to avoid reaching the Tax Increment Revenue Limit prior to paying debt service on the Bonds. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Tax Increment Revenue Limitation" and APPENDIX C – "SUMMARY OF THE INDENTURE – Covenants of the Issuer – Annual Review of Tax Revenues."

Based on the growth forecasts set forth in the Agency's five-year capital improvement budget, the Agency expects to begin escrowing tax increment revenue and retiring and/or defeasing Bonds in fiscal year 2010-11.

Reduction in Taxable Value

Tax increment revenue allocated to the Agency is determined by the amount of incremental taxable value in the Tax Increment Generating Area of the Merged Area and the current rate or rates at which property in the Tax Increment Generating Area of the Merged Area is taxed. The reduction of taxable values of property in the Tax Increment Generating Area of the Merged Area caused by economic factors beyond the Agency's control, such as a downturn

in the local economy, relocation out of the Tax Increment Generating Area of the Merged Area by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation, or the complete or partial destruction of such property caused by, among other eventualities, earthquake or other natural disaster, could cause a reduction in the Revenues that secure the Bonds. Such reduction of Revenues could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the 2007 Bonds.

As described in greater detail under "FACTORS AFFECTING TAX ALLOCATION FINANCING – Property Tax Limitations – Article XIII A" below, Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the Bonds could reduce Tax Revenues securing the 2007 Bonds.

In addition to the other limitations on and State required set-asides of tax increment revenue described in this Official Statement under "FACTORS AFFECTING TAX ALLOCATION FINANCING," the State electorate or Legislature could adopt a constitutional or legislative property tax decrease with the effect of reducing tax increment revenues payable to the Agency. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could reduce the tax increment revenue and adversely affect the security of the 2007 Bonds.

Concentration of Largest Assesseees

The 20 largest assesseees in the Tax Increment Generating Area of the Merged Area account for 43.26% of the total valuation in the Tax Increment Generating Area of the Merged Area. The relative concentration of the 20 top assesseees among the project areas within the Tax Increment Generating Area of the Merged Area is identified in the following table along with the final date to receive tax increment and pay indebtedness for each project area:

<u>Project Area</u>	<u>Percentage of Total Assessed Value</u>	<u>Final Date to Collect Tax Increment/Pay Indebtedness</u>
Park Center Plaza	1.53%	January 1, 2022
Rincon Original	5.12	July 16, 2027
Julian Stockton	1.19	July 15, 2029
Edenvale	4.36	July 15, 2029
Rincon Expansion	8.98	July 3, 2032
Rincon South	3.92	June 8, 2035
Rincon North	18.15	June 8, 2035

As a result of the termination of the Agency's right to collect tax increment and repay indebtedness in the various project areas, the distribution of the largest assesseees among the project areas will change while the 2007 Bonds are outstanding. The Agency expects such distribution may change over time as a result of economic and other factors as well. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Redevelopment Time Limits" and "THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Twenty Largest Taxpayers."

Risks to Real Estate Market

The Agency's ability to make payments on the Bonds will be dependent upon the economic strength of the Tax Increment Generating Area of the Merged Area. The general economy of the Tax Increment Generating Area of the Merged Area will be subject to all of the risks generally associated with real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Tax Increment Generating Area of the Merged Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. In addition, if there is a decline in the general economy of the Tax Increment Generating Area of the Merged Area, the owners of property within the Tax Increment Generating Area of the Merged Area may be less able or less willing to make timely payments of property taxes or may petition for reduce assessed valuation causing a delay or interruption in the receipt of tax increment revenue by the Agency from the Tax Increment Generating Area of the Merged Area. See "Local Economy" below.

Local Economy

The Tax Increment Generating Area of the Merged Area experienced declines in assessed valuation during fiscal years 2003-04 through 2005-06 as a result of a weakening local economy. The technology business sector contributes significantly to the Silicon Valley economy, including property values within the Tax Increment Generating Area of the Merged Area. The contraction of the technology business sector has led to significant reductions in property values both in Silicon Valley and in the Tax Increment Generating Area of the Merged Area. While improvement in this business sector may lead to increased property values, the continued importance of technology business to the area economy may continue to affect property values.

Appeals and Assessor Reductions to Assessed Value

Pursuant to California law, a property owner may apply for a reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county assessment appeals board (a "Proposition 8" appeal). In addition to reductions in assessed value resulting from Proposition 8 appeals, Proposition 8 also allows assessors to reduce assessed value unilaterally to reflect reductions in market value.

To the extent assessed values are reduced through the assessment appeal or unilateral reduction process, tax increment revenue securing the Bonds will be reduced. ***A reduction in taxable values within the Tax Increment Generating Area of the Merged Area and the refund of taxes which may arise out of successful appeals by property owners or unilateral reduction by the County Assessor will affect the amount of Revenues available for payment on the Bonds.*** See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Property Tax Collection Procedures" and "THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Assessment Appeals" below and APPENDIX A – "REPORT OF THE FISCAL CONSULTANT – Assessment Appeals" attached to this Official Statement.

Levy and Collection of Taxes

The Agency has no power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Revenues, and accordingly, could have an adverse effect on the ability of the Agency to pay debt service on the Bonds. Likewise, delinquencies in the payment of property taxes and the impact of bankruptcy proceedings on the legal ability to collect property taxes could have an adverse effect on the Agency's ability to make timely debt service payments. However, since 1993 it has been the County's practice to allocate to the Agency its proportionate share of property taxes collected Countywide regardless of delinquencies, but the County could discontinue this practice at any time.

Personal Property on the Unsecured Roll

Approximately \$3,283,737,615 (approximately 18.2%) of the assessed value in the Tax Increment Generating Area of the Merged Area is personal property that is on the unsecured tax roll. The 20 largest assessees in the Tax Increment Generating Area of the Merged Area comprise 43.26% of the total valuation in the Tax Increment Generating Area of the Merged Area. Approximately 27.4% of the assessed valuation for the 20 largest assessees is on the unsecured roll. In general, the assessed value of this type of personal property has been and may be subject to a high degree of fluctuation. For example, the assessed values of personal property declined approximately 0.4% in fiscal year 2005-06, increased approximately 7.5% in fiscal year 2006-07 and increased approximately 0.3% in fiscal year 2007-08. Factors contributing to fluctuations include relocation of personal property out of the Tax Increment Generating Area of the Merged Area, obsolescence and rapid depreciation. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Property Tax Collection Procedures" below.

State Budget Deficit and ERAF

In approving recent budgets, the State Legislature has enacted legislation which, among other things, reallocated funds from redevelopment agencies to school districts by shifting a portion of each redevelopment agency's tax increment, net of amounts due to other taxing agencies, to school districts for such fiscal years for deposit in the Education Revenue Augmentation Fund ("**ERAF**"). The amount required to be paid by a redevelopment agency was apportioned based on tax increment collected. The Agency is not obligated to make an ERAF payment for fiscal year 2007-08.

In approving the budget for fiscal year 2003-04, the Legislature fixed the aggregate ERAF transfer for the year at \$135 million, of which the Agency paid approximately \$10.1 million as its allocated share. In connection with its approval of the budget for fiscal year 2004-05, the Legislature fixed the ERAF transfer at \$250 million each for fiscal year 2004-05 and 2005-06. In so doing, the Legislature also authorized redevelopment agencies to extend the effective dates of their redevelopment plans. The amounts paid into ERAF are deducted from the cumulative tax increment revenue receipts applied to the Tax Increment Revenue Limit. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Redevelopment Time Limits" above.

The Agency's fiscal year 2004-05 ERAF share was approximately \$18.6 million and was paid on May 10, 2005. The Agency participated in a pooled financing to borrow funds to pay its 2004-05 ERAF contribution (the "**2005 ERAF Financing**"). Under the 2005 ERAF Financing, the Agency must make semi-annual loan payments each March 1 and November 1, ending March 1, 2015. The maximum annual Agency loan payment (principal and interest) under the

2005 ERAF Financing is \$2,478,596. The Agency's loan payments under the 2005 ERAF Financing are payable on a basis subordinate to the Bonds.

The Agency's fiscal year 2005-06 ERAF share was \$14,500,614 and was paid on May 10, 2006. The Agency participated in a pooled financing to borrow funds to pay its 2005-06 ERAF contribution (the "**2006 ERAF Financing**"). Under the 2006 ERAF Financing, the Agency must make semi-annual loan payments each February 1 and August 1, ending August 1, 2016. The maximum annual Agency loan payment (principal and interest) under the 2006 ERAF Financing is \$2,019,736. The Agency's loan payments under the 2006 ERAF Financing are payable on a basis subordinate to the Bonds.

The State's projected budget deficits continue to be substantial and may lead to subsequent ERAF transfers or other actions which might reduce the Agency's Revenues and the Agency's ability to pay principal and interest on the Bonds and Parity Obligations. Prospective purchasers of the 2007 Bonds may wish to review information presented by the State at www.dof.ca.gov (maintained by the State Department of Finance) and www.lao.ca.gov (analysis by the State Office of the Legislative Analyst). The Agency does not prepare such information and cannot assume any responsibility for its accuracy, completeness or timeliness (or the continued accuracy of internet address information). Whether or not this information is accurate, complete or timely, prospective purchasers of the 2007 Bonds should observe that the posting or release of such information may change the perceived outlook for the Agency's continued receipt of Revenues and thus the market price for the Bonds.

The State's structural deficit has yet to be resolved. Future legislation, litigation and other measures affecting the Agency's receipt of Revenues in connection with the State budget situation cannot be predicted and may materially and adversely affect the Agency's ongoing ability to pay principal and interest on the Bonds and Parity Debt.

Reductions in Inflationary Rate

As described in greater detail in this Official Statement, Article XIII A of the California Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. The Agency is unable to predict if any adjustments to the full cash value of real property within the Tax Increment Generating Area of the Merged Area, whether an increase or a reduction, will be realized in the future See "FACTORS AFFECTING TAX ALLOCATION FINANCING."

Statement of Indebtedness

Under Redevelopment Law, the Agency must file with the County a statement of indebtedness for the Merged Area by October 1, each year. The statement of indebtedness controls the amount of tax increment revenue that will be paid to the Agency in each fiscal year. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – PROPERTY TAX COLLECTION PROCEDURES – Filing of Statement of Indebtedness". In the event the Agency were to fail to file an annual statement of indebtedness, tax increment revenue available to the Agency could be adversely affected.

Bankruptcy and Foreclosure

The payment of the tax increment revenue and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the 2007 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent tax installments not being paid in full.

Estimated Revenues

In estimating that the total Tax Revenues to be received by the Agency will be sufficient to pay debt service on the Bonds, the Agency has made certain assumptions with regard to present and future assessed valuation in the Tax Increment Generating Area of the Merged Area, future tax rates and percentage of taxes collected. The Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation or tax rates are lower than expected, the Tax Revenues available to pay debt service on the 2007 Bonds will be less than those projected and such reduced Tax Revenues may be insufficient to provide for the payment of principal of, premium (if any) and interest on the 2007 Bonds.

Earthquake Risk

The City is located within ten miles of the San Andreas Fault, the Hayward Fault and the Calaveras Fault, each known to be active faults. The City has experienced earthquakes with a Richter magnitude of 6.0 or greater and with the epicenter being within the San Francisco Bay Area. Widespread earthquake damage in the Tax Increment Generating Area of the Merged Area would adversely affect assessed valuation and therefore the Tax Revenues available to pay debt service on the 2007 Bonds.

Flood

The City and the Santa Clara Valley have a history of flooding which has resulted in property damage. Flood-related damage in the Tax Increment Generating Area of the Merged Area would adversely affect assessed valuation and therefore the Tax Revenues available to pay debt service on the 2007 Bonds.

In the City, the most serious flooding in recent history has occurred in the Downtown and North San José areas. These areas encompass the Rincon de Los Esteros, the Julian Stockton, the Guadalupe-Auzerais, and the Almaden Gateway Redevelopment project areas.

Although the Santa Clara Valley Water District (the “**Water District**”) has the primary responsibility for flood control and modifications to stream channels, the City has jurisdiction over, and responsibility for, the development of areas adjacent to all rivers and streams in the City's Urban Service Area. The City's regulation of development is the vehicle for requiring the dedication of waterways to the Water District, preservation of flood plains and in some cases, the construction of flood control improvements. In January 2005, the Army Corps of Engineers and the Water District completed two flood control projects along the Guadalupe River in an effort to protect properties in Downtown and North San José project areas.

Hazardous Substances

An additional environmental condition that may result in the reduction in the assessed value of property would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the Tax Increment Generating Area of the Merged Area. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. If this situation were to occur with property within the Tax Increment Generating Area of the Merged Area, the costs of remediating it could reduce the marketability and taxable value of the property.

Changes in the Law

There can be no assurance that the California electorate will not at some future time adopt initiatives or that the Legislature will not enact legislation that will amend the Redevelopment Law or other laws or the Constitution of the State resulting in a reduction of Revenues, and consequently, have an adverse effect on the Agency's ability to pay debt service on the Bonds.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2007 Bonds or, if a secondary market exists, that any 2007 Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price. No assurance can be given that the market price for the 2007 Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the 2007 Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the 2007 Bonds or obligations that present similar tax issues as the Bonds.

On May 21, 2007, the U.S. Supreme Court agreed to review *Davis v. Kentucky Dep't of Revenue of the Finance and Admin. Cabinet*, 197 S.W.3d 557 (2006), a decision holding that state statutes providing more favorable state income tax treatment to holders of debt issued by in-state government bodies than for debt issued by out-of-state government bodies violate the United States Constitution. If the decision is upheld, the marketability and market price for the 2007 Bonds may be affected.

Federal Tax-Exempt Status of the Series 2007B Bonds

The Internal Revenue Code of 1986, as amended (the “**Code**”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2007B Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Series 2007B Bond proceeds, limitations on the investment earnings of Series 2007B Bond proceeds prior to expenditure, a requirement that certain investment earnings on Series 2007B Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the “**IRS**”). The Agency has covenanted in certain of the documents referred to in this Official Statement that they will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Series 2007B Bonds as taxable, retroactively to the date of issuance of such Series 2007B Bonds.

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

The City and the Agency

The City of San José (the “**City**”) covers nearly 178 square miles and is the county seat of Santa Clara County. The City has a population of 973,672 estimated by the California Department of Finance as of January 1, 2007, and is the nation’s 10th largest city and California’s third largest city (after Los Angeles and San Diego). The City is at the southern end of San Francisco Bay (see “REGIONAL MAP”).

Having originated as a Spanish pueblo established in 1777, the City is the oldest city in California. From a former rich agricultural setting, San José has become the capital of the innovative, high-technology based Silicon Valley – so named for the principal material used in producing semiconductors. During the 1980’s and 1990’s the City experienced an economic resurgence with expansion in manufacturing, service, retail and tourist industries. However, the national economic slowdown and the retraction in the telecommunications and technology industries caused a decline in economic activity in the City during fiscal years 2003-04 through 2005-06.

Established in 1956 under State law, the Agency is one of the largest redevelopment agencies in the State, both in terms of project area size and in tax increment revenue generated. The City Council serves as the Agency’s governing board, with the Mayor as Chair. See APPENDIX D – “THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION” attached hereto.

Agency Powers and Duties

All powers of the Agency are vested in its eleven members. The Agency exercises all of the governmental functions authorized under the Redevelopment Law and has, among other powers, the authority to acquire, administer, develop and sell or lease property, including the right of eminent domain, and the right to issue bonds and expend the proceeds. The Agency can clear buildings and other improvements, can develop as a building site any real property owned or acquired, and in connection with such development can cause streets, highways and sidewalks to be constructed or reconstructed and public utilities to be installed.

Agency Comprehensive Annual Financial Report

The Agency's Comprehensive Annual Financial Report includes audited financial statements for fiscal year ended June 30, 2006 (the "**2006 Report**"), which is attached as Appendix B to this Preliminary Official Statement. The 2006 Report has been audited by Macias Gini & Co, LLP, independent auditors.

Macias Gini & Co, LLP has not been requested to consent to the inclusion of either the 2006 Report or the 2007 Report to this Official Statement and has not reviewed this Official Statement.

The Agency expects to include its audited financial statements for fiscal year ended June 30, 2007 in the annual report to be filed pursuant to the Agency's continuing disclosure undertaking on or about February 1, 2008.

Fiscal Consultant's Report

In connection with the issuance of the 2007 Bonds, the Agency has engaged Urban Analytics LLC, San Francisco, California (the "**Fiscal Consultant**") to prepare a Fiscal Consultant Report. See APPENDIX A – "REPORT OF THE FISCAL CONSULTANT". The Fiscal Consultant Report provides data relating to the Tax Increment Generating Area of the Merged Area and refers to it as the "Project Area".

The Merged Area Redevelopment Project

The Merged Area Redevelopment Project was formed in 1981 from the merger of existing Agency project areas. Other project areas have been subsequently established and added to the Merged Area. The Agency has designated 21 redevelopment project areas that have been merged for the purpose of allocating certain tax revenues of the Agency. However, only 16 of these 21 merged project areas are authorized to generate tax increment revenue and are referred to in this Official Statement as the Tax Increment Generating Area of the Merged Area.

The Agency's project areas can be grouped into three categories: Downtown, Neighborhoods and Industrial. These categories are described below.

Downtown - Eight project areas form the 369 acre core of downtown San José, both geographically and culturally: Almaden Gateway, Pueblo Uno, Century Center, Park Center, San Antonio Plaza, Guadalupe-Auzerais, Market Gateway and Civic Plaza (a non-tax increment revenue generating area formed in 1999).

Neighborhood Business Districts - The Agency started its Neighborhood Business District ("NBD") program in 1982 to revitalize older commercial areas that had become blighted. Six non-tax increment revenue generating NBDs have become project areas since 1988: East Santa Clara Street, Alum Rock Avenue, West San Carlos Street, The Alameda, Story Road and Japantown. These districts represent historically active commercial centers of the City, and all serve as gateways to downtown San José with the exception of Story Road, which supports major residential areas to the east and south of downtown.

In 2001, the Agency adopted the Neighborhood Business Clusters Redevelopment Project Area, which, like the NBD program, will not generate tax increment revenue. This

project area is comprised of six non-contiguous business clusters located throughout the City and they are referred to as Bascom Station, Fruitdale Station, Union and Foxworthy, Union and Camden, White and Quimby, and Monterey and Roeder.

Historically, the Agency's primary redevelopment focus has been on downtown San José, major commercial corridors, and industrial areas. In recent years, Agency Board and public interest has been growing in the preservation and revitalization of the older residential neighborhoods in the City. The Strong Neighborhoods Initiative ("**SNI**") is a partnership of the City, Agency and the community to revitalize and redevelop neighborhoods in a new project area (the "**SNI Project Area**") with public improvement projects such as streetscape improvements, traffic calming, transit and parking improvements and community based projects such as community centers, libraries, public schools, open space and recreational facilities. In total, the SNI Project Area encompasses approximately 9,865 acres and consists of 22 neighborhoods grouped within six non-contiguous sub-areas. The SNI Project Area consists predominantly of residential land uses. The remainder of the SNI Project Area is developed with a mixture of commercial, industrial, public/quasi-public, open space/recreation, agricultural and vacant land uses. The redevelopment plan for the SNI Redevelopment Project Area was adopted in June 2002. The SNI Project Area is a non-tax increment-revenue-generating redevelopment project.

Industrial - Five project areas are in this category:

Rincon de los Esteros has four components comprising a total of 4,795 acres and is zoned primarily for industrial park uses. Approximately 247 acres are currently undeveloped. Also known as the "Innovation Triangle", this area contains one of Silicon Valley's largest concentrations of businesses including research and development, office, manufacturing, light industrial, and warehouse uses. The Agency estimates that more than 1,400 businesses employing more than 60,000 people are located in the area. Major employers include Cisco Systems, Avago Technologies, Analog Devices, Brocade, Siemens, Novellus, Sony America, Cypress Semiconductors, eBay, Qualcomm, Micron Technology, Ultratech, Samsung, Sanmina, Canon, Philips Components, Atmel, Altera, Cadence Design and KLA Tencor. The Agency has invested more than \$180 million since 1977 in infrastructure improvements in this industrial project area. The area is adjacent to the Norman Y. Mineta San José International Airport and is bounded by Routes 237, U.S. 101 and Interstate 880. It is served by the Light Rail Transit System and other public transportation facilities and is connected to the downtown by Route 87.

Edenvale has two components totaling 2,045 acres and is zoned primarily for light industrial uses, including research and development, office and manufacturing uses. Approximately 280 acres remain undeveloped. Located 10 miles south of downtown, it is currently home to approximately 275 firms employing approximately 15,000 people. Major employers include Hitachi, IBM, IDT, Electroglas, Northrop Grumman, Solectron, M/A-Com, Tyco Electronics, Clinimetrics, Power Integration, Stryker Endoscopy, Zilog, VNUS Medical Devices, Western Digital, Jabil Circuits, Helio Solutions and Ionics. The Agency has invested nearly \$100 million in infrastructure improvements to prepare the area for industrial development. The widening of U.S. 101, the extension of light rail transit and the opening of Route 85 provide greater accessibility to the industrial park.

Julian-Stockton, in the older portion of the central business district at the northern entrance to the downtown area, is an area where current uses are primarily light manufacturing, warehousing, small office and commercial. The area is home to approximately 330 employers

with approximately 2,800 employees. Three major public projects in this area include the HP Pavilion at San José, the Guadalupe Parkway (Route 87) and the Guadalupe River Park. Major employers in the area include PG&E, Gandiff Industries, Fire Clay Tile, Comerica Bank, Aramark and Milligan News. The Agency has invested nearly \$14 million in infrastructure improvements since 1977.

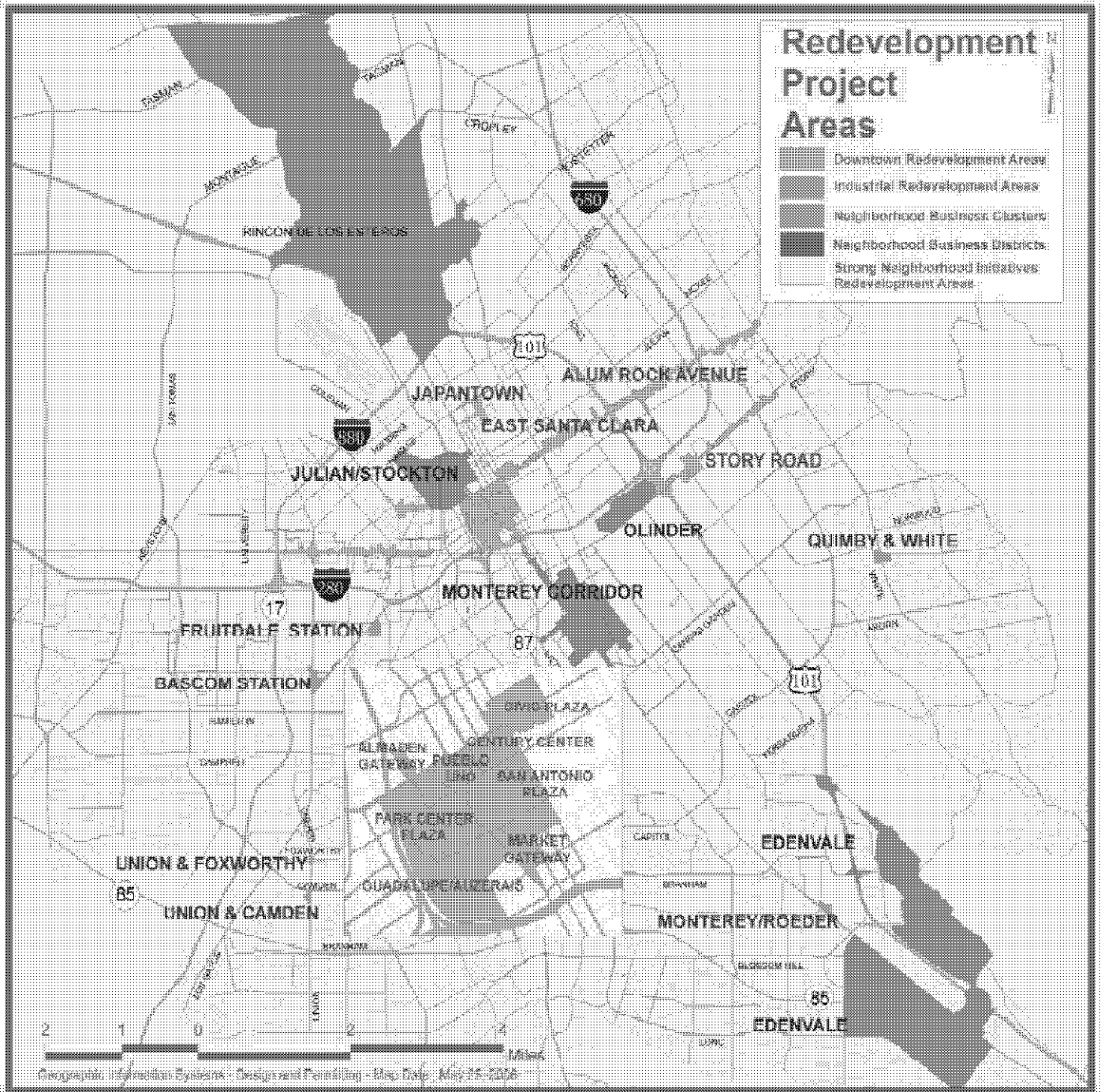
Olinder is an older light industrial area at the intersection of U.S. 101 and Route 280 just south of downtown. This area has approximately 83 employers with approximately 1,200 employees. Major employers include Air Systems, Jennings Technology and Sal J. Acosta Sheetmetal. The Agency has invested over \$1.5 million in infrastructure improvements in this project area.

Monterey Corridor was established in 1994. There are more than 286 employers with approximately 6,728 employees in the area. Major employers include US Healthworks, Office Records Management, Simsmetal USA, Southern Lumber and San José Mailing. The Agency has invested over \$14 million in infrastructure improvements in this project area.

The industrial project areas expanded rapidly in terms of job growth and leaseable research and development, industrial, warehouse and office space during the technology boom leading up to the year 2000. The occupancy rate for leaseable space peaked in the first quarter of 2000 at approximately 98% (i.e., a vacancy rate of 2%). Since this peak, the technology sector has contracted, and as of the second quarter of 2007, the occupancy rate in these industrial project areas has dropped to approximately 80% (i.e., a vacancy rate of approximately 20%). Job loss has also been significant in these areas during the same period.

Mirroring conditions in Silicon Valley, the available inventory of prime vacant buildings and R&D office space in the industrial areas in San Jose decreased significantly over each quarter of 2006-2007. The decline speaks to a perception of a slow but steady comeback to the average vacancy rates of the 2000 time frame. In second quarter 2007, Rincon posted a 20% availability rate, Edenvale remained at 19%, and Monterey Corridor, Olinder and Julian-Stockton posted a 8.8% availability rate. Vacancy rate for Rincon is 14% and it is 16% for Edenvale. The average leasing rate for office is \$2.57 per square foot and \$1.09 per square foot for R&D space in Rincon and Edenvale. Effective rents are slowly increasing. Demand for space has been healthy with gross absorption pointing towards market recovery. During the past year, Rincon experienced significant transfer of ownership from real estate firms and REITs to private equity firms like Blackstone and RREEF. Private equity firms are entering Silicon Valley through the purchase of large real estate companies like Carr America and Equity Office Partners. Job growth in industrial areas is slowing heading upward.

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE General Overview Map



Indebtedness

The following obligations are payable from Tax Revenues.

Senior Lien Bonds. As of October 1, 2007, the Agency has \$1,503,330,000 in outstanding senior lien Bonds as set forth below in Table 4.

Subordinate Lien Bonds. In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds (the “**1996 Bonds**”) in the amount of \$59,000,000. The 1996 Bonds are secured by a subordinate lien on tax increment revenues. The 1996 Bonds provided additional proceeds to finance various redevelopment projects in the Merged Area. On August 27, 2003 the Agency issued \$60,000,000 in additional subordinate lien tax allocation bonds (the “**2003 Bonds**”). The 1996 Bonds and the 2003 Bonds have a variable rate of interest and currently bear interest at a weekly rate. The rate modes (daily, weekly, monthly) may be changed at the Agency's option. The 1996 Bonds and the 2003 Bonds are subordinate to the Bonds and senior to the Agency's obligations with respect to the City of San José Financing Authority Revenue Bonds (described below) as well as to the 2001 Convention Center Revenue Bonds (described below).

Subordinate Parking Revenue Bonds. In April 2001, the City of San José Financing Authority sold \$48,675,000 in Revenue Bonds (the “**2001 Revenue Bonds**”) secured by a pledge of the City's parking system revenues for the purpose of financing the Agency's construction of a parking facility at the corner of 4th and San Fernando Streets. The Agency has also pledged on a subordinate basis available tax increment revenue. Such subordinate lien pledge is subordinate to the Bonds and the 1996 Bonds. The pledge is senior to the tax increment revenue pledge by the Agency to the City for the purpose of financing the Convention Center as described below.

Subordinate Convention Center Bonds. In July 2001, the City of San José Financing Authority issued a taxable and a tax-exempt series of Lease Revenue Bonds in the aggregate amount of \$190,730,000 for the purpose of refunding the City's 1993 Convention Center Refunding Project (the “**2001 Convention Center Revenue Bonds**”). This obligation of the City of San José Financing Authority is secured by City lease payments, which are to be reimbursed by the Agency pursuant to a reimbursement agreement between the Agency and the City. This Agency reimbursement obligation is subordinate to the Bonds, the 1996 Bonds and the Agency's obligations with respect to the 2001 Revenue Bonds.

ERAF Financing. The Agency's fiscal year 2004-05 ERAF share was approximately \$18.6 million and was due on May 10, 2005. The Agency participated in a pooled financing to borrow funds to pay its 2004-05 ERAF contribution (the “**2005 ERAF Financing**”). The Agency participated in a pooled financing to borrow funds to pay its 2005-06 ERAF contribution of 14,500,614 (the “**2006 ERAF Financing**”). The Agency's loan payments under the 2005 ERAF Financing and the 2006 ERAF Financing are not secured by a pledge of Tax Revenues. See “SPECIAL RISK FACTORS – State Budget Deficit and ERAF” for further information about the 2005 ERAF Financing and the 2006 ERAF Financing.

TABLE 4
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Indebtedness Payable From Tax Increment Revenue⁽¹⁾
as of October 1, 2007

<u>Obligation</u>	<u>Amount</u>
Senior Lien	
1993 Bonds	\$71,970,000
1997 Bonds	6,940,000
1998 Bonds	2,050,000
1999 Bonds	12,920,000
2002 Bonds	22,565,000
2003 Bonds	127,545,000
2004 Bonds	257,885,000
2005 Bonds	219,970,000
2006 Bonds	<u>781,485,000</u>
<i>Total Senior Lien Parity Debt</i>	1,503,330,000
Subordinate Lien	
1996 Bonds	53,200,000
2003 Bonds	<u>57,800,000</u>
<i>Total Subordinate Lien Debt</i>	111,000,000
Subordinate Parking Revenue Bonds	39,740,000
Subordinate San José Financing Authority Lease Revenue Bonds Series 2001F (Convention Center)	160,070,000
2005 and 2006 ERAF Bonds	30,020,000

⁽¹⁾ Indebtedness is generally listed in declining order of lien priority. See "Indebtedness" above for more information on the indebtedness shown.

Source: The Agency.

The County Pass-Through Agreement

In 1983, the Agency and County entered into a tax sharing 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 of San José entered into a Settlement Agreement which continued the County Pass-Through Payment.

On May 22, 2001, the County of Santa Clara, the City of San José and the Agency approved an Amended and Restated Agreement (the "**Amended Agreement**"). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires the Agency to transfer funds to the County to pay for such projects (the "**Delegated Payment**"). 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 Revenues (excluding refunding bonds) must be paid to the County as the Delegated Payment. The Agency expects to comply with this obligation with proceeds of the 2007B Bonds.

The Pass-Through Payment for fiscal year 2007-08 is estimated to be \$17.5 million. The Agency secured the 2006 New Money Bonds with Tax Revenues during fiscal year 2006-07 and owed the County a Delegated Payment of \$15,383,101 for fiscal year 2006-07. This payment was made with proceeds of the 2006B Bonds. See APPENDIX A – “REPORT OF THE FISCAL CONSULTANT – Tax-Sharing Arrangements” for more information on the County Pass-Through Payments and other statutory and contractual payments made by the Agency.

The Amended Agreement provides that the payments due to the County from the Agency are subordinate to the payment of debt service on the Agency's bonds, including the 2007 Bonds.

Statutory Tax Sharing

In adopting the provisions of SB 211 eliminating the time limit on debt incurrence (see “FACTORS AFFECTING TAX ALLOCATION FINANCING – Redevelopment Time Limits” above), the Agency triggered statutory tax sharing, commencing with fiscal year 2002-03, with those taxing entities that do not have tax sharing agreements with the Agency. Because the County is the only taxing entity that has a tax sharing agreement with the Agency, all of the Agency's tax-sharing entities except the County will receive statutory pass-through payments.

Statutory tax sharing is calculated based on the increase in assessed valuation after the year in which the limitation would otherwise have become effective, and, unless subordinated by the entities receiving the tax sharing payments, is senior to the obligations of a redevelopment agency with respect to bonded indebtedness. *Except for the pass-through allocation to the City, the Agency has not obtained, and does not expect to obtain, the subordination of such statutory tax sharing payments to the Agency's obligations with respect to the Bonds.* In addition to subordinating its statutory tax sharing payments to the Agency's obligations with respect to the Bonds, the City has also waived its right to receive statutory pass-through payments.

Based on calculations performed by the County and the Fiscal Consultant, the Agency's net pass-through payment obligation to the taxing entities eligible for statutory payments for fiscal year 2007-08 is expected to be approximately \$723,063, after deduction of payments for public facilities in the amount of \$419,231 to the San Jose Unified School District and after deducting the amount that would otherwise be paid to the City (approximately \$479,214).¹ Pursuant to the formulas under AB 1290, statutory pass-through payments will increase in future years even if tax increment does not increase, but they will also increase as a result of tax increment increases.

¹ Under Section 33607.5 of the Redevelopment Law, the Agency is required to reduce its pass-through payments to taxing entities by certain amounts paid to those entities for public facilities.

Land Use Within the Area of the Merged Area

The following Table 5 sets forth the various land uses within the Merged Area by assessed valuation as of fiscal year 2007-08.

TABLE 5
LAND USE WITHIN THE MERGED AREA

<u>Land Use</u>	<u>Secured Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Number of Parcels</u>	<u>Percentage of Total Parcels</u>
Industrial	\$ 6,551,668,967	47.34%	993	17.28%
Commercial	4,171,165,589	30.14	815	14.18
Residential	2,372,874,837	17.15	3,233	56.27
Vacant	512,848,254	3.71	346	6.02
Other	210,270,032	1.52	334	5.81
Agricultural	20,399,238	0.15	25	0.44
Total	\$13,839,226,917	100.00%	5,746	100.00%

Note: Assessed valuation includes homeowner's exemptions. Excluding homeowner's exemptions, the secured assessed valuation is \$13,852,953,917.

Source: County of Santa Clara; Urban Analytics, LLC.

Tax Rates

The difference between the actual tax rate and the 1.00% established by Article XIII A of the Constitution is attributable to certain override levies and to certain tax rates levied to service debt approved by the voters. The estimated "tax override rate" for representative tax rate areas ("TRAs") for the past fiscal year is set forth in Table 6. TRAs shown below have been selected as representative of the tax rates reflected in the areas constituting the Merged Area. Except with respect to the County retirement levy and an Oak Grove School District retirement levy in certain tax areas within the Edenvale and the Edenvale East subareas, the "tax override rates" will be reduced as the debt supported by such tax override rates is retired. Tax override rates for debt issued on or after January 1, 1989 are not taken into account in determining the amount of tax increment revenue allocable to the Agency. See "FACTORS AFFECTING TAX ALLOCATION FINANCING – Proposition 87". See also APPENDIX A - "REPORT OF THE FISCAL CONSULTANT – Tax Rates" for more information on tax rates.

TABLE 6
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJECT, FISCAL YEAR 2006-07
(Levies in Percentages) ⁽¹⁾

<u>Sub-Area</u>	<u>Tax Rate Area Code</u>	<u>Basic Levy</u>	<u>County Retirement Levy</u>	<u>Oak Grove SD Levy</u>	<u>Total Levy All Rolls</u>	<u>SCVWD Levy, Land and Improvements Only ⁽³⁾</u>
Rincon	17-065	1.00000	0.03880	-	1.03880	0.0072
San Antonio Plaza	17-101	1.00000	0.03880	-	1.03880	0.0072
Edenvale	17-060	1.00000	0.03880	0.03200	1.07080	0.0072
Olinder	17-029	1.00000	0.03880	-	1.03880	0.0072

(1) Excludes debt service levies not allocated to the Agency.

(2) Tax rate area codings were consolidated by the County for fiscal year 2002-03.

(3) Santa Clara Valley Water District levy applies to land and improvements assessed value only. Total levy does not include a rate of 0.008% for State and Local Water Project indebtedness assessed on land and improvement value only.

Source: Santa Clara County Controller, Urban Analytics, LLC.

Historic Assessed Value and Tax Increment Revenue

The current base year value of the Tax Increment Generating Area of the Merged Area is \$1,097,107,127. Table 7 sets forth historical information on assessed value by property type for the Tax Increment Generating Area of the Merged Area as well as estimates for fiscal year 2006-07. See APPENDIX A - "REPORT OF THE FISCAL CONSULTANT – Historic and Current Assessed Valuation" for more information on assessed values.

TABLE 7
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJECT
Historic Assessed Valuations in the Tax Increment Generating Area of the Merged Area

Roll	2003-04	2004-05	2005-06	2006-07	2007-08
<i>Secured</i>					
- Land	\$3,988,091,253	\$4,080,066,027	\$4,200,831,658	\$4,572,962,929	\$5,004,001,559
- Improvements	7,066,199,373	6,398,763,798	6,376,896,317	6,846,884,969	8,205,148,576
- Personal Property	689,379,787	810,278,827	849,264,560	894,493,092	985,774,876
- Exemptions ⁽¹⁾	233,951,746	287,816,122	291,711,829	314,675,322	341,971,094
Secured Total	11,509,718,667	11,001,292,530	11,135,280,706	11,999,665,668	13,852,953,917
<i>Unsecured</i>					
- Land	39,227,354	45,138,746	44,770,604	41,526,471	42,831,852
- Improvements	1,171,922,253	877,804,526	875,610,352	805,273,362	924,021,403
- Personal Property	4,118,244,824	3,055,528,500	3,043,369,007	3,272,701,240	3,283,737,615
- Exemptions ⁽¹⁾	52,284,285	135,432,791	141,140,016	144,048,887	145,186,252
Unsecured Total	5,277,110,146	3,843,038,981	3,822,609,947	3,975,452,186	4,105,404,618
<i>Utility</i>					
- Land	49,810,239	51,599,990	52,759,791	44,418,304	30,895,217
- Improvements	125,305,093	144,029,115	4,113,507	71,598,266	64,400,000
- Personal Property	697,693	870,584	812,047	667,647	0
- Exemptions ⁽¹⁾	0	0	0	0	0
Utility Total	175,813,025	196,499,689	57,685,345	116,684,217	95,295,217
Totals:	\$16,962,641,838	\$15,040,831,200	\$15,015,575,998	\$16,091,802,071	\$18,053,653,752

⁽¹⁾ Excludes homeowner's property tax reduction.

Source: County Assessor.

Table 8 sets forth historical information on assessed value and tax increment revenues for the Tax Increment Generating Area of the Merged Area as well as estimates for fiscal year 2007-08. See APPENDIX A - "REPORT OF THE FISCAL CONSULTANT – Historic and Current Assessed Valuation" for more information on assessed values.

TABLE 8
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJECT
Actual Assessed Value and Tax Increment Revenue from
Fiscal Year 1995-96 through Fiscal Year 2007-08
for the Tax Increment Generating Area of the Merged Area
(Amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Assessed Value ⁽¹⁾</u>	<u>Percentage Change</u>	<u>Tax Increment ⁽²⁾</u>	<u>Supplemental Assessments ⁽³⁾</u>	<u>Gross Tax Revenues</u>	<u>% Change</u>
1995-96	\$ 7,016,990	--	\$70,397	\$ 360	\$ 70,757	--
1996-97 ⁽⁴⁾	7,680,818	6.7%	74,370	1,650	76,020	7.4%
1997-98	9,292,365	21.0	88,639	5,100	93,739	23.3
1998-99	11,228,356	20.8	106,299	5,918	112,217	19.7
1999-00	12,382,598	10.3	119,982	9,699	129,681	15.6
2000-01	13,776,343	11.3	134,649	7,502	142,151	9.6
2001-02	17,879,595	29.8	175,926	12,533	188,459	32.6
2002-03	18,732,944	4.8	187,448	10,578	198,026	5.1
2003-04	16,962,642	(9.5)	168,015	2,193	170,208	(14.0)
2004-05	15,040,831	(11.3)	148,329	1,647	149,976	(11.9)
2005-06	15,015,576	(0.2)	148,292	1,527	149,819	0.1
2006-07	16,091,802	7.2	159,571	2,248	161,819	8.0
2007-08	18,053,654	12.2	179,766	1,000	180,766	11.7

(1) Total adjusted assessed value for the Tax Increment Generating Area of the Merged Area. Tax increment revenue calculated on incremental assessed value, after subtracting base year assessed value from total assessed value. The current base year value is \$1,097,107,127.

(2) Includes unitary roll revenue. Tax increment is estimated for 2007-08.

(3) Estimated for fiscal year 2007-08. The Agency received \$533,303 during July and August 2007.

(4) Includes Park Center, which was merged in 1996.

Source: The Agency and Urban Analytics, LLC.

Table 9 sets forth a historical and current summary of the calculation of Tax Revenue pledged to the Bonds as provided by the Agency. See APPENDIX A – “REPORT OF THE FISCAL CONSULTANT – Tax Increment Revenue Estimate” for a more detailed tax increment revenue calculation for fiscal year 2007-08.

TABLE 9
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJECT
Total Available Tax Revenues
for the Tax Increment Generating Area of the Merged Area

Fiscal Year	Incremental Taxable Value	Tax Allocation ⁽¹⁾	Plus Supplemental Assessments	Less Housing Set-Aside	Less AB 1290 Net Payments ⁽²⁾	Less Senior Pass-Through ⁽²⁾	Tax Revenue Available for Debt Service
1996/97	\$ 6,951,525,000	\$ 74,369,685	\$1,650,373	\$15,204,012	--	\$33,538	\$ 60,782,508
1997/98	8,223,179,091	88,639,400	5,100,111	18,747,902	--	34,195	74,957,414
1998/99	9,933,973,046	106,298,489	5,918,307	22,443,359	--	34,864	89,738,573
1999/00	11,273,810,711	119,982,229	9,699,245	25,936,295	--	35,546	103,709,633
2000/01	12,684,748,178	134,649,253	7,502,081	28,430,267	--	36,242	113,684,825
2001/02	16,782,487,736	175,926,065	12,533,009	37,691,815	--	36,000	150,731,259
2002/03	17,635,836,531	187,447,745	10,577,850	39,605,119	\$1,832,408	--	156,588,068
2003/04	15,865,534,711	168,015,004	2,193,031	34,041,607	664,302	--	135,502,126
2004/05	13,943,724,073	148,329,397	1,647,081	29,995,295	461,364	--	119,519,819
2005/06	13,918,468,871	148,291,890	1,526,778	29,963,734	417,902	--	119,437,032
2006/07	14,994,694,944	159,570,816	2,247,761	32,363,715	577,444	--	128,877,418
2007/08	16,956,546,625	179,765,641	1,000,000	36,153,128	723,063	--	143,889,450

(1) Includes unitary tax revenue.

(2) In 1993, the obligation to make payment under the County Agreement became subordinate to payments on the Bond. Also in 1993, the Agency entered into a Settlement Agreement with a school district, which has been superseded by a statutory obligation to make pass-through payments.

Source: The Agency and County of Santa Clara.

The Tax Increment Generating Area of the Merged Area experienced an increase of approximately 12.2% in assessed value for fiscal year 2007-08, including a gain of approximately 15.4% on the secured roll and an increase of 3.3% on the unsecured roll.

Twenty Largest Taxpayers

Table 10 lists the 20 largest taxpayers in the Tax Increment Generating Area of the Merged Area and each property owner's percent of the total assessed value in the Tax Increment Generating Area of the Merged Area; the total estimated 2006-07 assessed value is \$7,810,766,699 (43.26%). See APPENDIX A – “REPORT OF THE FISCAL CONSULTANT – Largest Assesseees” and “– Assessment Appeals” for more information on the 20 largest taxpayers in the Tax Increment Generating Area of the Merged Area.

TABLE 10
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJCT
Twenty Largest Taxpayers for Fiscal Year 2006-07
In the Tax Increment Generating Area of the Merged Area

<u>Property Owner</u>	<u>Project Area</u>	<u>Secured and Utility</u>	<u>Unsecured</u>	<u>Total</u>	<u>Pct of Total</u>	<u>Land Use</u>
Cisco Systems	Rincon North	\$1,010,743,664	\$1,762,406,349	\$2,773,150,013	15.36%	Comm'l/Ind.
Equity Office Properties (1)	Rincon South	708,357,337	51,690	708,409,027	3.92	Comm'l/Ind.
Hitachi (1)	Edenvale	690,117,056	3,621,584	693,738,640	3.80	Comm'l/Ind.
The Irvine Company (1)	Rincon Expansion	664,178,025	0	664,178,025	3.68	Multi-Family
Carramerica	Rincon Expansion	398,854,000	0	398,854,000	2.21	Comm'l/Ind.
Ebay Inc	Rincon Original	147,445,800	207,456,685	354,902,485	1.97	Comm'l/Ind.
Adobe Systems	Park Center Plaza	214,221,290	62,114,869	276,336,159	1.53	Comm'l/Office
Novellus Systems Inc	Rincon North	243,328,645	248,793	243,577,438	1.35	Comm'l/Ind.
Mission West Properties	Rincon Original	228,366,800	0	228,366,800	1.26	Comm'l/Ind.
Sobrato Companies	Julian-Stockton	215,578,520	0	215,578,520	1.19	Comm'l/Ind.
Cadence Design Systems	Rincon Expansion	158,780,782	12,522,115	171,302,897	0.95	Comm'l/Ind.
Silicon Valley Ca I LLC	Rincon Original	134,697,495	0	134,697,495	0.75	Comm'l/Ind.
Altera Corporation	Rincon Expansion	134,357,084	0	134,357,084	0.74	Comm'l/Ind.
Maxim Integrated Products Inc	Rincon North	130,833,093	0	130,833,093	0.72	Comm'l/Ind.
Essex Enclave Apmt L.P.	Rincon North	129,321,388	0	129,321,388	0.72	Multi-Family
Shea River Oaks Assc LP	Rincon Expansion	127,243,573	0	127,243,573	0.70	Multi-Family
BP Zanker Rd LLC	Rincon Expansion	126,000,000	0	126,000,000	0.70	Comm'l/Ind.
AMB Property Corp.	Rincon Original	113,355,223	0	113,355,223	0.63	Comm'l/Ind.
Berg & Berg Dvlprs, L.P.	Edenvale	94,777,955	0	94,777,955	0.52	Comm'l/Ind.
Lumileds Lighting US LLC	Rincon Original	0	91,786,884	91,786,884	0.51	Comm'l/Ind.
Totals, Top Twenty:		5,670,557,730	2,140,208,969	7,810,766,699	43.26%	
Totals for the Area:		\$13,948,249,134	\$4,105,404,618	\$18,053,653,752	100.0%	

(1) Property owned by this entity is subject to an assessment appeal.
Source: County of Santa Clara; Urban Analytics, LLC.

Cisco Systems, Inc. (“Cisco”), the largest taxpayer in the Tax Increment Generating Area of the Merged Area, manufactures and sells networking and communications products and provides services associated with that equipment and its use. The company reports more than 47,000 employees worldwide and fiscal year 2007 net sales of approximately \$34.9 billion. The company has been headquartered in San José since 1994. Cisco has been the largest property owner in the Project Area since fiscal year 1999-2000. Cisco’s assessed value has increased from approximately \$1.03 billion in fiscal year 2000-01 to approximately \$2.8 billion in fiscal year 2007-08. Although Cisco Systems has appealed property valuations in prior years it is not reported as an appellant for the fiscal year 2005-06 or the fiscal year 2006-07 roll year. The assessor has not reported fiscal year 2007-08 appeals as of the date of this Official Statement. The assessor appears to be restoring the valuations for many Cisco properties to their full base year valuation, while valuations for other previously-reduced Cisco properties have already

been restored. See Table 7 in APPENDIX A – “REPORT OF THE FISCAL CONSULTANT” for Cisco’s assessed value in the Tax Increment Generating Area of the Merged Area over the five most recent fiscal years.

Assessment Appeals and Assessor Reductions

Pursuant to California law, a property owner may apply for a reduction of the property tax assessment for such owner’s property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county assessment appeals board (a “**Proposition 8**” appeal). In addition to reductions in assessed value resulting from Proposition 8 appeals, Proposition 8 also allows assessors to reduce assessed value unilaterally to reflect reductions in market value.

In Santa Clara County (the “**County**”), a property owner desiring to reduce the assessed value of such owner’s property in any one year must submit an application to the Santa Clara County Assessment Appeals Board (the “**Appeals Board**”). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of the application by the County Assessor’s Office (the “**County Assessor**”), the County Assessor may offer to the property owner to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board for a hearing and decision.

The Appeals Board generally is required to determine the outcome of appeals within two years of each appeals filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as “ongoing hardship”), the County Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. In a similar manner, the County Assessor may reassert the pre-appeal level of assessed value depending on the County Assessor’s determination of current value.

Appeals of property value assessments by property owners in the Tax Increment Generating Area of the Merged Area and unilateral reductions by the County Assessor can result in reductions in assessed valuations that affect the Agency’s collection of tax increment revenues. The County calculates and pays the Agency tax increment revenue based on the full enrolled valuation at the beginning of the fiscal year and makes no adjustment to the Agency’s revenue from roll changes occurring during the year. Successful appeals resulting in refunds to property owners have not been charged back to the Agency. **The Agency cannot give any assurances that the County will continue this practice.** Thus far, the one exception to this practice occurred in fiscal year 1992-93 when the Agency reimbursed the County for the successful appeal by a consortium of computer companies of unsecured property. See “SPECIAL RISK FACTORS – Reduction in Taxable Value” and “– Appeals and Assessor Reductions to Assessed Value.”

Table 11 lists the assessment appeal results with respect to the Tax Increment Generating Area of the Merged Area for fiscal years 1999-00 through 2006-07. See APPENDIX A – “REPORT OF FISCAL CONSULTANT – Assessment Appeals” for more information.

TABLE 11
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJECT
Assessment Appeals Results⁽¹⁾

Fiscal Year	Resolved Appeals	County Roll Value	Applicant Opinion of Value	Final Roll Value	Percent of Roll Value Retained ⁽²⁾
1999-00	310	\$5,084,092,811	\$3,004,341,600	\$5,070,843,006	99.74%
2000-01	322	4,676,474,342	2,532,348,202	4,640,409,987	99.23
2001-02	429	4,831,391,494	2,355,806,917	4,722,634,651	97.75
2002-03	586	6,851,065,064	3,685,653,580	6,477,453,000	94.55
2003-04	513	6,650,344,100	3,466,866,557	6,262,596,815	94.17
2004-05	535	6,431,378,058	4,206,019,835	6,117,452,750	95.12
2005-06	432	5,679,509,036	4,083,837,150	5,436,976,227	95.73
2006-07	139	1,761,592,727	1,091,571,698	1,750,505,366	99.37
Total	3,266	\$41,965,847,632	\$24,426,445,539	\$40,478,871,802	96.46%

(1) Data provided by the County Assessor's office on October 5, 2007.

(2) Percent of Roll Value Retained is the proportion of value retained after resolution of an appeal. The rate is calculated by dividing the 'Final Roll Value' into the 'County Roll Value'. For withdrawn and denied appeals, the 'Final Roll Value' is the original County valuation.

Source: County Assessor; Urban Analytics LLC.

Based on records provided by the County and compiled by the Fiscal Consultant, there are 463 appeals currently pending within the Tax Increment Generating Area of the Merged Area as of October 8, 2007 (i.e. the date of the Fiscal Consultant Report), with a combined aggregate disputed value differential (“ADVD”) of approximately \$1.3 billion. Among these are the following:

- 262 pending appeals filed in the Tax Increment Generating Area of the Merged Area for fiscal year 2006-07 with an ADVD of \$867,171,894, including 24 appeals filed by large property owners with an ADVD of \$142,108,976;
- 118 pending appeals for fiscal year 2005-06 with an ADVD of \$295,862,238; and
- 38 pending appeals for fiscal year 2004-05 with an ADVD of \$49,107,760.

For the eight fiscal years ending with fiscal year 2006-07, a total of 3,266 appeals have been resolved, with a cumulative taxable value retention on the tax rolls of 96.46%. The resolved appeals involved ADVD of \$17.5 billion, but the net cumulative reduction in taxable value on resolved appeals was \$1.5 billion. For additional information on assessment appeals in the Tax Increment Generating Area of the Merged Area, see APPENDIX A – “REPORT OF THE FISCAL CONSULTANT – Assessment Appeals”.

The future success rate of appeals and corresponding reductions in the Tax Increment Generating Area of the Merged Area valuation may increase or decrease from past averages; no assurance is given that the past retention rate will be similar to any future rate. In future years, assessment appeals granted and changes in County practices regarding refunding of tax increment from successful appeals could adversely impact the availability of tax increment

revenues to pay debt service on bonds issued for the Tax Increment Generating Area of the Merged Area.

The Fiscal Consultant reports that the Assessor's office has provided the Agency with a listing of all properties that remain subject to Proposition 8 reductions in the Project Area in fiscal year 2007-08. These 384 properties, shown in Table 9 of the Fiscal Consultant Report, have a fiscal year 2007-08 valuation that is \$1.13 billion below their full base valuation (the full base valuation is the base valuation as determined by Proposition 13 with annual inflationary increases). Of the properties with Proposition 8 reductions, 88 are commercial properties with reductions greater than \$10 million; these account for \$921 million of the \$1.13 billion in Proposition 8 reductions.

As economic conditions improve in the Project Area, the Assessor has been restoring some or all of the valuations reduced through Proposition 8. Nine parcels owned by Equity Office Properties experienced drops in valuation of between 40 and 57% in fiscal year 2003-04 and now have combined valuations of \$512 million, approaching their fiscal year 2002-03 level of \$520 million. Equity Office Properties was purchased by the Blackstone Group in February 2007; the Assessor has not yet indicated what valuation will be assigned to the former Equity properties as a result of that transaction. Cisco Systems, the Project Area's largest property owner, experienced a gain in valuation of \$345 million, or 14%. Nearly all of this gain was in secured improvements, reflecting the restoration of valuations previously reduced under Proposition 8 appeals.

In addition to reductions in assessed value resulting from Proposition 8 appeals, California law also allows assessors to reduce assessed value unilaterally. For example, in fiscal year 2003-04 the County Assessor reduced assessed values county-wide by a cumulative amount of approximately \$8 billion (approximately \$2.3 billion in the Tax Increment Generating Area of the Merged Project Area); in fiscal year 2004-05 by a cumulative amount of \$10.6 billion (\$2.9 billion in the Tax Increment Generating Area of the Merged Project Area); in fiscal year 2005-06 by a cumulative amount of \$9.5 billion (an undisclosed portion in the Tax Increment Generating Area of the Merged Project Area); in fiscal year 2006-07 by a cumulative amount of \$7.75 billion (\$2.4 billion in the Tax Increment Generating Area of the Merged Project Area); and in fiscal year 2007-08 by a cumulative amount of \$4.9 billion (\$1.1 billion in the Tax Increment Generating Area of the Merged Project Area).

The County Assessor's Office notes that Proposition 8 reductions are temporary and the assessed values are expected to be restored under Proposition 13 if and when market conditions improve; however, no assurance is given that such reductions will be eliminated. See "THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE – Assessment Appeals" and APPENDIX A – "REPORT OF FISCAL CONSULTANT – Assessment Appeals" (including Tables 11 and 12 therein).

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LITIGATION

There is no litigation pending or, to the Agency's knowledge, threatened in any way to restrain or enjoin the issuance, execution or delivery of the 2007 Bonds, to contest the validity of the 2007 Bonds, the Indenture, or any proceedings of the Agency with respect thereto. In the opinion of the Agency and its counsel, based upon information presently available, there are no lawsuits or claims pending against the Agency which will materially affect the Agency's finances so as to impair its ability to pay principal of and interest on the 2007 Bonds when due.

TAX MATTERS

2007B Bonds. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2007B Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 (the "**Code**") that must be satisfied subsequent to the issuance of the 2007B Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2007B Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2007B Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2007B Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2007B Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2007B Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2007B Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2007B Bonds who purchase the 2007B Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2007B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2007B Bonds with original issue discount, including the treatment of purchasers who do not

purchase in the original offering, the allowance of a deduction for any 2007B Bonds on a sale or other disposition, and the treatment of accrued original issue discount on such 2007B Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the 2007B Bond (said term being the shorter of the 2007B Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2007B Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2007B Bond is amortized each year over the term to maturity of the 2007B Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized 2007B Bond premium is not deductible for federal income tax purposes. Owners of Premium 2007B Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2007B Bonds.

In the further opinion of Bond Counsel, interest on the 2007B Bonds is exempt from California personal income taxes.

2007A-T Bonds. Interest on the 2007A-T Bonds is not excluded from gross income for federal income tax purposes. However, in the opinion of Bond Counsel, interest on the 2007A-T Bonds is exempt from California personal income taxes.

General. Owners of the 2007 Bonds should be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2007 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2007 Bonds other than as expressly described above.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the IRS, Bond Counsel informs Owners of the 2007A-T Bonds that any U.S. federal tax advice contained in this Official Statement (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed in this Official Statement.

CONTINUING DISCLOSURE

The Agency has covenanted for the benefit of the Beneficial Owners of the 2007 Bonds to provide certain financial information and operating data relating to the Agency by not later than February 1 (the "**Annual Report**"), commencing with the report for the fiscal year 2005-06, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Trustee with each Nationally Recognized Municipal Securities Information Repository and with a State Depository, if any. The notices of material events will be filed by the Trustee on behalf of the Agency with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). Failure of the Agency to comply with these covenants does not constitute an Event of Default under the Indenture.

The Agency filed an ongoing disclosure report due February 1, 2003 relating to certain of its outstanding bonds on or about May 30, 2003. Other than this one late filing, the Agency believes that it has never failed to comply in all material respects with its previous undertakings to provide annual reports or notices of material events.

RATINGS

Moody's Investors Service, Inc. ("**Moody's**"), Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**") and Fitch Ratings ("**Fitch**") have assigned the 2007 Bonds ratings of "Aaa," "AAA" and "AAA," respectively, conditioned on the issuance by the 2007 Bonds Insurer of its 2007 Bonds Policy at the time of delivery of the 2007 Bonds. Furthermore, Moody's, S&P and Fitch have assigned the 2007 Bonds unenhanced ratings of "A3," "A-" and "A" respectively.

The ratings are not recommendations to buy, sell or hold the 2007 Bonds. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same. The Agency furnished to such rating agencies certain information and materials. Generally, rating agencies base their ratings on such information and materials so furnished and on investigations, studies and assumptions made by them. There is no assurance that the ratings mentioned above will continue for any given period of time or that the ratings may not be lowered or withdrawn entirely by a rating agency, if in its judgment circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2007 Bonds.

UNDERWRITING

The 2007 Bonds were sold by competitive sale on October 24, 2007 as follows:

The 2007A-T Bonds will be sold by the Agency to Morgan Keegan & Co., Inc. (the "**2007A-T Underwriter**"), at a price of \$21,305,470.50 (which is the aggregate principal amount of the 2007A-T Bonds *less* a 2007A-T Underwriter's discount of \$24,529.50).

The 2007B Bonds will be sold by the Agency to Merrill Lynch (the "**2007B Underwriter**," and together with the 2007A-T Underwriter, the "**Underwriters**") at a price of \$191,825,115.64 (which is the aggregate principal amount of the 2007B Bonds *plus* a net original issue premium of \$1,128,708.90, less a 2007B Underwriter's discount of \$903,593.26).

The Underwriters will purchase all of their respective series of 2007 Bonds if any are purchased. The obligations of the Underwriters to purchase the 2007 Bonds are subject to certain terms and conditions.

The 2007 Bonds may be offered and sold to certain dealers and others at prices lower than the offering prices stated on the cover page thereof. The Underwriters may change these offering prices from time to time.

LEGAL MATTERS

Certain legal matters incident to the issuance of the 2007 Bonds are subject to the approving opinion of Jones Hall, A Professional Law Corporation. The proposed forms of the opinions being delivered by Bond Counsel are attached hereto as APPENDIX G. Jones Hall is also acting as Disclosure Counsel to the Agency. Approval of other legal matters will be passed upon for the Agency by the Agency General Counsel. Payment of fees to Bond Counsel and Disclosure Counsel is contingent upon issuance of the 2007 Bonds.

FINANCIAL ADVISOR

The Agency has retained the services of Kitahata & Company as Financial Advisor. Payment of fees to the Financial Advisor is contingent upon issuance of the 2007 Bonds.

ADDITIONAL INFORMATION

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the 2007 Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

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

By: \s\ David C. Baum
Chief Financial Officer and Director of Finance

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APPENDIX A
REPORT OF THE FISCAL CONSULTANT

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**FISCAL CONSULTANT REPORT
FOR THE
REDEVELOPMENT AGENCY
OF THE CITY OF SAN JOSE
MERGED AREA REDEVELOPMENT PROJECT
TAX ALLOCATION BONDS
SERIES 2007A-T (TAXABLE) AND SERIES 2007B**

OCTOBER 17, 2007

INTRODUCTION

In connection with the issuance of the Merged Area Redevelopment Project Tax Allocation Bonds Series 2007 A (the Bonds), the Redevelopment Agency of the City of San Jose (the Agency) has retained Urban Analytics (the Consultant) as fiscal consultant to evaluate available tax revenue and provide a Fiscal Consultant Report (this Report).

The Report provides a review of various matters affecting the Agency's receipt of tax increment in the Merged Area Redevelopment Project (the Project Area). The Bonds are to be secured by Agency's Redevelopment Fund (the Redevelopment Fund), exclusive of funds deposited to the Low and Moderate Income Housing Fund.

The Report also presents projections of the Redevelopment Fund over the life of the Project Area. These projections incorporate the varying termination dates of the Project Area's constituent sub-areas, the tax increment cap on the Project Area as a whole, the Agency's passthrough obligations and the assessed valuation growth within the Project Area at no growth, two percent, five percent and seven percent growth rates. The Project Area consists of multiple sub-areas comprising an 8,110-acre project area within the City of San Jose.

This Report is based in part on assessed valuation information provided by the County of Santa Clara (the County); on the County's assessment and apportionment practices; on base year assessed valuation for the Project Area as reported by the County; and on information regarding redevelopment plan terms provided by Agency staff. The analyses and projections included in this Report utilize the 2007-08 roll unless otherwise noted.

SUMMARY OF FINDINGS

The Project Area is expected to generate \$179,765,641 in gross tax increment in 2007-08, with \$142,732,470 in property tax increment available for debt service prior to payment of existing debt service. The Agency's ability to collect tax increment throughout the term of the Bonds may be affected by the Project Area's tax increment cap which limits the Agency's receipt of tax increment revenues to \$7,600,000,000. Whether or not the Agency reaches that cap during the term of the Bonds depends on the rate of tax increment growth in the Project Area. With a 2% average rate of growth, the cap is expected to be reached by fiscal year 2031-32. If a 7% average growth rate is experienced, the Agency's cap is projected to be reached in fiscal year 2023-24.

THE ALLOCATION OF TAX INCREMENT REVENUE TO THE AGENCY

Under California redevelopment law, the County allocates to the Agency all locally assessed secured and unsecured property tax revenue and state-assessed utility revenue collected within the Project Area above the base year assessed valuations of the constituent sub-areas. The base year assessed valuations were established as the assessed valuation in the year each redevelopment plan was adopted (the Agency also has several project areas that do not generate tax increment; these areas are not included in this Report).

This incremental revenue, or tax increment, is subject to certain constraints contained in the individual redevelopment plans. A minimum of twenty percent of the tax increment

received by the Agency is required, under California redevelopment law, to be utilized to increase, improve and preserve the community's supply of very low, low and moderate income housing. The Agency deposits twenty percent of its tax increment to the Low and Moderate Income Housing Fund.

Secured and unsecured properties are assessed annually for the value of their land, improvements and personal property. Under Proposition 13, the assessed valuation of land and improvements is subject to an inflationary adjustment of, at most, two percent per year from their 1975-76 value, the value at the time of the most recent sale, or the value following new construction on the property. Personal property is not subject to Proposition 13 limits. It is, however, subject to depreciation and is assessed on the basis of its current depreciated value.

The County also apportions to the Agency a share of state-assessed unitary revenue. This property tax revenue, generally from utility companies, is collected on a county-wide basis and distributed to redevelopment agencies and taxing entities under an apportionment formula set out in AB454, the 1986 legislation which established the unitary tax mechanism. Unitary tax revenue, being tax increment, is counted against the tax increment cap for the Project Area and is apportioned to the Redevelopment Fund.

The Agency receives property tax revenue from supplemental assessments on properties in the Project Area. These assessments occur upon a sale of or new construction on a property and represent the difference between the current assessed valuation of the property on the annual tax roll and the new value after the sale or new construction. The change in assessed valuation is generally incorporated into the annual tax roll in the year following the sale or new construction. Supplemental revenues are not included in the revenue calculations used in this report except that they are counted against the tax increment cap.

Tax revenue deriving from the base year assessed valuation is distributed to all other taxing jurisdictions within the tax rate areas comprising the Project Area. The distribution of the base year tax revenue is accomplished using the same AB8 apportionment factors used to allocate property tax revenue in non-redevelopment tax rate areas. The taxing entities in the Project Area are shown in Table 1 below, together with their apportionment factors. The factors shown are weighted averages across the entire Project Area; the actual factors are determined by the County on an individual tax rate area code basis. Local school districts receive approximately 36% of tax revenue from the base assessed valuation in the Project Area; community college districts and the office of education receive another 13%.

Tax revenue derived from assessed valuation in the Project Area in excess of the base year assessed valuation is allocated to the Agency under a method of distribution known as the 'Teeter Plan'. The Santa Clara County Controller determines the amount of valuation in excess of the base year at the beginning of the fiscal year and distributes the resultant revenue in several installments during the year.

Table 1
Taxing Entities In the Merged Area Redevelopment Project

Taxing Entity	Proportionate Share of Tax Revenue
County General	0.2977520
County Library	0.0000044
San Jose City	0.1819498
Franklin McKinley Elementary	0.0085996
Oak Grove Elementary	0.0292347
Orchard Elementary	0.0239275
San Jose Unified	0.0808741
Santa Clara Unified	0.1403888
Eastside High	0.0811717
West Valley Community College	0.0449181
San Jose Community College	0.0460259
County School Service	0.0350537
Central Fire	0.0000153
SCV Water District Central	0.0104637
SCV Water District East 1	0.0067368
SCV Water District	0.0022192
Bay Area Air Quality Mgmt	0.0022996
Guadalupe-Coyote Resource Conservation District	0.0000589
SCV Water District St Water Project	0.0066039
SCV Water District Zone W-4	0.0017022
Total	1.0000000

Source: County of Santa Clara; Urban Analytics

The Teeter Plan (Section 4701 et seq. of the California Revenue and Taxation Code) allows the County to distribute secured property tax revenue to all jurisdictions, including the Agency, without regard to delinquencies. This mechanism allows the County to maintain a reserve fund to cover delinquencies and allocate revenue based on the original secured roll, retaining all delinquent tax payments and penalties. Consequently, the Agency is not affected by delinquent tax payments.

Revenue from the secured roll is distributed to the Agency in ten payments, five occurring between November and January based on December tax collections and five occurring between March and June from April collections. Revenue from the unsecured roll is distributed in October and April. The unitary roll revenue is paid in two installments in January and June. Tax revenue from supplemental assessments in the Project Area is separately distributed in monthly payments to the Agency.

The County Controller's Office reports that payments to the Agency are not adjusted during the year as new revenue attributable to the Project Area is received, such as from unsecured personal property not reported to the assessor in prior years and (once identified) added to the current roll as 'escape' assessments, and as payments are made to taxpayers in the Project Area (for example, tax refunds due to assessment appeals). According to the Controller's staff, it is the County's intention to make such annual adjustments to the tax increment for all redevelopment agencies at some point in the future. In an analysis of the potential net impact such a change would have on the

Agency's tax increment it was found that the gains from the receipt of unsecured escape assessments would exceed losses from the reimbursement of assessment appeal refunds in many years. Overall, the net effect to the Agency is expected to be minor.

The allocation of tax increment to redevelopment agencies is predicated on a showing by each agency that it requires the tax increment to repay its indebtedness, as demonstrated in an annual Statement of Indebtedness filed by all agencies with their County Controller. The Agency reports that it regularly files the Statement of Indebtedness and that it has shown sufficient debt to claim its full amount of tax increment.

The State Board of Equalization-assessed non-unitary railroad properties in the Project Area total \$95,295,217 in assessed valuation in 2007-08.

The County charges an administration fee to recover property tax administration costs from the Agency and other jurisdictions under the Revenue and Taxation Code, Section 95.3. The fee is based on County costs that vary from year to year so that the amount charged to each jurisdiction annually is variable. The administration fee is estimated to amount to \$1,920,106 in fiscal year 2007-08, or approximately 1.07% of the tax increment revenue from the Project Area. The administration fee is subordinated to the Bonds under the terms of the Agency's Settlement Agreement with the County.

Tax increment calculations made in this Report use revenue from the secured, unsecured, utility and unitary rolls. As noted, supplemental roll revenues are considered when calculating cumulative tax increment caps.

HOUSING SET-ASIDE FUND

California redevelopment law requires that agencies maintain a low-moderate income housing fund and deposit into the fund a minimum of twenty percent of gross tax increment revenues annually. This fund is maintained by the City of San Jose with funds paid to it by the Agency. The Agency uses its 80% Redevelopment Fund, not the housing fund, to meet its program needs, its passthrough payment obligations and other payment obligations.

Redevelopment agencies are monitored by the state Department of Housing and Community Development to ensure that they do not build up unexpended and unencumbered housing funds beyond a certain level. Agencies that exceed this level are found to have an 'excess surplus' of housing funds and must eliminate that condition or face penalties, including the inability to further collect tax increment. The Agency maintains an active housing program and reports that it does not have, nor does it expect to have, an excess surplus condition.

THE REDEVELOPMENT PLANS

The Project Area is comprised of sixteen tax increment-producing sub-areas, shown in Table 2 below. Park Center Plaza, the first sub-area, was established in July 1961 and will cease generating tax increment in January 2022. The most recent sub-area, Monterey Corridor, was established in 1994 and will terminate in December 2041. Almaden Gateway was originally established as a non-tax increment generating sub-area; the plan was amended in 1996 to collect tax increment from the area. The Agency has several other sub-

areas that do not generate tax increment but have been established to allow for the expenditure of tax increment funds in those areas.

Plan Limits

The Agency cannot receive tax increment or repay indebtedness beyond certain dates, set forth in the redevelopment plans and their amendments and shown in Table 2 below.

Under AB1290, redevelopment plans were required to include a final date for both the establishment of debt and for the repayment of debt. These were tied either to the dates on which the plans were originally adopted or when the sub-area was merged into the Project Area by amendment.

Through an ordinance adopted by the City Council on November 5, 2002, utilizing legislation passed in 2001 (SB211), the Agency deleted the time limit on incurring indebtedness for sub-areas whose redevelopment plans were adopted prior to January 1, 1994. Redevelopment plans adopted after that date have a statutory limit on incurring indebtedness of twenty years from the plan adoption date, unless amended. Under redevelopment law, the elimination of the debt incurrence limit required that the Agency commence making statutory passthrough payments on revenue above that received in the year the debt incurrence limits were originally to expire, or 2001-02. The passthrough payments are made to all taxing entities that did not already have a contractual agreement to receive passthrough payments from the Agency; the County is the only taxing entity with such a fiscal agreement and it will continue to receive passthrough payments under that agreement. The Agency began making the statutory passthrough payments, referred to as AB1290 payments, to the non-County taxing entities from 2002-03 onwards. Such payments are made exclusively from the Redevelopment Fund.

Legislation passed in 2004 (SB1096) permits redevelopment agencies to extend their ability to collect tax increment by one year for each ERAF payment made in 2004-05 and 2005-06. The extensions apply only to plans with existing limits on the effectiveness of the plan that are less than 20 years from the last day of the fiscal year in which the ERAF payment is made. All Agency plans with the exception of Almaden Gateway and Monterey Corridor qualify for the extension related to the 2004-05 ERAF payment, while all Agency plans except for Almaden Gateway qualify for the extension related to the 2005-06 ERAF payment. The City Council adopted on March 29, 2005 and August 15, 2006, respectively, the ordinances necessary to extend the qualifying plans by one year for the 2004-05 and 2005-06 ERAF payments.

Under previous legislation (SB1045), the Agency extended by one year the plan limits on all redevelopment plans in connection with the ERAF payment made in May, 2004 for the 2003-04 fiscal year. The combined plan limit extensions from SB1096 and SB1045 result in an increase of the time limit on the effectiveness of the plans and on the collection of tax increment of three years in all project areas except for Monterey Corridor, where the extension is two years, and Almaden Gateway where the extension is one year. These extensions are incorporated into the dates shown on Table 2.

With the ERAF-related extensions, the plan expiration dates for the Project Area range from January 1, 2012 (Park Center Plaza and San Antonio Plaza) to April 7, 2030 (Almaden Gateway). The Agency can repay indebtedness with tax increment in each of the sub-areas for ten years after the plan termination dates, with the exception of Monterey Corridor. Adopted after January 1, 1994, Monterey Corridor is subject to a statutory limit of 45 years

from the plan adoption date for the repayment of indebtedness, plus two years under the ERAF-related extensions. As noted below, the Project Area has a tax increment cap of \$7.6 billion that may take effect prior to the time limit on the repayment of indebtedness.

Table 2
Project Area Acreage and Key Dates by Sub-Area

Sub-Area	Acreage	Plan Adoption Date	Plan Termination Date, With Extensions	Last Date to Repay Debt, With Extensions	2007-08 Tax Increment *
Park Center Plaza	61	7/24/1961	1/1/2012	1/1/2022	4,400,646
San Antonio Plaza	50	1/3/1968	1/1/2012	1/1/2022	3,724,453
Rincon Original	1,872	7/16/1974	7/16/2017	7/16/2027	25,293,116
Pueblo Uno	12	7/8/1975	7/8/2018	7/8/2028	1,491,342
Edenvale	1,050	7/15/1976	7/15/2019	7/15/2029	11,784,727
Julian Stockton	330	7/15/1976	7/15/2019	7/15/2029	4,712,789
Olinder	158	7/15/1976	7/15/2019	7/15/2029	1,705,078
Rincon Expansion	1,224	7/3/1979	7/3/2022	7/3/2032	30,595,321
Edenvale East	995	9/1/1981	9/1/2024	9/1/2034	6,906,427
Rincon North	1,699	6/8/1982	6/8/2025	6/8/2035	33,396,624
Rincon South	-	6/8/1982	6/8/2025	6/8/2035	12,055,480
Guadalupe Auzerais	73	5/19/1983	5/19/2026	5/19/2036	2,682,449
Century Center	18	11/8/1983	11/8/2026	11/8/2036	1,161,107
Market Gateway	32	11/8/1983	11/8/2026	11/8/2036	557,515
Almaden Gateway	21	4/7/1988	4/7/2029	4/7/2039	896,171
Monterey Corridor	515	12/13/1994	12/13/2026	12/13/2041	1,369,224
	8,110				142,732,470

Note: Acreage combined for Rincon South/Rincon North.

* Tax increment including unitary revenue and passthrough offsets, less Senior Passthroughs and Housing

Source: The Agency

Table 3
Land Use Within the Project Area, 2007-08

Land Use	Secured Assessed Valuation	Pct of Total Assessed Valuation	Number of Parcels	Pct of Total Parcels
Industrial	6,551,668,967	47.34%	993	17.28%
Commercial	4,171,165,589	30.14%	815	14.18%
Residential	2,372,874,837	17.15%	3,233	56.27%
Vacant	512,848,254	3.71%	346	6.02%
Other	210,270,032	1.52%	334	5.81%
Agricultural	20,399,238	0.15%	25	0.44%
Total	13,839,226,917	100.00%	5,746	100.00%

Note: Assessed valuation includes homeowner's exemptions. Excluding homeowner's exemptions the secured assessed valuation is 13,852,953,917.

Source: County of Santa Clara; Urban Analytics

Tax Increment Cap

Under California redevelopment law, redevelopment plans adopted prior to January 1, 1995 were required to contain a limitation on the total amount of tax increment revenue the Agency could collect over the life of the redevelopment plan. Although AB1290 eliminated this requirement for plans adopted after that date in favor of time limits on the collection of tax increment, the redevelopment plans for all tax increment-producing sub-areas remain subject to the tax increment cap requirement. An exception is allowed for agencies with unmet housing obligations, which can continue to collect tax increment until those specific obligations are met; the Agency does not foresee having any unmet housing obligations.

At the time the Agency first merged its project areas in 1981 it also established a cap on tax increment to be received from the Merged Project Area. This cap of \$7.6 billion represents the cumulative limit on tax increment that may be received by the Agency in the Project Area even if the Plan's time limits have not been reached. This cap is incorporated into all projections used in this report.

The total amount of tax increment received through 2006-07 is estimated to be \$2,298,801,640, based on information provided by the Agency and the Controller. Projected annual tax increment is added to this historical figure to obtain a cumulative total of tax increment projected to be collected throughout the life of the redevelopment plans. Under the recent ERAF-related legislation (SB1045 and SB1096), the Agency's ERAF payments in 2002-03, 2003-04, 2004-05 and 2005-06 may be deducted from the revenue applied to the cap. The cumulative tax increment amount reflects the deduction of \$48 million in ERAF payments by the Agency.

The Agency's ability to collect tax increment is limited by a combination of the cap on tax increment and by the time limits on the repayment of debt (described further in the following section). As described in the Official Statement, the Agency is obligated to annually verify that the amount of tax increment remaining is sufficient to meet its obligations, and to escrow funds if the remaining amount is found to be insufficient. With a two percent rate of tax increment growth, the Agency may reach its tax increment cap in 2031-32, prior to reaching the time limits on repayment of debt in most of the sub-areas. Applying a growth rate of seven percent, the Agency may reach its tax increment cap in fiscal year 2023-24. Through 2007-08, the Project Area's annual average growth since 1995 has been 8.2 percent, while over the past five years it has been -0.3 percent.

TAX-SHARING AGREEMENTS

Overview

Under redevelopment law at the time of the adoption of most sub-areas within the Project Area, taxing jurisdictions that would experience a fiscal burden caused by the existence of the redevelopment plan could enter into fiscal agreements with redevelopment agencies to alleviate that burden. Such agreements, known as fiscal agreements or passthrough agreements and authorized under former Section 33401 of the Health and Safety Code, generally provide that redevelopment agencies pay to a taxing entity some or all of that entity's share of the tax increment received by the agency. The agreements were the product of negotiations between the taxing entities and a redevelopment agency. Taxing entities could separately receive their share of the growth in valuation due to inflation, known as Section 33676 payments or the 2% payments.

Under the 1994 amendments to redevelopment law known as AB1290, these fiscal agreements were eliminated for all new plans in favor of a statutory payment schedule. The new schedule also applies to any extension of certain fiscal limits in those existing plans without fiscal agreements. As noted above, all of the sub-areas are subject to the statutory passthrough payments.

County Fiscal Agreement

The Agency entered into a passthrough agreement under Section 33401 with the County of Santa Clara in 1983, at the time of the establishment of the Rincon North and South sub-areas. Under that agreement, the Agency pays to the County a portion of the tax increment revenue from the Merged Area exclusive of the Rincon South and Almaden Gateway sub-areas under a formula contained in the agreement and, under a second formula, a portion of the revenue from the Rincon South and Almaden Gateway sub-areas. The amount of this payment in 2007-08 is estimated to be \$17.5 million.

The 1983 agreement was continued under the terms of a Settlement Agreement dated December 16, 1993, and again under the terms of an Amended and Restated Agreement entered into on May 22, 2001. The May 2001 Amended and Restated Agreement also delegated to the County the ability to undertake redevelopment projects in or for the benefit of the Merged Area, and requires the Agency to transfer funds to the County to pay for such projects. These delegated payments were equal to the County passthrough payment until June 30, 2004. Since that date, the delegated payment is equal to 20% of the proceeds of any new-money debt secured by tax increment, excluding refunding bonds.

Under the terms of the fiscal agreement with the County, all payments under the agreement are subordinate to the payment of debt service on the Agency's bonds.

Statutory Passthrough Payments

In 1994, all new redevelopment plans - and all existing plans amending certain fiscal terms or adding territory - became subject to a statutorily-defined set of pass-through requirements and plan limitations generally known as AB1290 requirements. This legislation replaced a system of negotiated pass-through agreements with a specific pass-through formula applied to all taxing jurisdictions.

As noted above, the Agency in 2001 to eliminate the time limit on the establishment of indebtedness contained in the redevelopment plans. This triggered a statutory requirement that passthrough payments be made to all taxing entities that did not already have a fiscal agreement with the Agency, which included all taxing entities with the exception of the County. Payments commenced in 2002-03, the year following the expiration of the original limit on the establishment of indebtedness.

Under the AB1290 mechanism, pass-through payments are made to all jurisdictions receiving a portion of the basic one percent levy, except jurisdictions having pre-existing pass-through agreements. The pass-through payments are made in three periods, or tiers, each beginning in a different year - years one, eleven, and thirty-one - and extending through the plan's remaining duration. The payments received by each jurisdiction are based on a specified percentage of the growth in assessed valuation over a base (the assessed valuation in the year prior to the beginning of a period), multiplied by the AB8 apportionment factor for the jurisdiction. The City is entitled to passthrough payments from the first tier only.

The AB1290 payments derive only from increases in assessed valuation over the initial year of 2001-02. For payments under tiers two and three, payments derive from future base levels of assessed valuation. The payments are limited to fixed percentages of those increases (25% of tier one increases, 21% of tier two increases and 14% of tier three increases). The Agency continues to receive its full share (excluding the 20% housing set-aside) of tax revenue from assessed valuation above the original project area base year assessed valuations and below the AB1290 base levels. It also receives its share of the remaining 75% of tier one increases, 79% of tier two increases and 86% of tier three increases.

Under Section 33607.5 of the Health and Safety Code, the Agency is required to reduce its payments to affected taxing entities by any amounts paid to those entities for public facilities. With respect to school districts, community college districts and county offices of education, these reductions can only apply to the portion of the pass-through payment considered under the statute to be for educational facilities; these portions are, respectively, 56.7%, 52.5% and 81%. The Agency's payments to the City for public facilities would be deducted from its passthrough payments were the City to no longer waive its ability to collect passthrough payments.

The San Jose Unified School District has received facilities payment in prior years. The pass-through payments to this district is reduced, in accordance with the statute, to reimburse the Agency for the facilities payment. As of 2006-07 the amount of unreimbursed facilities payments to the San Jose Unified School District is approximately \$11.2 million. The amount applied by the Agency for reimbursement of facilities payments during 2007-08 against statutory passthrough payments to the San Jose Unified School District is expected to be \$419,293.

The Agency has also provided facilities funding for the Santa Clara Valley Water District in prior years. As of 2006-07, the Agency reports that the unreimbursed portion of that funding is approximately \$10.9 million. As the full amount of passthrough payments to the Santa Clara Valley Water District is subject to offsetting reimbursement, the Agency expects to apply 100%, or \$71,938, of its statutory passthrough obligation to the reimbursement.

The statutory passthrough payments are estimated to be \$1,559,256 during 2007-08, after reimbursement of the facilities payments. With the exception of the statutory payment to the City, estimated to be \$479,214 for 2007-08, these payments are not subordinated to the payment of debt service on the Bonds. The City agreed on September 13, 2006 to subordinate its passthrough payment to debt service on the Bonds; due to prior payments by the Agency to the City for public facilities which offset passthrough payments, the Agency does not expect to make any subordinated passthrough payments to the City in the foreseeable future. The County's statutory passthrough payments are subordinate to the bonds under the terms of the County's fiscal agreement.

Section 33676 Payments

For plans adopted between January 1, 1985 and December 31, 1993, all affected taxing entities could elect to receive a payment equal to the increase in tax increment revenue attributable to inflationary adjustments under Proposition 13. These payments are not considered tax increment and, where they occur, are deducted from redevelopment agency revenue prior to apportionment to the agency.

The Agency has identified all of its tax increment-generating plans as having been adopted either prior to January 1, 1985 or after December 31, 1993 and does not make any such payments to taxing entities. Almaden Gateway, although originally adopted in April 1988, did not receive tax increment until 2001-02 and is now subject to the AB1290 passthrough payments.

Following a court decision in Orange County, the Santa Clara County controller's office is deducting the 2% passthrough amount from tax increment for school districts and community college districts in those project areas adopted between the dates noted above. The court decision held that those taxing entities were required to receive the 2% payment whether they elected to or not. The Agency does not believe it will be subject to these automatic deductions by the Controller in any of its sub-areas.

The Agency previously had an agreement with the Santa Clara Unified School District under which the Agency was to make a 2% passthrough payment to the District. That agreement is no longer in effect, as the District agreed instead to receive a statutory passthrough payment under AB1290.

Proportionate Shares and ERAF

Since 1993-94, the Educational Revenue Augmentation Fund (ERAF) has significantly affected non-redevelopment jurisdictions that receive an apportionment of property tax revenue. This fund, established by the state to alleviate a budget crisis, receives a percentage of the revenue of several jurisdictions in the County.

Although redevelopment agencies were not required to pay into ERAF from 1994-95 to 2001-02, the State again directed agencies to make payments into ERAF for the 2002-03, 2003-04, 2004-05 and 2005-06 fiscal years. As noted previously, the amounts paid into ERAF are deducted from the cumulative tax increment revenue receipts applied to the tax increment cap, and the Agency has extended time limits on the redevelopment plans as permitted under ERAF-related legislation.

LEGISLATION

Among the recent legislation relating to redevelopment, SB211 (effective January 1, 2002) permits redevelopment agencies to extend the time limit on their receipt of tax increment by ten years. This applies to project areas formed before 1994, and requires agencies extending time limits to meet certain requirements. The bill also permits agencies, after January 1, 2002, to eliminate the time limit on the establishment of indebtedness. The Agency adopted ordinance 26765 on November 5, 2002, eliminating the time limit on the establishment of indebtedness in the Project Area.

Other recently enacted legislation which may apply to the Agency includes AB637, which makes several changes to the housing requirements of redevelopment law regarding replacement housing and low-moderate income housing production, and SB975, expanding the types of redevelopment agency assistance that trigger prevailing wage requirements. As noted previously, SB1096 and SB1045 permits an extension by one year of the effectiveness of plans and the collection of tax increment for each of the ERAF payments made in 2004-05 and 2005-06, conditional upon the time remaining on the plans.

TAX RATES

The tax rate applicable to redevelopment incremental assessed valuation includes the basic one percent levy. In addition, redevelopment agencies receive tax revenue from debt service override levies except those that were imposed to repay indebtedness approved by voters on or after January 1, 1989.

The County of Santa Clara imposes one pre-1989 levy, for a retirement fund, in most tax rate areas comprising the Project Area. That levy accrues to the Agency and is applied to the full tax roll. An additional pre-1989 levy, for an indebtedness of the Oak Grove School District, is imposed in certain tax rate areas within the Edenvale and Edenvale East sub-area and is paid to the Agency. The Santa Clara Valley Water District levies a pre-1989 rate, against land and improvements only, that also accrues to the Agency. The tax levies in several representative tax rate areas within the Project Area are shown in Table 4 below.

Table 4
Tax Levies in Representative Tax Rate Areas
Merged Project Area, Fiscal Year 2006-07
(In Percent)

Sub-Area	Tax Rate Area Code	Basic Levy	County Retirement Levy	Oak Grove SD Retirement Levy	Total Levy, All Rolls	SCVWD Levy, Land and Improvements Only
Rincon	17-065	1.00000	0.03880	0.00000	1.03880	0.0072
San Antonio Plaza	17-101	1.00000	0.03880	0.00000	1.03880	0.0072
Edenvale	17-060	1.00000	0.03880	0.03200	1.07080	0.0072
Olinder	17-029	1.00000	0.03880	0.00000	1.03880	0.0072

Source: Santa Clara County Controller

The most significant debt service levy that accrues to the Agency is the County retirement fund levy, which has remained at 0.0388%. This levy, the Water District levy on land and improvements and the basic 1% levy, are shown in Table 5 for recent years.

Table 5
Tax Rate Levies, Merged Project Area

Fiscal Year	Full Tax Levy	Additional Levy on Land and Improvements Only
2006-07	1.0388%	0.0072%
2005-06	1.0388%	0.0078%
2004-05	1.0388%	0.0092%
2003-04	1.0388%	0.0087%
2002-03	1.0388%	0.0072%
2001-02	1.0364%	0.0062%
2000-01	1.0356%	0.0075%
1999-00	1.0319%	0.0085%

Source: Santa Clara County Controller

The Controller's staff expects these levies to remain in effect throughout the life of the Project Area. The tax increment calculations prepared for this Report assume that the full roll levies and the Water District levies remain constant throughout the projection period.

The current-year levies are applied to the secured and utility rolls. Tax revenue derived from the unsecured roll is calculated, under Revenue and Taxation Code Section 2905, using the tax rate applied to the prior year's secured roll.

The Agency has no power to levy a property tax itself, has no control over the override levy, and will not receive tax revenue from any future levy for voter-approved indebtedness.

HISTORIC AND CURRENT ASSESSED VALUATION

The County Controller annually reports roll valuations and tax increment in the Project Area, shown in Table 6 and Table 8. Total assessed valuation in the Project Area grew from 7 billion in 1995-96 to 18 billion in 2007-08, an overall increase of 130% and an average annual growth of eight percent.

While assessed valuation in the Project Area increased by 12.2% in 2007-08 and by 7.2% in 2006-07, the Project Area had experienced declines in assessed valuation over the previous three-year period (2003-04 through 2005-06) due to the effects of a weakened local economy (Table 6). The Project Area's two billion (11.3%) decline in valuation between 2003-04 and 2004-05 was attributable in large part to reductions in unsecured personal property value, coupled with unilateral assessment reductions for R&D and office properties by the Assessor under Proposition 8, in recognition of ongoing economic weakness.

The Assessor's office has provided the Agency with a listing of all properties that remain subject to Proposition 8 reductions in the Project Area in 2007-08. These 384 properties, shown in Table 9, have a 2007-08 valuation that is \$1.13 billion below their full base valuation (the full base valuation is the base valuation as determined by Proposition 13 with annual inflationary increases). Of the properties with Proposition 8 reductions, eighty-eight are commercial properties with reductions greater than \$10 million; these account for \$921 million of the \$1.13 billion in Proposition 8 reductions.

As economic conditions improve in the Project Area, the Assessor has been restoring some or all of the valuations reduced through Proposition 8. Nine parcels owned by Equity Office Properties experienced drops in valuation of between forty and fifty-seven percent in 2003-04 and now have combined valuations of \$512 million, approaching their 2002-03 level of \$520 million. Equity Office Properties was purchased by the Blackstone Group in February 2007; the Assessor has not yet indicated what valuation will be assigned to the former Equity properties as a result of that transaction. Cisco Systems, the Project Area's largest property owner, experienced a gain in valuation of \$345 million, or fourteen percent, as shown in Table 7. Nearly all of this gain was in secured improvements, reflecting the restoration of valuations previously reduced under Proposition 8 appeals.

The secured roll accounted for 77% of the total valuation in the Project Area in 2007-08. Commercial and industrial properties account for approximately 77% of the total secured valuation in the Project Area (see Table 3 above), while residential properties account for 48% of the number of parcels in the Project Area and 17% of the assessed valuation. The unsecured roll comprised 23% of the Project Area's total valuation in 2007-08, with 43% of

the unsecured valuation from properties owned by Cisco Systems. The non-unitary utility roll accounts for less than one percent of Project Area valuation.

The historic tax increment, shown in Table 8, includes the one percent levy applied to the incremental assessed valuation plus the additional debt service levy, also applied to the incremental assessed valuation. For 2007-08, the debt service levy is assumed to remain at 2006-07 rates. Gross tax increment increased over the 1995-96 to 2007-08 period from \$68.2 million to an estimated \$180.8 million, a gain of 165%.

Supplemental assessments are assessments of properties for which new construction or sales occurred during a tax year. The assessments are for the pro-rated portion of the remaining tax year and, if the construction or sale occurs after the January 1 lien date, for full value of the property during the subsequent tax year. The revenues from supplemental assessments are shown in Table 8.

In addition to tax revenue from the incremental secured, unsecured and utility roll values the Agency receives revenue from the unitary roll (AB454 revenue). This amount, not shown separately in Table 8, was \$1.9 million in 2006-07.

Table 6
Historical Assessed Valuations in the Merged Project Area

Roll	2003-04	2004-05	2005-06	2006-07	2007-08
<i>Secured</i>					
- Land	3,988,091,253	4,080,066,027	4,200,831,658	4,572,962,929	5,004,001,559
- Improvements	7,066,199,373	6,398,763,798	6,376,896,317	6,846,884,969	8,205,148,576
- Personal Property	689,379,787	810,278,827	849,264,560	894,493,092	985,774,876
- Exemptions (excl. HOPTR)	233,951,746	287,816,122	291,711,829	314,675,322	341,971,094
Secured Total	11,509,718,667	11,001,292,530	11,135,280,706	11,999,665,668	13,852,953,917
<i>Unsecured</i>					
- Land	39,227,354	45,138,746	44,770,604	41,526,471	42,831,852
- Improvements	1,171,922,253	877,804,526	875,610,352	805,273,362	924,021,403
- Personal Property	4,118,244,824	3,055,528,500	3,043,369,007	3,272,701,240	3,283,737,615
- Exemptions (excl. HOPTR)	52,284,285	135,432,791	141,140,016	144,048,887	145,186,252
Unsecured Total	5,277,110,146	3,843,038,981	3,822,609,947	3,975,452,186	4,105,404,618
<i>Utility</i>					
- Land	49,810,239	51,599,990	52,759,791	44,418,304	30,895,217
- Improvements	125,305,093	144,029,115	4,113,507	71,598,266	64,400,000
- Personal Property	697,693	870,584	812,047	667,647	0
- Exemptions (excl. HOPTR)	0	0	0	0	0
Utility Total	175,813,025	196,499,689	57,685,345	116,684,217	95,295,217
Totals:	16,962,641,838	15,040,831,200	15,015,575,998	16,091,802,071	18,053,653,752

Table 7
Historic Assessed Valuations For Cisco Systems, Inc
in the Merged Project Area

Roll	2003-04	2004-05	2005-06	2006-07	2007-08
<i>Secured</i>					
- Land	206,161,515	208,459,078	209,676,671	204,639,188	208,731,953
- Improvements	504,866,058	377,621,216	378,123,799	478,045,138	802,011,711
- Personal					
Property	0	0	0	0	0
- Exemptions	0	0	0	0	0
<i>Secured Total</i>	<i>711,027,573</i>	<i>586,080,294</i>	<i>587,800,470</i>	<i>682,684,326</i>	<i>1,010,743,664</i>
<i>Unsecured</i>					
- Land	1,808,670	1,822,895	1,838,386	2,003,568	2,043,638
- Improvements	158,121,314	138,832,204	160,329,246	131,104,664	121,016,396
- Personal					
Property	1,457,103,985	1,233,419,108	1,264,784,131	1,612,377,942	1,639,346,315
- Exemptions	0	0	0	0	0
<i>Unsecured Total</i>	<i>1,617,033,969</i>	<i>1,374,074,207</i>	<i>1,426,951,763</i>	<i>1,745,486,174</i>	<i>1,762,406,349</i>
Totals:	2,328,061,542	1,960,154,501	2,014,752,233	2,428,170,500	2,773,150,013

Table 8
Assessed Valuations and Tax Increment Revenues,
Fiscal Years 1995-96 through 2007-08
Merged Area Redevelopment Project (x 1,000)

Fiscal Year	Assessed Value (1)	Percentage Change	Tax Increment (2)	Supplemental Assessments (3)	Gross Tax Revenues	Percentage Change
1995-96	7,016,990	-	70,397	360	70,757	-
1996-97 (4)	7,680,818	6.7%	74,370	1,650	76,020	7.4%
1997-98	9,292,365	21.0%	88,639	5,100	93,739	23.3%
1998-99	11,228,356	20.8%	106,299	5,918	112,217	19.7%
1999-00	12,382,598	10.3%	119,982	9,699	129,681	15.6%
2000-01	13,776,343	11.3%	134,649	7,502	142,151	9.6%
2001-02	17,879,595	29.8%	175,926	12,533	188,459	32.6%
2002-03	18,732,944	4.8%	187,448	10,578	198,026	5.1%
2003-04	16,962,642	-9.5%	168,015	2,193	170,208	-14.0%
2004-05	15,040,831	-11.3%	148,329	1,647	149,976	-11.9%
2005-06	15,015,576	-0.2%	148,292	1,527	149,819	-0.1%
2006-07	16,091,802	7.2%	159,571	2,248	161,819	8.0%
2007-08	18,053,654	12.2%	179,766	1,000	180,766	11.7%

(1) Total assessed value for the Merged Area. Tax increment revenue calculated on incremental assessed value, after subtracting base year assessed value from total assessed value. The Merged Area's current base year value is 1,097,107,127.

(2) Includes unitary roll revenue. Tax increment is estimated for 2007-08.

(3) Estimated for 2007-08. The Agency received \$533,303 during July and August 2007.

(4) Includes Park Center, which was merged in 1996.

Source: Redevelopment Agency, Urban Analytics.

Table 9
Commercial Properties Subject to Proposition 8 Reductions in the Project Area, 2007-08

Owner	Properties	Current AV (Proposition 8 Value)	Full Base Value	Valuation Under Base
BLACKSTONE GROUP *	10	533,080,000	751,058,900	(217,978,900)
MISSION WEST PROPERTIES LP	6	127,000,000	232,463,306	(105,463,306)
PALM INC	6	37,300,000	137,074,033	(99,774,033)
TSA AT 1ST LLC	4	28,700,000	105,859,845	(77,159,845)
BRE/PCCP ORCHARD LLC	3	64,000,000	121,676,744	(57,676,744)
WXIII/SCV REAL EST LP	2	42,000,000	83,434,863	(41,434,863)
ISTAR SAN JOSE LLC	9	48,400,000	88,485,327	(40,085,327)
ALTERA CORPORATION	3	83,199,083	114,692,101	(31,493,018)
NOVELLUS SYSTEMS INC	6	75,350,731	106,656,203	(31,305,472)
SOBRATO INTERESTS II	2	62,000,000	85,907,129	(23,907,129)
SANMINA SCI CORP	4	38,500,160	61,623,691	(23,123,531)
SOBRATO LAND HOLDINGS	5	50,750,000	69,967,536	(19,217,536)
ROCKWELL HUD SYSTS INC	2	26,300,000	44,987,755	(18,687,755)
CADENCE DESIGN SYSTEMS INC.	1	20,000,000	37,250,559	(17,250,559)
BP ALMADEN ASSOCS LLC	16	13,451,000	29,671,840	(16,220,840)
HELLYER AVENUE LP	1	18,400,000	32,616,122	(14,216,122)
SUNRISE TELECOM INC	1	10,300,000	23,618,568	(13,318,568)
ROBERT CHARLES CLASS D LP	1	10,000,000	23,311,528	(13,311,528)
DOUBLETREE DTWC CORP	1	58,200,743	71,228,581	(13,027,838)
SAHADI PROPERTIES LP	1	24,000,000	36,569,371	(12,569,371)
LIGHT TOWER ASSOCS LP ET AL ETAL	1	41,236,403	53,706,171	(12,469,768)
CAD INC	1	18,000,000	28,679,692	(10,679,692)
HDP ASSOCIATES, LLC	2	15,000,000	25,398,733	(10,398,733)
Subtotal, valuation reductions over \$10m:	88	1,445,168,120	2,365,938,598	(920,770,478)
Other commercial properties:	75	926,010,746	1,131,289,902	(205,279,156)
Residential properties	221	111,879,900	117,174,255	(5,294,355)
Total	384	2,483,058,766	3,614,402,755	(1,131,343,989)

* Formerly Equity Office Properties
Source: County of Santa Clara

LARGEST ASSESSEES

The twenty largest assessees in the Merged Area Project are shown in Table 10 for 2007-08. These twenty owners comprise 43.3% of the total valuation in the project area. Approximately twenty-three percent of the assessed valuation for the largest assessees is on the unsecured roll.

Cisco Systems is the largest property owner in the Project Area with a total property valuation of \$2.8 billion. The assessor maintains valuations for the company on both the secured and unsecured rolls, with land and improvements assigned to the secured roll and personal property to the unsecured. However, in most cases both secured and unsecured assessments are located on the same Cisco-owned parcel. This differs from the Assessor's general practice of classifying property as unsecured only when the assessee owns no other

land in the County, and may be attributable to the fact that in prior years Cisco's land has been held by separate leasing companies, Cisco Systems accounts for most of the unsecured valuation in the Project Area. Historic valuations for Cisco Systems in the Merged Project Area are shown in Table 7.

The portion of the company's assessed valuation that is classified as secured totals \$1.0 billion and is located on thirty-five parcels largely in the Rincon North sub-area. The unsecured properties total 1.8 billion on thirty-nine properties. Of this, 1.2 billion is business property valuation located on a Cisco-owned parcel at 190 West Tasman Drive.

ASSESSMENT APPEALS

Appeals of assessments by property owners in the Project Area can result in future reductions in assessed valuations that affect the Agency. It has been the practice of the County of Santa Clara not to deduct current appeal refunds from redevelopment agency tax increment; these refunds are instead apportioned to other taxing entities using the normal apportionment mechanism. As noted earlier in this Report, this practice has been under review by the County for several years and may change; however, the County also has not allocated revenue to the Agency from prior year's escape assessments on the unsecured roll. This is expected by the Agency to offset potential reductions from appeals.

The most common type of appeal filed is known as a Proposition 8 appeal, in which the property owner seeks a reduction in a particular year's secured assessment based on the current economic value of the property (the assessor may also adjust valuations based on Proposition 8 criteria). Assessment reductions under Proposition 8 are generally temporary in nature and are usually restored to their previous levels, as adjusted for inflation, as economic conditions improve.

Property owners may also appeal the Proposition 13 base assessment of a property. Although less frequently filed, such appeals, if successful, can permanently reduce the enrolled valuation of a property and consequently affect the Agency's annual revenue. The annual filing period for all appeals extends from July 2 to September 15.

Table 11 presents the totals for resolved assessment appeals between 1999-00 and 2006-07 in the Project Area. With the inclusion of pending appeals (Table 12), the combined number of appeals filed in the Project Area in 2006-07 is 401, down from 601 in 2002-03. The assessment appeals information presented in Table 11 and Table 12 is based on the most current information made available to the Agency by the County.

The last column in Table 11 shows the percentage of the original roll valuation retained after resolution of the appeal. The retention percentage in the Project Area has ranged from 94% to 99% during the period shown.

October 17, 2007

Table 10
Twenty Largest Assesseees in the Merged Area Project, 2007-08

Property Owner	Secured and Utility	Unsecured	Total	Pct of Total	Land Use	Sub-Area
Cisco Systems	1,010,743,664	1,762,406,349	2,773,150,013	15.36%	R&D/Office	Rincon North
Equity Office Properties	708,357,337	51,690	708,409,027	3.92%	R&D/Office	Rincon South
Hitachi	690,117,056	3,621,584	693,738,640	3.84%	R&D/Office	Edenvale
The Irvine Company	664,178,025	0	664,178,025	3.68%	Multi-Family	Rincon Expansion
Carramerica	398,854,000	0	398,854,000	2.21%	R&D/Office	Rincon Expansion
Ebay Inc	147,445,800	207,456,685	354,902,485	1.97%	R&D/Office	Rincon Original
Adobe Systems	214,221,290	62,114,869	276,336,159	1.53%	R&D/Office	Park Center Plaza
Novellus Systems Inc	243,328,645	248,793	243,577,438	1.35%	R&D/Office	Rincon North
Mission West Properties	228,366,800	0	228,366,800	1.26%	R&D/Office	Rincon Original
Sobrato Companies	215,578,520	0	215,578,520	1.19%	R&D/Office	Julian-Stockton
Cadence Design Systems	158,780,782	12,522,115	171,302,897	0.95%	R&D/Office	Rincon Expansion
Silicon Valley Ca I LLC	134,697,495	0	134,697,495	0.75%	R&D/Office	Rincon Original
Altera Corporation	134,357,084	0	134,357,084	0.74%	R&D/Office	Rincon Expansion
Maxim Integrated Products Inc	130,833,093	0	130,833,093	0.72%	R&D/Office	Rincon North
Essex Enclave Apartments L.P.	129,321,388	0	129,321,388	0.72%	Multi-Family	Rincon North
Shea River Oaks Asscs LP	127,243,573	0	127,243,573	0.70%	Multi-Family	Rincon Expansion
BP Zanker Rd LLC	126,000,000	0	126,000,000	0.70%	R&D/Office	Rincon Expansion
AMB Property Corporation	113,355,223	0	113,355,223	0.63%	R&D/Office	Rincon Original
Berg & Berg Developers, L.P.	94,777,955	0	94,777,955	0.52%	R&D/Office	Edenvale
Lumileds Lighting US LLC	0	91,786,884	91,786,884	0.51%	R&D/Office	Rincon Original
Total, Top Twenty:	5,670,557,730	2,140,208,969	7,810,766,699	43.26%		
Totals for the Area:	13,948,249,134	4,105,404,618	18,053,653,752	100.00%		

Source: County of Santa Clara; Urban Analytics

Table 11
Assessment Appeal Results in the Merged Project Area, 1999-00 through 2006-07

Fiscal Year	Resolved Appeals	County Roll Value	Applicant Opinion of Value	Final Roll Value	Pct of Roll Value Retained (1)
1999-00	310	5,084,092,811	3,004,341,600	5,070,843,006	99.74%
2000-01	322	4,676,474,342	2,532,348,202	4,640,409,987	99.23%
2001-02	429	4,831,391,494	2,355,806,917	4,722,634,651	97.75%
2002-03	586	6,851,065,064	3,685,653,580	6,477,453,000	94.55%
2003-04	513	6,650,344,100	3,466,866,557	6,262,596,815	94.17%
2004-05	535	6,431,378,058	4,206,019,835	6,117,452,750	95.12%
2005-06	432	5,679,509,036	4,083,837,150	5,436,976,227	95.73%
2006-07	139	1,761,592,727	1,091,571,698	1,750,505,366	99.37%
All Years	3,266	41,965,847,632	24,426,445,539	40,478,871,802	96.46%

Data provided by the County Assessor's office on October 5, 2007.

(1) Percent of Roll Value Retained is the proportion of value retained after resolution of an appeal. The rate is calculated by dividing the Final Roll Value into the 'County Roll Value'. For withdrawn and denied appeals, the 'Final Roll Value' is the original County valuation.

Source: County of Santa Clara, Urban Analytics

Table 12
Pending Assessment Appeals in the Merged Project Area

Appellant	Number of Properties On Appeal	Applicant Opinion of Value	County Roll Value	Difference
<i>Roll Year 2006-07</i>				
Equity Office Properties	3	128,700,000	152,661,568	-23,961,568
Hitachi, LTD	13	51,957,000	105,640,136	-53,683,136
Irvine Community Development	8	366,500,000	430,964,272	-64,464,272
Pending Appeals for the Top Twenty Property Owners	24	547,157,000	689,265,976	-142,108,976
Other Pending Appeals	238	1,644,178,891	2,369,241,809	-725,062,918
Total Pending Appeals, 2006-07	262	2,191,335,891	3,058,507,785	-867,171,894
Total Pending Appeals, 2005-06	118	96,105,471	391,967,709	-295,862,238
Total Pending Appeals, 2004-05	38	34,504,476	83,612,236	-49,107,760
Total Pending Appeals, 2003-04	30	16,209,280	57,457,099	-41,247,819
Total Pending Appeals, 2002-03	15	53,172,684	72,563,379	-19,390,695

Source: County of Santa Clara, Urban Analytics

TAX INCREMENT REVENUE ESTIMATE

The tax increment revenue estimate for 2007-08 is presented in Table 13. The Gross Tax Increment from the Project Area, shown below and including secured, unsecured and utility valuations, is \$177,820,762. To this total is added unitary revenue estimated to be \$1,944,878.

Net tax increment for 2007-08 is estimated to be \$142,732,470 after payment of the housing set-aside and senior passthrough obligations. The senior passthrough obligations are the statutory passthrough payments other than the subordinate payment to the city; the offsetting reimbursement of prior-year facility payments to the San Jose Unified School District and to the Santa Clara Valley Water District is also shown. The County passthrough payment and the statutory passthrough to the City are the subordinate passthrough obligations. Under the terms of the Settlement Agreement with the County the property tax administration fee is also a subordinate payment.

Table 13
Merged Area Redevelopment Project
Tax Increment Calculation, 2007-08

Secured AV	13,852,953,917
Unsecured AV	4,105,404,618
SBE-Assessed Utilities	95,295,217
Total AV	18,053,653,752
Less: Base Year AV	-1,097,107,127
Incremental AV	16,956,546,625
Tax Increment	177,820,762
Plus: Unitary Roll Revenue (est.)	1,944,878
Gross Tax Increment	179,765,641
Less: 20% Housing Fund	-35,953,128
Less: Senior Passthroughs	-1,571,273
Plus: Passthrough Offsets	491,230
Net Tax Increment	142,732,470
<i>Subordinate Obligations:</i>	
City Passthrough (before offsets):	-479,214
County Passthrough	-17,506,182
County Administration Fee	-1,920,106

TAX INCREMENT PROJECTION AND SENSITIVITY ANALYSIS

Net tax increment revenue – after payment of the housing set-aside, senior passthrough obligations and the County property tax administration fee – is projected over the duration of the Project Area, as shown in Table 14 using no growth, two percent, five percent and seven percent growth rates. In each growth scenario, annual tax increment is added to the \$2.3 billion in tax increment received to date. The projections illustrate the interactions of the tax increment cap and plan limits at various levels of growth.

With no further growth in assessed valuation, the Agency would reach the final plan limits in 2040-41, prior to reaching the tax increment cap. Under this no-growth scenario, the Agency would have accumulated \$6.7 billion of its \$7.6 billion tax increment cap.

Under two percent growth, the Agency is projected to collect tax increment in the Project Area until 2031-32, when it is projected to reach the tax increment cap prior to reaching the time limits on tax increment collection in many of the redevelopment plans.

With a five percent rate of growth, the Agency is projected to reach the tax increment cap in the Project Area by 2025-26. At a seven percent growth rate the tax increment cap is reached in 2023-24.

LIMITATIONS OF REPORT

The calculation of assessed valuations and tax increment shown in this Report are based on information believed to be complete, current and reliable at the time of this Report. Projections of tax increment are based on reasonable assumptions and may not reflect actual future revenue received by the Agency. Information regarding the practices and methods used by the County in assessing and allocating property tax revenue has been obtained from County staff and analysis of County records, while information concerning the Project Area, redevelopment plans, amendments and passthrough agreements has been obtained through discussions with Agency staff and through review of the plan documents made available to the Consultant.

While the Consultant has made a reasonable effort to verify the accuracy of the figures and information presented in this Report and presumes that the information relied upon is correct, the Consultant makes no warranty as to its accuracy.

Table 14
Projections of Net Tax Increment at Varying Growth Rates
Merged Area Redevelopment Project

Fiscal Year	Zero Percent Growth	Two Percent Growth	Five Percent Growth	Seven Percent Growth
2007/08	142,732,470	142,732,470	142,732,470	142,732,470
2008/09	142,732,470	145,672,088	149,837,079	152,475,807
2009/10	142,732,470	148,578,486	156,986,758	162,665,357
2010/11	142,732,470	151,455,966	164,485,598	173,557,477
2011/12	142,732,470	154,350,332	172,356,695	185,155,625
2012/13	142,732,470	157,007,372	179,792,585	196,205,950
2013/14	142,732,470	159,715,784	187,502,782	208,029,797
2014/15	142,732,470	162,473,615	195,578,200	220,681,314
2015/16	142,732,470	165,286,602	204,057,389	234,218,437
2016/17	142,732,470	168,155,849	212,960,538	247,075,854
2017/18	142,732,470	171,082,481	221,691,944	261,216,448
2018/19	142,732,470	174,067,646	229,833,289	277,373,968
2019/20	142,732,470	177,112,514	239,876,125	294,010,902
2020/21	142,732,470	180,217,394	250,421,104	310,682,457
2021/22	142,732,470	183,341,451	261,485,725	330,151,479
2022/23	134,607,372	174,966,081	256,415,120	332,045,056
2023/24	134,607,372	177,898,050	267,800,556	52,388,777
2024/25	134,607,372	180,958,795	279,755,264	-
2025/26	134,607,372	184,073,247	100,555,802	-
2026/27	134,607,372	187,249,988	-	-
2027/28	109,314,256	154,848,280	-	-
2028/29	107,822,913	155,361,672	-	-
2029/30	89,620,319	130,436,629	-	-
2030/31	89,620,319	132,698,359	-	-
2031/32	89,620,319	133,922,819	-	-
2032/33	59,024,998	-	-	-
2033/34	59,024,998	-	-	-
2034/35	52,118,570	-	-	-
2035/36	6,666,467	-	-	-
2036/37	2,265,396	-	-	-
2037/38	2,265,396	-	-	-
2038/39	2,265,396	-	-	-
2039/40	1,369,224	-	-	-
2040/41	1,369,224	-	-	-
2041/42	-	-	-	-

Tax increment collection is assumed to cease in the prior fiscal year in sub-areas with last dates to repay indebtedness from July through December, while sub-areas with last dates to repay indebtedness from January through June are assumed to collect tax increment during their last fiscal year. Areas with final dates between January and April may receive partial payments in that year which are not reflected in this table.

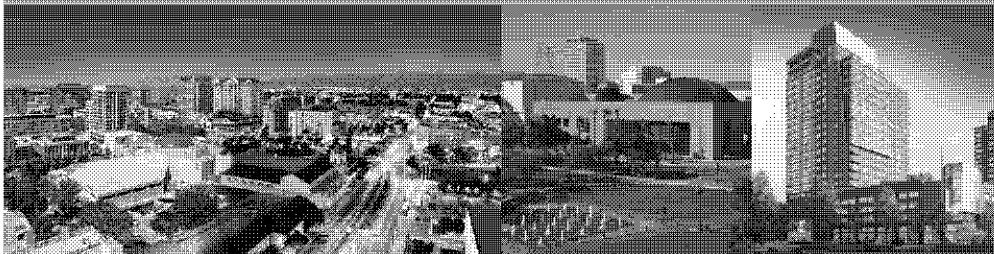
Source: Urban Analytics

APPENDIX B
COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE AGENCY
FOR FISCAL YEAR ENDED JUNE 30, 2006

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THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

A Department of the City of San Jose, California

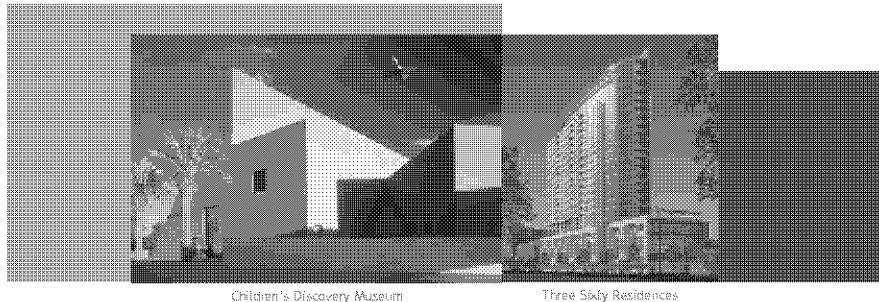


COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2006



www.sjredevelopment.org

Photos: Included in this CAFR are photos of some notable redevelopment projects of the Agency. The cover photos from left to right are San Jose Downtown at Night, Tech Museum of Innovation, and Central Place in Downtown.



Children's Discovery Museum

Three Sixty Residences

THE REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

A Component Unit of the City of San José, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2006

PREPARED BY:
Harry S. Mavrogenes
Executive Director/Chief Administrative Officer

David C. Baum
Director of Finance/Chief Financial Officer
FINANCE DIVISION



Redevelopment Agency of the City of San Jose

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

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2006

Prepared by:

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Executive Director/
Chief Administrative Officer

Norberto Dueñas
Deputy Executive Director

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Holly H. Le
Payroll Specialist

Margarita Z. Soria
Fiscal Support Technician

Graphic Design: Paul Asper

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2006

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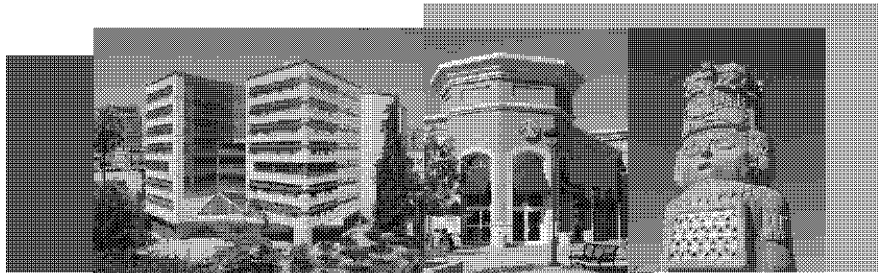
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2006

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Dr. Martin Luther King Jr. Library

Plaza de San Jose

Introductory Section

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The Redevelopment Agency of the City of San José

October 2, 2006

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

State law requires that the Redevelopment Agency of the City of San José (the Agency) publish a complete set of financial statements presented in conformity with the accounting principles generally accepted in the United States of America (GAAP) applied to governmental entities. The financial statements are to be audited by a certified public accountant in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Pursuant to that requirement, we hereby issue this Comprehensive Annual Financial Report (CAFR) of the Agency for the fiscal year ending June 30, 2006.

This is the 6th consecutive year that the Agency has produced a CAFR, which is prepared in conformance with the Governmental Accounting Standards Board (GASB) Statement 34 reporting model. This report consists of management's representations concerning the finances of the Agency. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, the management of the Agency has established a comprehensive internal control framework that is designed both to protect the Agency's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Agency's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Agency's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Agency's financial statements have been audited by Macias Gini & O'Connell LLP, CPAs, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and

disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Agency's financial statements for its governmental activities and each major fund for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report, which can be found on pages 12 and 13.

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

The Agency implemented in this year the new GASB Standard No. 44, which requires additional schedules to be reported in the Statistical Section. GASB 44 improves the understandability and usefulness of the Statistical Section of the CAFR by requiring to present financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. You can find these new schedules beginning on page 71.

PROFILE OF THE AGENCY

The Agency was established in 1956 under California State Law by the San José City Council and is a separate legal entity from the City of San José (the City). This year is the 50th Anniversary of the Agency and for 50 years it has been continuously dedicated to improving, creating, and building the quality of life in the City of San José. The City of San José is the 10th largest city in the United States, has the nation's best public safety record of any metropolitan area, is America's Most Livable Big City, and is California's third largest city. In 1975, the San José City Council declared itself the Agency Board of Directors (Board), replacing a separate board. The City Council consists of a Mayor and ten Council members. The Mayor is elected at-large for a four-year term. Council Members are elected by district, also for four years. Effective January 1, 1991, the Council members were limited to two consecutive terms, consistent with the term limit for the Mayor. The Agency's Executive Director/Chief Administrative Officer is responsible for the operations of the Agency and reports directly to the Agency Board (City Council).

As an agency of the State of California, it performs all activities authorized under the California Redevelopment Law. That law clarifies an important difference between the Agency and the City in the use of the Agency's funds. While City revenues may be used for the full range of city services, redevelopment agency funds generally must be spent only on programs and projects that benefit the redevelopment areas - primarily for

physical improvements to correct blighted conditions - not for operating costs such as police or fire protection. For more than two decades, the Agency has been revitalizing and enlivening the City's downtown, neighborhoods, and industrial areas to meet the needs of a dynamic and diverse community. As of June 30, 2006, the Agency has twenty-one (21) ongoing redevelopment project areas (see geographic locator map on page 11), which are grouped into 4 area categories: Downtown, Neighborhood Business Districts/Clusters, Industrial, and Strong Neighborhoods Initiative. The Agency is one of the largest redevelopment agencies in the State of California in terms of both capital budget and tax increment revenue generation.

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

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

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

The Agency also maintains an encumbrance accounting system as one method of maintaining budgetary control. Year-end encumbrances are carried forward and become part of the following year's budget. Appropriations that are not encumbered lapse at the end of the fiscal year. Budget-to-actual comparisons (using the budgetary basis of accounting) are provided in this report for all governmental funds for which the appropriated annual budget has been adopted. For the general fund and special revenue fund, the comparisons are presented under Other Required Supplementary Information on pages 62 to 65. For the debt service funds and capital projects fund, the comparisons are presented under Other Supplementary Information subsection of this report on pages 66 to 70.

FACTORS AFFECTING FINANCIAL CONDITION

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

Local economy. The Agency's Industrial and Downtown Redevelopment Project areas generate the highest tax increment revenue.

For the past ten years, the Agency's tax increment revenues have increased by 96%, while total expenditures increased by 90%. These increases are the result of revitalization efforts implemented by the Agency in the project areas over the past decade. The bonds issued in the last ten years totaled \$2.2 billion, the proceeds of which were used to finance the Agency's revitalization efforts.

During the past ten years, the unemployment rate in the area rose from a low of 3.8% (June 1996) to a high of 5.0% (June 2006) according to statistics from the California Employment Development Department. The fluctuations are attributed to economic factors affecting the national and local economy in the past decade. However, the unemployment rate in the same area declined from last year, as a result of improving local economy.

The City of San José experienced modest economic recovery during the Fiscal Year 2005-06. In July 2006, the County Assessor published the annual tax roll, which resulted in a 7% growth in tax increment revenue for the Agency for Fiscal Year 2006-2007. The growth is due to increase in corporate investments in equipment and other taxable personal property, an indication of an improving local economy.

Long-term financial planning. The growth in tax increment revenues for Fiscal Year 2006-2007 places the Agency on a more solid ground to finance its redevelopment projects and to issue new bonds estimated to generate approximately \$75 million for Fiscal Year 2006-2007 and \$87 million for Fiscal Year 2007-2008. With the issuances of new bonds and the modest sign of economic recovery, the Agency increases its ability to continue to focus on its Investing in Results Initiative Program. The Agency's Core Services continue to be the following:

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

These Core Services constitute the strategic goals that guide the Agency's budget priorities. Funds for each core service are incorporated in the Fiscal Year 2006-2007 Capital/Program Budgets, including the Fiscal Year 2006-2008 Capital Improvement Program adopted by the Board (City Council) on September 19, 2006. The Agency's

Operating Budget was adopted on June 30, 2006. The total budget for the Fiscal Year 2006-2007 aggregated to \$335.0 million and is allocated as follows: \$123.9 million for capital projects/programs, \$32.4 million for the State mandated set-aside housing funds, \$134.7 million for debt service on outstanding debt, \$0.9 million for AB1290 pass-through revenue sharing, \$7.3 million for operating expenditures, \$31.2 million for County pass-through payment, delegated funds payment and administrative fee, and \$4.6 million for other obligated payments.

The budget for the four core service areas, which is included in the capital projects/programs for \$123.9 million as noted above, is comprised of neighborhood improvement strategies of \$41.5 million, \$3.2 million for housing stock, \$5.9 million for land acquisition for future development, \$29.9 million for private development, \$30.0 million for public facilities, and \$13.4 million for capital operating costs.

The Agency's Five-Year Projection (Fiscal Year 2007–2011), which was included in the Fiscal Year 2006-2007 Capital/Program Budgets that was approved on September 19, 2006 shows a total spending of \$1.471 billion. Of this amount, \$375.0 million will be spent on capital expenditures, \$947.0 million for financing/non-project costs, \$23.0 million for operating expenditures, and \$126.0 million for obligated payments. Tax increment revenues will provide \$939.0 million or 64% of the overall funding source of the Five-year Spending Plan while proceeds of bond issues of \$363.0 million will provide 25% of overall funding source. Other revenues of \$173.0 million from unreserved funds, interest earnings, developer contributions and rental income will provide the remaining 11% funding requirements.

Major current and future initiatives. The Agency's major redevelopment projects during Fiscal Year 2005-2006 includes funding of the Strong Neighborhoods Initiative (SNI) for \$43.0 million, Neighborhood Business Districts (NBD) for \$20.0 million, and existing contractual commitments of approximately \$28.0 million.

SNI has around 90 projects such as 13th Street Streetscape Improvements, Coyote Creek Trail, Starbird Teen Center, Scott-Clifton Neighborhood Park, Gifford Streetscape Improvements, Capitol Park Neighborhood Center, Edenvale Community Center, Roosevelt Park Skatepark, Zolezzi Park, etc.

NBD has around six major projects that include façade improvement program, shopping center improvement program, streetscape and park construction program, Neighborhood Business Association activities and Neighborhood Business District Development program, neighborhood retail development program, and childcare program.

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

The Agency will continue and complete these projects in the next fiscal years and has added the North San José Intensification Project with estimated costs of around \$30.0 million allocated throughout the life of the project.

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

Debt and net assets (deficit) management. At year-end, the Agency had a number of debt issues outstanding. Of the total outstanding debt of \$2.1 billion, \$1.5 billion represents various issues of Tax Allocation Bonds (TABs) that are senior/parity debt. Bonds that are categorized as senior/parity debt have senior payment priority over other Agency obligations.

The debt issues will be repaid from future collections of tax increment revenues. Tax increment revenues expected by the Agency through year 2040 (last day to pay current debt) total \$3.6 billion with zero percent growth and \$4.8 billion with seven percent growth. These amounts are also more than enough to cover the Agency's net deficit of \$1.6 billion (see Statement of Net Assets on page 27).

In accordance with the California Community Redevelopment Law, the Agency established in 1986 the maximum amount of revenue it may receive from the redevelopment areas in the amount of \$7.6 billion. Accordingly, the Agency is limited in the issuance of debt by the aggregate amount of debt service required to pay off outstanding bonds. As of June 30, 2006, the Agency cumulatively received approximately \$2.2 billion of tax increment revenues.

Pursuant to outstanding bond covenants, the Agency must make an annual calculation, no later than December 1 of each year (commencing with December 1, 2004), of the future cumulative debt service on all outstanding debt secured by tax increment (excluding 20% Housing Set-Aside Amount).

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

Risk management. The Agency carries commercial and general liability property insurance policies. In addition, third-party coverage is maintained for workers'

compensation claims. The insurance premiums are funded as part of the operating costs in the general fund, and insurance claims are recognized in the capital projects fund. In addition, the Agency has instituted a safety program that minimizes losses and the carrying cost of workers' compensation coverage.

AWARDS AND ACKNOWLEDGEMENTS

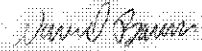
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (page 8) to the Agency for its CAFR for the fiscal year ended June 30, 2005. The Certificate of Achievement for Excellence in Financial Reporting Award is the highest form of recognition in financial reporting for state and local governments, including local government agencies. Last year's report was the fifth CAFR produced by the Agency, which has continuously received this prestigious award. In order to be awarded a Certificate of Achievement, a CAFR should give a clear and thorough view of the government's finances. It should enhance the reader's understanding of the information required by GAAP for fair presentation of the financial statements, be efficiently organized, and adhere to certain accounting terminology and GFOA formatting conventions. The report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our CAFR for this fiscal year ended June 30, 2006 continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report reflects the responsibility of the Agency's management to maintain the highest standards of financial reporting. This project could not have been possible without the efforts and dedicated services of the staff of the Agency's Finance Division, in particular recognition to Shalah Hade, Accountant, who retires this year after forty-four years working with the Agency/City. We would like to express our appreciation to the staff of the Agency who assisted and contributed to the preparation of this report (*back of title page*). We particularly express our appreciation to the staff of Macias Gini & O'Connell LLP, CPAs for their significant support and guidance. Due credit should also be given to the Mayor and the Agency Board for their progressive and responsible leadership in the fiscal affairs of the Agency.

Respectfully submitted,


Harry S. Mayrogenes
Executive Director/
Chief Administrative Officer

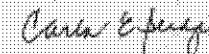

David C. Baum
Director of Finance/
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to
**The Redevelopment Agency
of the City of San Jose,
California**
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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



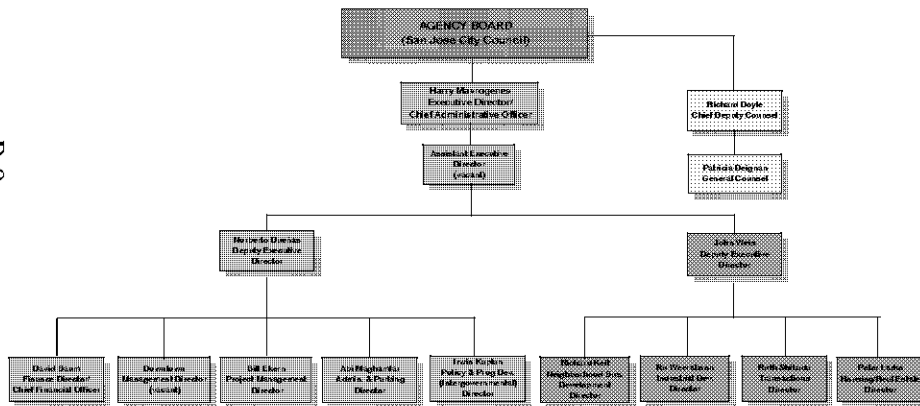


President

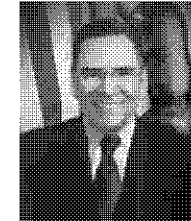


Executive Director

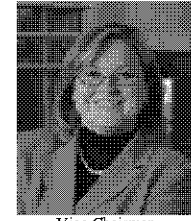
REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Organizational Chart



The
Redevelopment
Agency of the
City of San Jose
Board of
Directors
(San Jose City
Council)



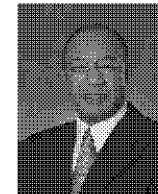
Chairman
Mayor Ron Gonzales
Term Expires 12/31/06



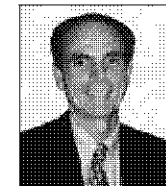
Vice Chairman
Vice Mayor Cindy Chavez
District 3
Term Expires 12/31/06



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



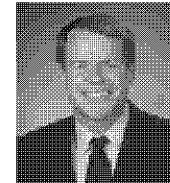
Forrest Williams
District 2
Term Expires 12/31/08



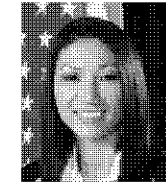
Chuck Reed
District 4
Term Expires 12/31/08



Nora Campos
District 5
Term Expires 12/31/06



Ken Yeager
District 6
Term Expires 12/31/08



Madison Nguyen
District 7
Term Expires 12/31/06



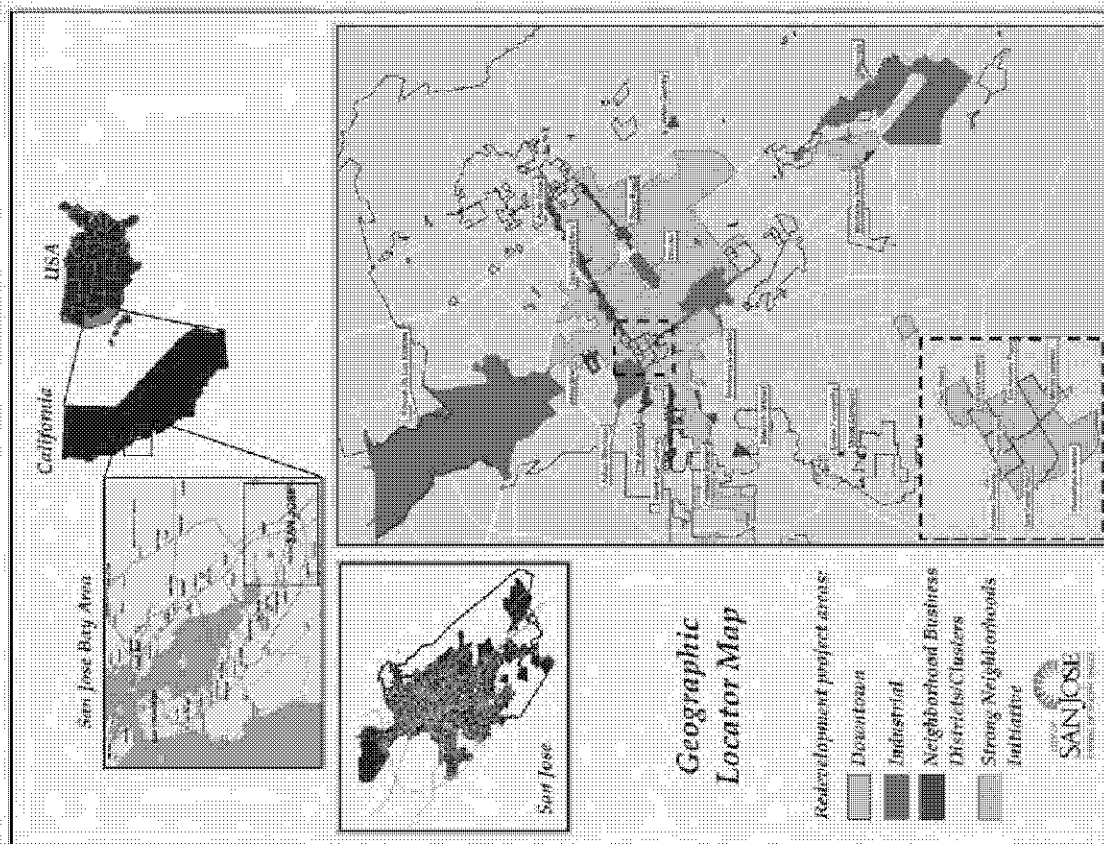
David D. Cortese
District 8
Term Expires 12/31/08

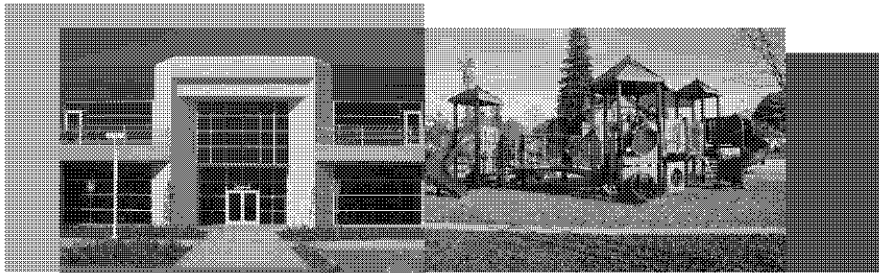


Judy Chirco
District 9
Term Expires 12/31/06



Nancy Pyle
District 10
Term Expires 12/31/08



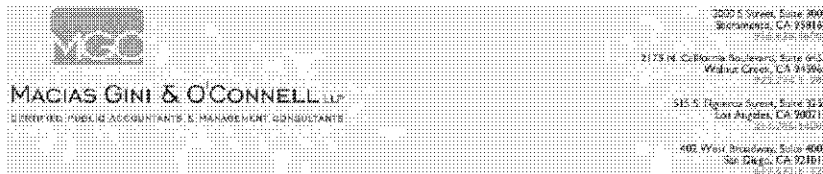


San Jose BioCenter

O'Donnell's Garden Park

Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of San José (Agency), a component unit of the City of San José, California, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2006, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2006, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

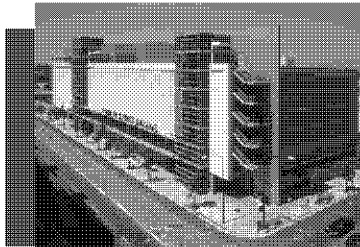
The management's discussion and analysis and budgetary comparison information for the general fund and special revenue fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted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

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

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
September 20, 2006

B-12



Fourth Street Garage



Mexican Heritage Plaza

Management's Discussion and Analysis

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REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE

Management's Discussion and Analysis
June 30, 2006

As management of the Redevelopment Agency of the City of San José (the Agency), we offer readers of the Agency's basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found beginning on page 1 of this CAFR report.

FINANCIAL HIGHLIGHTS

Liabilities of the Agency exceeded its assets in governmental activities at the close of fiscal year 2006 by \$1,649,310,000 (net assets deficit). Of this amount, \$40,455,000 represents investment in capital assets, and \$57,280,000 represents resources restricted for debt service payment and low/moderate income housing activities. The remaining negative amount of \$1,747,045,000 represents the accumulated unrestricted deficit at the close of fiscal year 2006.

Total revenues in the governmental activities decreased by a net amount of \$4,361,000 or approximately 2% from last year. The net decrease is mainly attributable to the collection of loans that happened in fiscal year 2004-2005 in the amount \$4,435,000.

Total expenses in governmental activities were \$108,951,000 (change in net assets) more than the \$192,881,000 total revenues generated during the current year. Compared to last year, total expenses in governmental activities increased by \$7,276,000 or by 2%. The increase in expenses was due to the resumption of some important redevelopment projects that were deferred as a result of economic downturn, including new redevelopment projects.

At the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$134,478,000, a decrease of \$98,191,000 in comparison to the prior year. Of the combined fund balance, \$7,446,000 or 6% is available for redevelopment projects at the discretion of the Agency Board (City Council).

REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE

Management's Discussion and Analysis (Continued)
June 30, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

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

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

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

Notes to the Basic Financial Statements

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 to 61 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Agency's budgetary comparison for certain governmental funds – general fund and special revenue fund (pages 62 to 65).

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

At the close of fiscal year 2006, the Agency has a net deficit of \$1,649,310,000. Of this amount, \$40,455,000 is invested in capital assets, \$41,947,000 is restricted for debt service, and \$15,333,000 is restricted for low and moderate-income housing. The remaining negative balance of \$1,747,045,000 represents a deficit, which will be covered from collection of future tax increment and other revenues. The largest portion of the Agency's deficit is caused by the outstanding long-term obligations of \$2,172,550,000. Traditionally, the Agency carries a deficit to collect tax increment as mentioned earlier in the letter of transmittal. This is primarily due to the nature of tax increment financing method allowed under California law whereby a redevelopment agency issues bonds or incurs long-term debt to finance its redevelopment projects by pledging future tax increment revenues.

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

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

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

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

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

Agency's Net Assets (Deficit)
Governmental Activities
As of June 30, 2006 and 2005
(In thousands)

	2006	2005
Current and other assets	\$ 235,079	\$ 316,473
Accumulated redevelopment project costs	327,225	355,040
Capital assets, net	40,455	6,831
Total assets	<u>602,759</u>	<u>678,344</u>
Long-term liabilities	2,172,550	2,150,806
Other liabilities	79,519	67,897
Total liabilities	<u>2,252,069</u>	<u>2,218,703</u>
Net assets:		
Invested in capital assets	40,455	6,831
Restricted net assets	57,280	79,032
Unrestricted net assets (deficit)	(1,747,045)	(1,626,222)
Total net assets	<u>\$ (1,649,310)</u>	<u>\$ (1,540,359)</u>

The Agency uses its accumulated redevelopment project costs and capital assets of \$327,225,000 and \$40,455,000, respectively, to provide community development services to the citizens of the City of San José (see pages 47 to 49 for additional information). These assets are not available for future spending and cannot be used to liquidate the Agency's debt since the resources needed to repay the debt will be provided primarily from collections of future tax increments and other revenues.

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

Long-term bonds and notes are mainly represented by tax allocation bonds, revenue bonds, and housing set-aside bonds issued to finance redevelopment projects. The change from last year represents a net increase of \$2,470,000 due to the issuance of 2005 Merged Area Tax Allocation Refunding Bonds for \$220,080,000, loans obtained from City's Parking Fund for \$3,400,000, HUD 108 loan program for \$31,000,000 and ERAF loan program of \$14,920,000 partially offset by retirement of \$254,280,000 of Merged Area Tax Allocation Bonds, \$3,300,000 of Merged Area Housing Set-aside Bonds, \$1,400,000 of Merged Area Revenue Bonds and \$7,950,000 of other debt obligations.

Governmental activities. Overall the Agency's financial position decreased from the prior year. Under the governmental activities, the Agency's net deficit increased by \$108,951,000 from the previous fiscal year. The increase accounts for 7 percent of the accumulated deficit at June 30, 2006.

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

Agency's Changes in Net Assets (Deficit)
For the Fiscal Years Ended June 30, 2006 and 2005
(In Thousands)

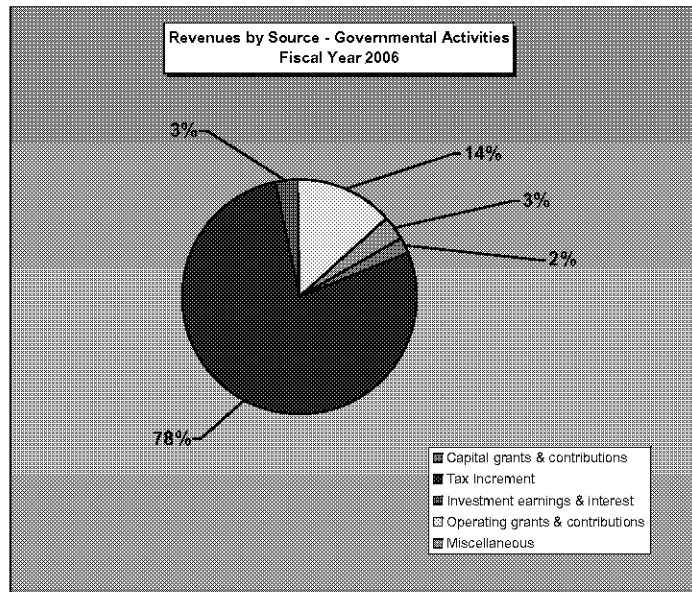
	2006	2005
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 26,193	\$ 27,547
Capital grants and contributions	4,457	5,749
General revenues:		
Tax increment	149,819	149,977
Unrestricted investment earnings	6,043	6,029
Miscellaneous	6,369	7,940
Total revenues	<u>192,881</u>	<u>197,242</u>
Expenses:		
General government	6,910	8,497
Community development	147,052	134,001
Housing	50,881	60,545
Debt service	96,989	91,512
Total expenses	<u>301,832</u>	<u>294,555</u>
Change in net assets	(108,951)	(97,313)
Net assets deficit - beginning of year	(1,540,359)	(1,443,046)
Net assets deficit - end of year	<u>\$(1,649,310)</u>	<u>\$(1,540,359)</u>

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

Tax increment, which represents approximately 78% of total revenues, decreased from last year by a minimal \$158,000 or around 0.1% due to the effects of past years' sluggish economy.

Operating grants and contributions under program revenues decreased by \$1,354,000 or 5% from last year due to a lower debt service contribution from the City's Housing Department as a result of refunding housing bonds issued in fiscal year 2004-2005.



Community development expenses of \$147,052,000, which represent approximately 49% of Agency's total governmental expenses, increased by \$13,051,000 or 10% from last year. The increased was due to resumption of completing redevelopment projects from last year

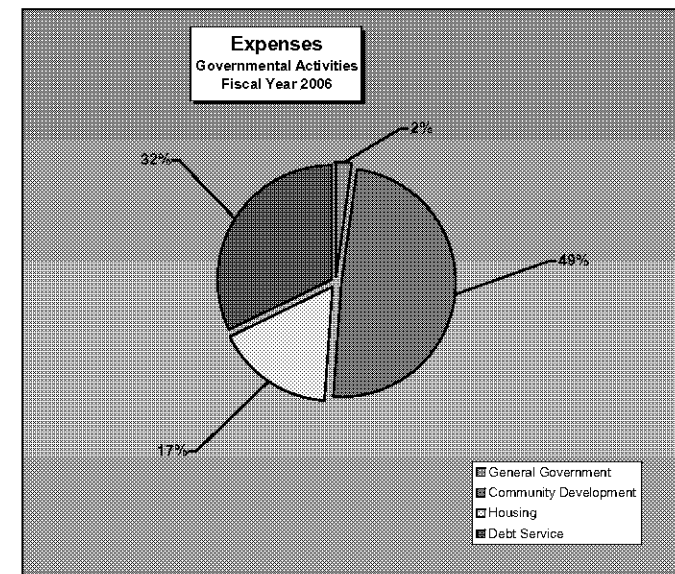
**REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE**

**Management's Discussion and Analysis (continued)
June 30, 2006**

and continuing services in the San Jose's neighborhoods through the Strong Neighborhoods Initiative program.

Housing expenses of \$50,881,000 which represent approximately 17% of Agency's total governmental expenses, decreased by \$9,664,000 or 16% from last year. The decrease is the net effect of partial drawdown of the remaining proceeds of the 2005 Housing Bonds.

Total general government expenses of \$6,910,000 decreased by \$1,588,000 or 19% from last year. The change was mainly due to the \$1,657,000 decrease in the City support services, which was reallocated to Community Development Expenses to better align the Agency's operating costs.



REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued)
June 30, 2006

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

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

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

At the end of the current fiscal year, the Agency's governmental funds reported *combined fund balances* of \$134,478,000, a decrease of \$98,191,000 in comparison with the prior year. Of this total amount, \$7,446,000 constitutes *unreserved fund balance*, which is available for redevelopment spending at the discretion of the Agency Board. The remainder of the fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$79,668,000), 2) to reflect the amount of assets that are long-term in nature and thus, do not represent available spendable resources (\$4,102,000), 3) to pay for low and moderate-income housing projects (\$15,333,000), and 4) to liquidate contractual commitments of the period (\$27,929,000).

General fund. The Agency's general fund is used to account for the general and administrative expenditures. Fund transfers from the capital projects fund are made to the general fund as general and administrative expenditures are incurred and deemed necessary. Fund balance of the general fund aggregated to \$1,130,000, an increase of \$897,000 from previous year. The increase was due to the net effects of additional funds transferred from capital projects fund aggregating to \$6,976,000.

Special revenue fund. The special revenue fund is used to account for the portion of tax increment revenue designated for low and moderate-income housing. As required by the California Community Redevelopment Law, the Agency allocated 20 percent (\$29,964,000) of the tax increment received during the year for low and moderate-income housing projects. As of June 30, 2006, the entire 20% housing monies were transferred to the City for housing projects.

REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE

Management's Discussion and Analysis (continued)
June 30, 2006

Debt service funds. The debt service funds have a total fund balance of \$95,001,000, representing Housing Debt (\$15,333,000) and Merged Debt (\$79,668,000). The total fund balance in the Agency's debt service funds decreased by \$19,116,000 in the current year mainly due to the City's drawdown of the remaining proceeds of the 2005 Merged Area Housing Set-Aside Tax Allocation Bonds issued during fiscal year 2004-2005.

Capital projects fund. The fund balance in the Agency's capital projects fund had a net decrease of \$79,921,000 from last fiscal year as the result of total revenues and other fund financing sources of \$108,718,000 being lesser than the aggregate expenditures and other fund financing uses \$188,639,000.

Total capital outlay expenditures of \$96,777,000, which represents around 65% of the overall expenditures of the Agency's capital projects fund, increased by \$25,861,000 or around 36% when compared to last year's activity. This year's increase was due to the resumption of several capital project activities which were deferred previously.

General Fund Budgetary Highlights

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

- Decrease in non-personnel services by \$793,000.
- Decrease in payment to the City of San Jose by \$152,000.

The decrease in the original budget non-personnel services was due to reduction of non-personal/equipment and leasehold improvement. The payment to the City representing budgeted expenditures for the Mayor/Board was reduced as a result of budget shift to capital projects fund's budget.

Total actual expenditures on budgetary basis of \$7,098,000 were lower by \$787,000 from the amended budget amount of \$7,885,000 as a result of limiting acquisition of new equipment and leasehold improvement, and salary and benefit costs of civil service positions at the Agency decreased due to employee turnover. During the year, budgetary basis for actual revenues and other financing sources (fund transfers in from Capital Projects Fund) exceeded the budgetary basis for actual expenditures by \$708,000, resulting to a fund balance of \$942,000.

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

Accumulated Redevelopment Project Costs and Capital Assets

Accumulated Redevelopment Project Costs

The Agency's investment in properties for redevelopment projects for its governmental activities as of June 30, 2006 amounted to \$327,224,000. This is comprised of 54% of land (\$176,978,000), 5% of construction in progress (\$16,210,000) and 41% of buildings (\$134,036,000).

Major events during the current fiscal year included the following:

- Current year addition of \$3,817,000 of construction costs incurred on the following projects: \$2,458,000 for Civic Plaza Streetscape, \$738,000 for Guadalupe River Park and Gardens, \$465,000 for Convention Center Annex/Expansion, and \$156,000 for other public projects.
- Transfer of \$134,036,000 from construction in progress to buildings for two projects (the Dr. Martin Luther King, Jr. Library and the California Theatre) as they are considered substantially completed
- Transfer of two other projects (the José Theater and the Convention Center Annex/Expansion) with building costs totaling \$13,811,000 and site acquisition costs totaling \$20,115,000, to capital assets. The change in categorization of these assets was the result of management's change in use of these assets.
- Parcels of land were acquired during the year for eventual use for redevelopment projects at a cost of \$13,679,000. Costs of land aggregating to \$340,000 were transferred to private developers and the City in accordance with Disposition and Development Agreements while costs of land aggregating to \$11,046,000 were sold to the private developers for future development projects.

The overall impact of the above activities were a decrease of land of \$17,822,000, a decrease of construction in progress of \$144,029,000 and an increase of buildings of \$134,036,000 during current year.

At June 30, 2006, the Agency had contractual commitments of \$5,173,000 for its accumulated redevelopment project costs.

Additional information about the Agency's accumulated redevelopment project costs can be found on page 47 and 48 of notes to the financial statements.

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

Capital Assets

For the government-wide financial statement presentation, depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year using the straight-line method. The Agency's capital assets consist of 1) the parking garage located beneath the Fairmont Plaza Hotel in downtown San José with net book value of \$5,375,000 at June 30, 2006, 2) leasehold improvements of the retail site at the Fairmont Plaza Hotel – Annex with a net book value of \$1,155,000 and 3) the transfer in of two completed projects (the José Theater and the Convention Center Annex/Expansion) and the associated site acquisition costs from construction in progress under the category of accumulated redevelopment project costs. Additional information about the Agency's capital assets can be found on pages 48 and 49 of notes to the financial statements.

Debt Administration

At June 30, 2006, the Agency had long-term bonds and notes outstanding aggregating to \$2,149,970,000. Of this amount, \$1,861,475,000 represents bonds backed by tax increment revenues. The remainder of the Agency's debt represents other bonds and notes secured by tax increment and other revenues such as developer payments, lease payment revenue, interest earnings and other sources. Breakdown is as follows (in thousands):

Merged Area Tax Allocation Bonds (TABs)	\$ 1,469,900
Housing Set-Aside bonds	275,375
Merged Area Revenue Bonds	116,200
Sub Total	1,861,475
Convention Center Refunding Bonds	171,800
4th/San Fernando Parking Revenue Bonds	
Pledge Obligation	42,545
CSCDA ERAF Loan	32,645
HUD Section 108 Loans	34,705
City of San José Parking Fund Loan	6,800
Total Debt	<u>\$ 2,149,970</u>

During the year, the Agency issued the following tax allocation bonds:

- Tax Allocation Tax Exempt Refunding Bonds Series 2005A for \$152,950,000 and Series B for \$67,130,000.

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

**Management's Discussion and Analysis (continued)
June 30, 2006**

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

Additional information about the Agency's long-term obligations can be found on pages 50 to 55 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency Board (City Council) considers many factors when setting redevelopment project priorities and the budget for the ensuing year. Below are significant factors in considering the Agency's budget for the fiscal year 2006-2007:

- 7% or \$11 million increase in tax increment for San José redevelopment areas, per County Assessor's published Annual Tax Roll in July 2006.
- New debt of approximately totaled to \$75 million is planned to be issued by the Agency in fiscal year 2006-2007.
- Vacancy rate for commercial property in Silicon Valley according to Collier International, a commercial/industrial real estate management firm, was approximately 12% as of the quarter ending June 30, 2006. In addition, R&D space vacancy rate for the same period was approximately 15%.
- Unemployment rate of 5.0% at July 2006 in San José, as reported by California Employment Development Department, a decrease from the 5.8% rate at July 2005. This is slight higher than the State's unemployment rate of 4.8% and national average rate of 4.8% for the same period.

REQUEST FOR INFORMATION

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

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Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Statement of Net Assets
Governmental Activities
June 30, 2006

ASSETS

Cash and investments (Note II.A)	\$ 39,647,841
Receivables (net):	
Accrued interest	110,027
Due from the City of San José (Note III.C)	1,698,608
Due from U.S Department of Housing and Urban Development	20,000,000
Other	828,426
Advances to the City of San José (Note III.C)	1,184,712
Loans receivable, net (Note II.B)	35,914,334
Deposits	59,516
Deferred charges, net	23,063,807
Restricted cash and investments (Note II.A)	112,572,993
Accumulated redevelopment project costs (Note II.E):	
Land held for redevelopment	176,978,449
Construction in progress	16,210,270
Buildings	134,035,738
Capital assets (Note II.F):	
Nondepreciable	20,114,747
Depreciable, net	20,340,179
Total assets	<u>602,759,647</u>

LIABILITIES

Accounts payable and accrued liabilities (Note II.G)	3,760,040
Due to the City of San José (Note III.C)	10,214,713
Due to the County of Santa Clara (Note III.D)	12,071,927
Unearned revenue (Note II.C)	13,583,517
Liabilities payable from restricted assets:	
Deposits, retentions, and other payables	2,168,013
Accrued interest payable	37,721,241
Noncurrent liabilities (Note II.H):	
Due within one year	43,654,119
Due in more than one year	<u>2,128,895,797</u>
Total liabilities	<u>2,252,069,367</u>

NET ASSETS

Invested in capital assets	40,454,926
Restricted for:	
Debt service	41,946,763
Low and moderate income housing activities	15,333,475
Unrestricted deficit	<u>(1,747,044,884)</u>
Total net assets (deficit)	<u>\$ (1,649,309,720)</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Statement of Activities
Governmental Activities
For the Year Ended June 30, 2006

	Total	General Government	Community Development	Housing	Debt Service
Expenses:					
Salaries, wages and benefits	\$ 11,428,881	\$ 3,044,879	\$ 8,384,002	\$ -	\$ -
Materials, supplies and other services	6,310,700	3,864,548	2,446,152	-	-
Project expenses	186,801,178	-	135,919,885	50,881,293	-
Depreciation	301,830	-	301,830	-	-
Interest on debt	<u>96,988,927</u>	-	-	-	<u>96,988,927</u>
Total expenses	301,831,516	6,909,427	147,051,869	50,881,293	96,988,927
Program revenues:					
Operating grants and contributions	26,193,506	-	13,326,443	12,867,063	-
Capital grants and contributions	<u>4,456,803</u>	-	<u>4,456,803</u>	-	-
Net program revenue (expense)	(271,181,207)	<u>\$ (6,909,427)</u>	<u>\$ (129,268,623)</u>	<u>\$ (38,014,230)</u>	<u>\$ (96,988,927)</u>
General revenues:					
Tax increment	149,818,668				
Unrestricted investment earnings	6,042,745				
Miscellaneous	<u>6,369,147</u>				
Total general revenues	<u>162,230,560</u>				
Change in net assets	(108,950,647)				
Net assets (deficit), beginning of year	<u>(1,540,359,073)</u>				
Net assets (deficit), end of year	<u>\$ (1,649,309,720)</u>				

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Balance Sheet
Governmental Funds
June 30, 2006

	General	Special Revenue	Debt Service		Capital Projects	Total
			Housing	Merged		
ASSETS						
Cash and investments (Note II A)	\$ 2,289,463	\$ -	\$ -	\$ -	\$ 37,358,378	\$ 39,647,841
Receivables:						
Accrued interest	-	-	-	-	110,027	110,027
Due from other funds (Note II D)	-	-	-	-	180,319	180,319
Due from the City of San José (Note III C)	-	-	-	-	1,698,608	1,698,608
Due from U.S. Department of Housing and Urban Development	-	-	-	-	20,000,000	20,000,000
Others	53,246	-	-	-	775,180	828,426
Advances to the City of San José (Note III C)	-	-	-	-	1,184,712	1,184,712
Loans receivable, net (Note II B)	-	-	-	-	35,914,334	35,914,334
Deposits	38,716	-	-	-	20,800	59,516
Restricted cash and investments (Note II A)	-	-	15,404,263	79,848,323	17,320,407	112,572,993
TOTAL ASSETS	\$ 2,381,425	\$ -	\$ 15,404,263	\$ 79,848,323	\$ 114,562,765	\$ 212,196,776
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities (Note II G)	\$ 705,710	\$ -	\$ 70,788	\$ -	\$ 2,983,542	\$ 3,760,040
Due to other funds (Note II D)	-	-	-	180,319	-	180,319
Due to the City of San José (Note III C)	521,841	-	-	-	9,692,872	10,214,713
Due to the County of Santa Clara (Note III D)	-	-	-	-	12,071,927	12,071,927
Deferred revenue (Note II C)	7,300	-	-	-	35,732,572	35,739,872
Unearned revenue (Note II C)	-	-	-	-	13,583,517	13,583,517
Deposits, retentions, and other payables	16,739	-	-	-	2,151,274	2,168,013
Total liabilities	1,251,590	-	70,788	180,319	76,215,704	77,718,401
Fund balances:						
Reserved for:						
Long-term receivables	-	-	-	-	2,858,005	2,858,005
Advances and deposits	38,716	-	-	-	1,205,512	1,244,228
Debt service	-	-	-	79,668,004	-	79,668,004
Low and moderate income housing activities	-	-	15,333,475	-	-	15,333,475
Encumbrances	188,273	-	-	-	27,740,521	27,928,794
Unreserved, designated for redevelopment activities	902,846	-	-	-	6,543,023	7,445,869
Total fund balances	1,129,835	-	15,333,475	79,668,004	38,347,061	134,478,375
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,381,425	\$ -	\$ 15,404,263	\$ 79,848,323	\$ 114,562,765	\$ 212,196,776

See accompanying notes to the basic financial statements.

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
of Governmental Activities
June 30, 2006

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

Fund balances of all governmental funds (Page 29)	\$ 134,478,375
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Capital assets used in governmental activities are not spendable current financial resources and, therefore, are not reported in the balance sheet of governmental funds.	40,454,926
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Accumulated redevelopment costs are capitalized costs that will be transferred to the City and/or developers upon project completion. These costs are not spendable current financial resources and, therefore, are not reported in the balance sheet of the governmental funds.	327,224,457
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A significant portion of loans receivable and other long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis of accounting.	35,739,872
--	------------

Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.		
Deferred charges, net of accumulated amortization	23,063,807	

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Long-term liabilities are not due and payable in the current period and,
therefore, are not reported in the balance sheet of governmental
funds.

Tax allocation bonds	(1,745,275,000)	
Revenue bonds	(116,200,000)	
Convention Center refunding bonds	(171,800,000)	
Pledge obligation (4th/San Fernando		
Parking Revenue Bonds)	(42,545,000)	
ERAF Loan	(32,645,000)	
City of San José Parking Fund loan	(6,800,000)	
HUD Section 108 loans	(34,705,000)	
Unamortized premiums on bonds	(33,346,472)	
Unamortized deferred amount on refundings	34,481,823	
Claims liabilities	(22,500,000)	
Compensated absences	(1,215,267)	(2,172,549,916)

Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is not accrued as a liability in the balance sheet of governmental funds.	<u>(37,721,241)</u>
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Net assets (deficit) of governmental activities (page 27)	<u>\$ (1,649,309,720)</u>
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See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSÉ
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

	General	Special Revenue	Debt Service		Capital Projects	Total
			Housing	Merged		
REVENUES:						
Tax increment	\$ -	\$ 29,963,734	\$ -	\$ 97,534,256	\$ 22,320,678	\$ 149,818,668
Intergovernmental	-	-	12,867,063	-	13,752,892	26,619,955
Investment income	107,700	-	746,107	1,388,214	3,800,724	6,042,745
Grant revenue	-	-	-	-	4,030,354	4,030,354
Rent	574,596	-	-	-	406,644	981,240
Other	147,755	-	-	-	3,637,551	3,785,306
Total revenues	830,051	29,963,734	13,613,170	98,922,470	47,948,843	191,278,268
EXPENDITURES:						
General government	3,427,459	-	-	-	10,631,343	14,058,802
Intergovernmental:						
Payments to the City of San José (Note III C)	3,481,968	30,013,987	20,867,305	-	13,641,443	68,004,703
Payments to the County of Santa Clara (Note III D)	-	-	-	-	28,183,783	28,183,783
Payments to other governmental agencies	-	-	-	-	395,992	395,992
Debt service:						
Principal repayment	-	-	3,300,000	38,310,000	-	41,610,000
Interest and other charges	-	-	9,363,871	84,620,995	-	93,984,866
Payments to refunded bond escrow agent	-	-	-	6,944,942	-	6,944,942
Bond issuance costs	-	-	-	5,538,538	-	5,538,538
Capital outlay:						
Project expenditures	-	-	-	-	76,985,271	76,985,271
Payments to the City of San José (Note III C)	-	-	-	-	19,792,019	19,792,019
Total expenditures	6,909,427	30,013,987	33,531,176	135,414,475	149,629,851	355,498,916
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(6,079,376)	(50,253)	(19,918,006)	(36,492,005)	(101,681,008)	(164,220,648)
OTHER FINANCING SOURCES (USES):						
Refunding bonds issued	-	-	-	220,080,000	-	220,080,000
Premium on refunding bonds	-	-	-	17,191,021	-	17,191,021
Bonds and notes issued	-	-	-	-	49,320,000	49,320,000
Payment to refunded bond escrow agent	-	-	-	(232,009,738)	-	(232,009,738)
Proceeds from the sale of capital assets	-	-	-	-	11,448,790	11,448,790
Transfers in (Note II D)	6,975,898	-	-	32,033,164	-	39,009,062
Transfers out (Note II D)	-	-	-	-	(39,009,062)	(39,009,062)
Total other financing sources (uses)	6,975,898	-	-	37,294,447	21,759,728	66,030,073
NET CHANGE IN FUND BALANCE	896,522	(50,253)	(19,918,006)	802,442	(79,921,280)	(98,190,575)
FUND BALANCES, BEGINNING OF YEAR	233,313	50,253	35,251,481	78,865,562	118,268,341	232,668,950
FUND BALANCES, END OF YEAR	\$ 1,129,835	\$ -	\$ 15,333,475	\$ 79,668,004	\$ 38,347,061	\$ 134,478,375

See accompanying notes to the basic financial statements.

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities
For the Year Ended June 30, 2006

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

Net change in fund balances of all governmental funds (Page 31) \$ (98,190,575)

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

Costs capitalized related to accumulated redevelopment projects costs	\$ 17,495,893	
Disposal of capitalized costs related to transfer of capital assets	(11,385,907)	
Depreciation expense	(301,830)	\$,808,156

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

Revenues earned but not available in the current year	2,000,000	
Revenues collected that were earned in prior years	(78,901)	
Loans collected during the year	(318,498)	
Loans made during the year	2,700,246	\$,430,284

Some expenses reported in the statement of activities do not require
the use of current financial resources and, therefore, are not reported
as expenditures in governmental funds.

Change in claims liability	(16,000,000)	
Change in long-term compensated absences	(198,811)	(16,198,811)

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

Capitalization of bond issuance costs	5,538,538	
Amortization of bond issuance costs	(1,180,400)	\$,438,138

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

Tax allocation bonds	32,260,000	
Convention Center refunding bonds	5,050,000	
Revenue bonds	1,400,000	
Pledge obligation (4th/San Fernando Parking Revenue Bonds)	1,325,000	
ERAF Loan	1,360,000	
HUD Section 108 loans	215,000	
Payment to refunded bond escrow agent	238,954,680	\$,280,564,680

(Continued on next page)

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities of Governmental Activities
For the Year Ended June 30, 2006

(Continued from previous page)

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

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

Increase in accrued interest expense	\$ (2,585,277)	
Amortization of bond premiums	2,190,312	
Amortization of deferred amounts on refunding	(2,609,096)	\$ (3,004,061)

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

Proceeds were received from:

The issuance of refunding bonds, including the issuance premium	(237,271,021)	
The borrowing through loan programs - ERAF Loan	(14,920,000)	
The borrowing through loan programs - Parking Loan	(3,400,000)	
The borrowing through loan programs - HUD Section 108 Loan	(31,000,000)	(286,591,021)

Change in net assets of governmental activities (page 28)	\$ (108,950,647)
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See accompanying notes to the basic financial statements.

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

**Notes to the Basic Financial Statements
June 30, 2006**

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

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

**Notes to the Basic Financial Statements
June 30, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The Agency generally finances redevelopment projects through the issuance of tax allocation bonds. These bonds are payable from the incremental portion of property taxes collected within a project area relating to the increase in assessed valuation resulting from redevelopment. The County of Santa Clara (the County) collects these incremental tax revenues on behalf of the Agency. The Agency has a tax sharing agreement with the County that requires sharing of incremental tax revenues with the County. The Agency has merged all of its redevelopment areas into a single "Merged Project Area" in order to combine tax increment revenues to obtain greater financing power through issuance of tax allocation bonds.

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

REDEVELOPMENT AGENCY OF
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June 30, 2006

The Agency reports the following major governmental funds:

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

C. Assets, Liabilities, Equity and Operations

1. Investments

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

2. Property Tax Increment Revenues

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

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

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

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

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

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

3. Restricted Assets

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

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

**Notes to the Basic Financial Statements
June 30, 2006**

4. Accumulated Redevelopment Project Costs

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

5. Capital Assets

The Agency defines capital assets as assets used in redevelopment operations with an initial individual cost of at least \$5,000 and an estimated useful life in excess of one year. The capital assets consist of both depreciable and nondepreciable assets. The Agency's depreciable assets consist of the parking garage located beneath the Fairmont Plaza Hotel, buildings used to secure the HUD Section 108 loans obtained from U.S. Department of Housing and Urban Development, and certain leasehold improvements to the Fairmont Annex retail space. The capital assets are recorded in the government-wide financial statements at historical cost and are being depreciated using the straight-line method over the estimated useful life of 40-years for the parking structure and buildings and 25-years for leasehold improvements.

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

6. Compensated Absences (Accrued Vacation and Sick Leave)

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

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June 30, 2006**

Beginning fiscal year 2006, Agency employees may choose, at one time during the year, to receive the cash value for accumulated PTO hours of over 200 unused hours by selling time back to the Agency, providing that the employees' PTO balance after the sell-back is above 200 and less than the maximum allowable. Upon termination, payouts of PTO and ESL are calculated as earned on a bi-weekly accrual schedule. Earned and unused PTO is paid in full while only 25% of earned but unused ESL is paid out.

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

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

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

8. Interfund Transactions

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

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

9. Use of Estimates

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

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements
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10. Effects of New Pronouncements

At July 1, 2005, the Agency implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. As a result, the Agency updated its statistical section by presenting detailed information, typically in ten-year trends, to assist users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the Agency's economic condition.

At July 1, 2005, the Agency implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The disclosure changes related to this statement are reflected in Note II (I).

II. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The Agency's cash and investments consist of the following at June 30, 2006:

Cash and investments (unrestricted)	\$ 39,647,841
Restricted cash and investments	112,572,993
Total cash and investments	<u>\$ 152,220,834</u>

Investments

The Agency has adopted the investment policy of the City, which is governed by provisions of the California Government Code and the City's Municipal Code. The Agency also has investments subject to provisions of the bond indentures of its various bond issues. According to the investment policy and bond indentures, the Agency is permitted to invest in the City's cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government agencies, time deposits, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements
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The Agency maintains all of its unrestricted investments in the City's cash and investment pool. It is not possible to disclose relevant information about the Agency's separate portion of the cash and investment pool, as there are no specific investments belonging to the Agency itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2006 basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City's Finance Department Web Site at <http://www.sanjoseca.gov/>. At June 30, 2006, the Agency's share of the City's cash and investment pool totaled \$30,928,869.

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

In relation to the reserve account for the 2003 Merged Area Tax Allocation Bonds and the project accounts for the 2005 Housing Series C & D, the Agency has invested \$27,912,780 with LAIF as of June 30, 2006. The Agency's proportionate share of structured notes and asset-backed securities as of that date is \$716,521 or 2.567%. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members, as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn upon request, is determined on an amortized cost basis, which is different from the fair value of the Agency's position in the pool.

Custodial Credit Risk

The Agency's investment policy states that uninsured deposits shall be collateralized in the manner prescribed by State law. The amounts placed on deposit with banks were covered by federal depository insurance or were collateralized by the pledging financial institutions as required by Section 53652 of the California Government Code. Such collateral is held by the pledging financial institutions' trust department or agent in the Agency's name. Accordingly, the exposure to custodial credit risk is low as of and for the year ended June 30, 2006.

Interest Rate Risk

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

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Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Agency. The Agency's investment with the City's Cash and Investment Pool mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5 percent of the total portfolio other than securities issued by the U.S. government and its affiliated agencies. Investments issued by or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement, as they are normally diversified themselves. At June 30, 2006, the Agency invested more than 5 percent of the total portfolio for the following non-exempt investments: Federal Home Loan Bank Discount Notes for \$17,342,791 and Federal Home Loan Mortgage Corp Discount Notes for \$40,781,185.

A summary of the Agency's investments at June 30, 2006 are as follows:

Type of Investment	Fair Value	Moody's Credit Risk Ratings	Weighted Average Maturity
City of San José cash and investment pool	\$ 30,928,869	Unrated	327 days
State of California Local Agency Investment Fund	27,912,780	Unrated	152 days
Federal Home Loan Bank Discount Notes	17,342,791	Prime - 1	21 days
Federal Home Loan Mortgage Corp Discount Notes	40,781,185	Prime - 1	25 days
Money market mutual funds	9,215,830	Aaa	14 days
Total investments	126,181,455		
Petty cash	2,100		
Deposits with banks	8,716,872		
Certificates of deposits (escrow accounts)	17,320,407		
Total cash and investments	\$ 152,220,834		

Restricted Investments in the Debt Service Funds

Under the provisions of the bond indentures, certain accounts with trustees were established for repayment of debt, amounts required to be held in reserve, and amounts to be held for the withdrawal of qualified reimbursements. These accounts are reported in debt service funds. As of June 30, 2006, the amounts held by the trustees aggregated to \$95,252,586, of which \$15,584,582 is available for withdrawal and \$79,668,004 is in compliance with amounts required to be held by the trustee at that date. All restricted investments held by trustees as of June 30, 2006 were invested in federal agencies securities, money market mutual funds and LAIF, and were in compliance with the bond indentures. Pursuant to the 1993 bond indenture, \$180,319 has

**REDEVELOPMENT AGENCY OF
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**Notes to the Basic Financial Statements
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been determined by the trustee to be released from restriction and was remitted back to the Agency during July of 2006.

Restricted Deposits in the Capital Projects Fund

Pursuant to contracts and agreements made by the Agency, certain funds are required to be held in escrow accounts that remain the property of the Agency; however, their use is restricted for a particular purpose, which as of June 30, 2006 are as follows:

Project/Program	Amount
CIM Block 3 Project	\$ 13,131,242
HUD Section 108 funds (EU Building)	1,518,886
Paseo Villas Housing	737,652
California Theatre	554,440
Miscellaneous Redevelopment Projects	1,378,187
Total restricted deposits	<u>\$ 17,320,407</u>

**REDEVELOPMENT AGENCY OF
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1.) Over the years, parcels of land have been sold to commercial real estate developers in exchange for various interest bearing loans. Such loans have terms ranging from 16 to 40 years, with interest rates ranging from 2% to 10%, after interest-free periods of up to 10 years, and call for principal and interest payments monthly or annually over the remaining life of the loans. The recognition of revenue from the sale of the land has been deferred in the governmental fund financial statements on such loans until they are repaid since the amounts do not meet the availability criteria. As of June 30, 2006, the amount due from developers was \$10,585,610.

2.) In 1997, the Agency extended loans to developers using funds obtained from the U.S. Department of Housing and Urban Development Section 108 loan proceeds. These loans have a 20-year repayment schedule, bear interest at an annual rate of 3%, and require principal and interest payments to the Agency on a monthly basis. As of June 30, 2006, the amount due from the developers was \$2,858,005.

3.) In 2005, a developer assigned its loan with the Agency to a new entity by assuming all the rights, title, interest, and obligations as borrower. The loan was restructured, has a 13-year term bearing interest at an annual rate of 4%, and requires principal and interest payments to the Agency on an annual basis. The loan agreement stipulated that on each consecutive anniversary of the opening date of the business, the new borrower shall deem to have been paid one-seventh of the original loan including interests if it continues its grocery business operations in the premise. Because of this arrangement and anticipation that the new borrower will continue its business operations in the premise, a 100% provision for doubtful accounts was provided for the entire loan balance of \$1,426,363.

4.) In 1999, the Agency extended a loan to a developer for rehabilitation of an apartment complex. The loan to the developer has a 19-year repayment schedule, bears interest at an annual rate of 3%, and requires principal and interest payments to the Agency on a monthly basis. As of June 30, 2006, the amount due from the developer was \$665,857.

5.) The Agency relocated historic single-family homes to vacant lots in downtown San José. These homes were provided to families and a non-profit agency, which provided the interior and exterior improvements. The loans are to be paid only in the event of non-compliance with the terms and conditions of the agreement. At the time residential occupancy of the house ceases or the property is transferred to anyone other than the owner by any method other than inheritance, the unamortized portion of the loan shall become due and payable in full. Unpaid principal shall bear an interest rate of 8% per annum. The total loans of \$3,423,025 have been offset with a 100% provision for doubtful accounts as it is anticipated that these loans will be forgiven.

6.) The Agency extended various bank-assisted loans to aid first-time homebuyers and to aid with the rehabilitation of homes. The loans accrue interest at various interest rates and are due when the related properties are sold. As of June 30, 2006, the net amount due from such loans was approximately \$342,728. An allowance for doubtful accounts in the amount of \$73,600 was made for anticipated write-offs.

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B. Loans Receivable

Composition of loans receivable as of June 30, 2006 is as follows:

Description	Loan Balance
1 Parcels of land sold to developers	\$ 10,585,610
2 HUD Section 108 loan	2,858,005
3 Grocery store improvement	1,426,363
4 Rehabilitation of apartment complex	665,857
5 Relocation of historic homes	3,423,025
6 Rehabilitation of residential units	342,728
7 Rehabilitation of commercial buildings	7,329,600
8 Downtown building improvements	3,656,035
9 Residential housing	3,780,000
10 Rehabilitation of historic hotel building	5,265,000
11 Rehabilitation of commercial retail complex	1,505,099
Total loans receivable	<u>40,837,322</u>
Less allowance for doubtful accounts	<u>(4,922,988)</u>
Loans receivable, net	<u>\$ 35,914,334</u>

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7.) Rehabilitation loans were extended to property owners for the rehabilitation and improvements of commercial buildings. The loans accrue interest at various interest rates and are due within 60 to 240 months. At June 30, 2006, the total amount due from such loans was \$7,329,600.

8.) In 2004, commercial loans were extended to two developers for improvements of downtown buildings. The loans accrue interest at 3% and are due in 10 and 20 years, respectively. At June 30, 2006, the amount due from such loans was \$3,656,035.

9.) In 1989, the Agency entered into a disposition and development agreement with a developer for the construction of residential housing units in the redevelopment project area. In 1997, the funding assistance extended by the Agency was converted to a loan bearing an interest rate of 4% per annum and due in 59 years. As of June 30, 2006, the amount due from the developer was \$3,780,000.

10.) In May 2005, the Agency amended and restated a disposition and development agreement with a developer recognizing a loan for the rehabilitation of a historic hotel building. The loan has a 60-year repayment schedule, bears no interest, and requires principal payments to the Agency on a semi-annual basis starting in fiscal year 2020-2021. As of June 30, 2006, the amount due from the developer was \$5,265,000.

11.) In November 2004, the Agency extended a loan to a developer for rehabilitation of a commercial retail complex. The loan to the developer has a due date of December 31, 2007 and accrues monthly interest at a rate equal to LIBOR plus 195 basis points. As of June 30, 2006, the amount due from the developer was \$1,505,099.

C. Deferred Revenue and Unearned Revenue

At June 30, 2006, the various components of deferred revenue and unearned revenue reported in the Capital Projects Fund and governmental activities were as follows:

	<u>Amount</u>
Amounts considered unavailable:	
Related to loans receivable	\$ 33,056,329
Related to other long-term receivables	2,683,543
Total deferred revenue, as reported in the fund financial statements	<u>\$ 35,739,872</u>
Amounts considered unearned:	
Related to developer contributions	\$ 13,148,535
Related to other long-term receivables	434,982
Total unearned revenue, as reported in the fund financial statements	<u>\$ 13,583,517</u>

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D. Interfund Balances and Transactions

The composition of borrowing between funds for the fiscal year ended June 30, 2006 is as follows:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Capital Projects Fund	Merged Debt Service Fund	\$ 180,319

As listed in the table above, the \$180,319 amount represents a return of funds to the Agency pursuant to the 1993 bond indenture, which states that the trustee must release certain funds from restriction and remitted those funds directly to the Agency.

The composition of interfund transfers for the fiscal year ended June 30, 2006 is as follows:

<u>Transfer-in Fund</u>	<u>Transfer-out Fund</u>	<u>Amount</u>
Merged Debt Service Fund	Capital Projects Fund	\$ 32,033,164
General Fund	Capital Projects Fund	6,975,898
Total		<u>\$ 39,009,062</u>

As listed in the table above, the \$32,033,164 amount represents transfers necessary to make required debt service payments; the \$6,975,898 amount represents a transfer of funds necessary to cover the general and administrative expenditures of the Agency.

E. Accumulated Redevelopment Project Costs

For the fiscal year ended June 30, 2006, the change in accumulated redevelopment project costs consisted of the following:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Transfers</u>	<u>June 30, 2006</u>
Land held for redevelopment	\$ 194,800,337	\$ 13,678,766	\$ (11,385,907)	\$ (20,114,747)	\$ 176,978,449
Construction in progress	160,239,514	3,817,127	-	(147,846,371)	16,210,270
Buildings	-	-	-	134,035,738	134,035,738
Total	<u>\$ 355,039,851</u>	<u>\$ 17,495,893</u>	<u>\$ (11,385,907)</u>	<u>\$ (33,925,380)</u>	<u>\$ 327,224,457</u>

During current year, parcels of land with a cost aggregating to \$13,678,766, mainly located in the Agency's Strong Neighborhood Initiative-Burbank/Del Monte Project Area, were acquired for eventual use for housing site assembly projects.

During the year, cost of land aggregating to \$11,046,182 was sold to private developers for future development projects while cost of land aggregating to \$339,725 was transferred to developers in accordance with Disposition and Development Agreements and the City. These dispositions are comprised of properties located at 2nd/3rd Street with a cost of \$5,127,521, 303 Almaden Avenue with a cost of \$5,302,101, North San Pedro Street with a cost of \$616,560, and 102 & 114 West Alma Avenue with a cost of \$339,725.

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At the end of the current year, two projects (the Dr. Martin Luther King, Jr. Library and the California Theater) totaling \$134,035,738 were transferred from construction in progress to buildings, as they were considered substantially completed. No depreciation expense was recorded for these buildings during the current year. These buildings, along with site acquisition costs, are scheduled to be transferred to the City during fiscal year 2007.

In addition, two other projects (the José Theater and the Convention Center Annex/Expansion) with building costs totaling \$13,810,633 and site acquisition costs totaling \$20,114,747, were transferred to capital assets. The change in categorization of these assets was the result of management's change in use of these assets. Management decided to utilize these assets as security for the HUD Section 108 loans obtained from U.S. Department of Housing and Urban Development during the current fiscal year (see Note II.H). Accordingly, the Agency will maintain these assets in its portfolio for as long as they are securing the HUD Section 108 loans.

Construction in progress as of June 30, 2006 consisted of the following:

Civic Plaza Streetscape	\$	5,500,887
Bellevue Park		2,485,502
Guadalupe River Park		1,552,637
4th Street Garage Parking - Tenant's Improvement		1,450,916
Other projects		5,220,328
Total construction in progress	\$	16,210,270

F. Capital Assets

A summary of changes in the Agency's capital assets for the fiscal year ended June 30, 2006 is as follows:

	July 1, 2005	Additions	Dispositions	Transfers	June 30, 2006
Capital assets, not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ 20,114,747	\$ 20,114,747
Capital assets, being depreciated:					
Buildings	-	-	-	13,810,633	13,810,633
Parking structure	10,000,000	-	-	-	10,000,000
Leasehold improvements	1,279,000	-	-	-	1,279,000
Total capital assets, being depreciated	11,279,000	-	-	13,810,633	25,089,633
Less accumulation depreciation for:					
Parking structure	4,375,000	250,000	-	-	4,625,000
Leasehold improvements	72,624	51,830	-	-	124,454
Total accumulated depreciation	4,447,624	301,830	-	-	4,749,454
Total capital assets, being depreciated, net	6,831,376	(301,830)	-	13,810,633	20,340,179
Total capital assets, net	\$ 6,831,376	\$ (301,830)	\$ -	\$ 33,925,380	\$ 40,454,926

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

During the current year, two completed projects (the José Theater and the Convention Center Annex/Expansion) and the associated site acquisition costs were transferred from accumulated redevelopment project costs, as described in Note I.E. These projects were used to secure HUD Section 108 loans. The Agency will start depreciating the buildings starting in fiscal year 2007.

G. Accounts Payable and Accrued Liabilities

Agency accounts payable and accrued liabilities at June 30, 2006 are as follows:

	General Fund	Debt Service Fund - Housing	Capital Projects Fund	Total
Accounts payable	\$ 329,901	\$ 70,788	\$ 2,983,542	\$ 3,384,231
Accrued salaries and benefits	375,809	-	-	375,809
Total	\$ 705,710	\$ 70,788	\$ 2,983,542	\$ 3,760,040

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H. Debt

Long-term Debt

The following is a summary of bonds and loans payable of the Agency as of June 30, 2006 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Range Interest Rate	Annual Principal Installments	June 30, 2006 Balance
Tax Allocation Bonds:							
1993 Merged Refunding	Advanced refunding	\$692,075	12/1/1993	8/1/2024	4.75-6.00%	\$12,290-42,405	\$ 277,125
1997 Merged	Merged Area projects	106,000	3/27/1997	8/1/2028	5.63%-5.38-	\$10-3,110	11,600
1998 Merged	Merged Area projects	175,000	3/19/1998	8/1/2029	5.25%-5.00-	\$1,275-	149,265
1999 Merged	Merged Area projects	240,000	1/6/1999	8/1/2031	4.75-5.00%	\$4,100-	166,595
2002 Merged	Merged Area projects	350,000	1/24/2002	8/1/2032	3.00-5.00%	\$1,875-29,890	247,865
2003 Merged	Merged Area projects	135,000	12/22/2003	8/1/2033	3.00-5.00%	\$25-34,100	128,280
2004 A Merged Refunding	Refund portion of Merged Bonds	281,985	5/27/2004	8/1/2019	2.00-5.25%	\$540-31,900	269,090
2005 A Merged Refunding	Refund portion of Merged Bonds	152,950	7/26/2005	8/1/2028	3.25-5.00%	\$110-26,210	152,950
2005 B Merged Refunding	Refund portion of Merged Bonds	67,130	7/26/2005	8/1/2015	4.50-5.00%	\$4,225-21,560	67,130
1997 Housing, Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75-5.85%	\$2,420-14,625	17,045
2003 Housing, Series J & K	Low-moderate income housing	69,000	7/10/2003	8/1/2029	2.00-5.25%	\$3,300-16,370	62,460
2005 Housing Series A & B	Low-moderate income housing	129,720	6/30/2005	8/1/2035	3.75-5.46%	\$970-57,755	129,720
2005 Housing Series C & D	Low-moderate income housing	66,150	6/30/2005	8/1/2035	Variable	\$830-1,380	66,150
Total Tax Allocation Bonds							1,745,275
Other Long-term Debt:							
1996 Merged Area Revenue, Series A/B	Merged area projects	59,000	6/27/1996	7/1/2026	Variable	\$1,400-3,400	56,200
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	\$500-3,900	60,000
Pledge obligation - 4th/San Fernando Parking Revenue Bonds	4th/San Fernando parking facility project	48,675	4/10/2001	9/1/2026	3.80-5.25%	\$1,275-8,310	42,545
2001 Convention Center Refunding Bonds, Series F	Convention Center refunding project	190,730	7/1/2001	9/1/2022	4.00-5.00%	\$5,050-14,730	171,800
CSCDA ERAF Loan	Fund the State's ERAF Program	19,085	4/27/2005	8/1/2015	3.87-5.01%	\$1,640-2,355	17,725

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(Continued from previous page) Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Range Interest Rate	Annual Principal Installments	June 30, 2006 Balance
CSCDA ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2006	8/1/2016	5.28-5.67%	\$985-\$1,905	14,920
City of San Jose Parking Fund Loan	Merged area projects	6,800	4/12/2005	1/31/2009	Variable	\$6,800	6,800
HUD Section 108 Loans	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	\$235-465	3,705
HUD Section 108 Loans	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	\$570-1,135	13,000
HUD Section 108 Loans	Merged area projects	18,000	6/30/2006	8/1/2025	Variable	\$670-1,570	18,000
Total Other Long-term Debt							404,695
Total Long-term Debt							\$ 2,149,970

A summary of the changes in long-term debt during the fiscal year ended June 30, 2006 follows (in thousands):

	Balance July 1, 2005	Additions	Payments/Refundings	Balance June 30, 2006	Amount Due in One Year
Tax allocation bonds:					
1993 Merged Refunding	\$ 317,330	\$ -	\$ (40,205)	\$ 277,125	\$ 16,320
1997 Merged	83,255	-	(71,655)	11,600	235
1998 Merged	168,320	-	(19,055)	149,265	1,330
1999 Merged	222,115	-	(55,520)	166,595	4,205
2002 Merged	302,085	-	(54,220)	247,865	2,145
2003 Merged	129,010	-	(730)	128,280	735
2004 A Merged Refunding	281,985	-	(12,895)	269,090	540
2005 A & B Merged Refunding	-	220,080	-	220,080	-
1997 Housing, Series E	17,045	-	-	17,045	-
2003 Housing, Series J & K	65,760	-	(3,300)	62,460	3,370
2005 Housing, Series A & B	129,720	-	-	129,720	950
2005 Housing, Series C & D	66,150	-	-	66,150	1,660
Total tax allocation bonds	1,782,775	220,080	(257,580)	1,745,275	31,490
Other long-term debt:					
1996 Merged Area Revenue, Series A/B	57,600	-	(1,400)	56,200	1,400
2003 Merged Area Revenue, Series A/B	60,000	-	-	60,000	1,100
Pledge obligation - 4th/San Fernando parking revenue bonds	43,870	-	(1,325)	42,545	1,375
2001 Convention Center Refunding Bonds, Series F	176,850	-	(5,050)	171,800	5,585
CSCDA ERAF Loan	19,085	14,920	(1,360)	32,645	2,625
City of San Jose Parking Fund Loan	3,400	3,400	-	6,800	-
HUD Section 108 loans, variable rate loans	3,920	31,000	(215)	34,705	235
Total other long-term debt	364,725	49,320	(9,350)	404,695	12,320
Total long-term debt, before premiums, discounts, and deferred amount on refunding	2,147,500	269,400	(266,930)	2,149,970	43,810
Unauthorized issuance premium	18,663	17,191	(2,507)	33,347	2,282
Unauthorized deferred amount on refunding	(22,873)	(14,218)	2,609	(34,482)	(2,681)
Total long-term debt payable	2,143,290	272,373	(266,828)	2,148,835	43,411
Claims liabilities	6,500	22,500	(6,500)	22,500	-
Compensated absences	1,016	418	(219)	1,215	243
Total long-term obligations	\$ 2,150,806	\$ 295,291	\$ (273,547)	\$ 2,172,550	\$ 43,654

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

2005 Merged Area Tax Allocation Refunding Bonds

On July 26, 2005, the Redevelopment Agency issued Merged Area Tax Allocation Refunding Bonds Series 2005A and Series B amounting to \$152,950,000 and \$67,130,000, respectively. The proceeds of the bonds were used to current refund a portion of the Agency's Merged Area Tax Allocation Bonds, Series 1993, Series 1997, Series 1998, Series 1999 and Series 2002 and to pay the costs of issuance of the Series 2005A and 2005B refunding bonds. The 2005 bonds are secured by a pledge of the tax revenues on parity with other outstanding Merged Area Tax Allocation Bonds.

The refunding of Series 1993, Series 1997, Series 1998, Series 1999, and Series 2002 resulted in the accounting recognition of a deferred loss of \$14,218,049 for the fiscal year ended June 30, 2006. However, the Agency in effect reduced its aggregate debt service payments by approximately \$7,232,108 over the next 24 years and obtained a net economic gain (difference between the present values of the old and new debt service payments) of \$6,886,437.

The Series 2005A refunding bonds, which are insured by MBIA, bear interest rates ranging from 3.25% to 5.00%, and have a final maturity date of August 1, 2028. The Series 2005B refunding bonds, which are insured by AMBAC, bear interest rates ranging from 4.50% to 5.00%, and have a final maturity date of August 1, 2015.

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

As part of its actions to address the State's fiscal crisis, the State of California enacted a budget requiring local governments to give up a grand total of \$1.3 billion in local funds for each of the next two fiscal years. For the current year, the Agency's share of \$14,500,614 was paid onto the Educational Revenue Augmentation Fund (ERAF) and is frequently referred as the ERAF payment. The Agency was required to make the payment to the County of Santa Clara on or before May 10, 2006. To finance the ERAF payment, the Agency as a participant of the California Statewide Communities Development Authority (CSCDA) decided to join for the second year the California Redevelopment Association/Educational Revenue Augmentation Fund (CRA/ERAF) Loan Program. On May 3, 2006, CSCDA issued bonds aggregating to \$20,135,000 and the Agency's share of the bonds was \$14,920,000. For fiscal year 2005, the Agency's share in the CSCDA loan amounted to \$19,085,000. As of June 30, 2006, the Agency's aggregate loans with CSCDA have a balance of \$32,645,000. The loans with CSCDA are scheduled to be repaid over a 10-year period and bear fixed interest rate from 5.28% to 5.67%. The final maturity date for the loans is August 1, 2016.

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City of San José Parking Fund Loan

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

4th and San Fernando Streets Parking Facility

In March 2001, the City of San José Financing Authority (the Authority) issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the 4th & San Fernando Parking Facility Project. The Agency entered into the *Agency Pledge Agreement* with the Authority, whereby Agency payments are payable from and secured by surplus Agency Revenues. Agency payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the garage. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution or indenture pursuant to which the outstanding tax allocation bonds were issued, plus (ii) all legally available revenues of the Agency. As of June 30, 2006, the Agency has outstanding obligation, per Agency Pledge Agreement, of \$42,545,000.

HUD Section 108 Loans

In June 2006, the Agency received loan proceeds of \$13,000,000 under the provisions of the U.S. Department of Housing and Urban Development (HUD) Section 108. The proceeds are used to finance certain projects in the Merged Project Area.

On June 29, 2006, the Agency also requested for a drawdown for another loan of \$18,000,000 that was approved by HUD during fiscal year ended June 30, 2004. The loan is for reimbursement of costs incurred on the Story/King Retail Project. The loan proceeds were received by the Agency on July 12, 2006. At June 30, 2006, a corresponding receivable balance of \$18,000,000 was recorded related to this loan.

At June 30, 2006, the Agency has outstanding loans due of approximately \$34,705,000. The notes payable to HUD mature annually through August 2025 and bear interest at 20 basis points above the LIBOR index.

The Agency secured current year loans issued totaling \$31,000,000 by collateralizing Agency-owned property. At June 30, 2006, \$33,925,380 of capital assets was used for collateral on the loans.

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Debt Service Requirements

The debt service requirements for all debt are based upon a fixed rate of interest, except the 1996 Series A and B Merged Area Revenue Bonds, 2003 Series A and B Merged Area Revenue Bonds, 2005 Series C and D Housing Bonds, the HUD Section 108 loans and the Parking Loan with the City of San Jose, which bear interest at variable rates. Interest on the 1996 Series A and B Merged Area Revenue Bonds, 2003 Series A and B Merged Area Revenue Bonds, and the 2005 Series C and D Housing Bonds may be set at different interest rate calculation modes, including daily, monthly and fixed rates. On June 30, 2006, all the variable rate bonds were set in weekly modes. Interest on the HUD Section 108 loan is adjusted monthly on the first day of each month to a variable interest rate equal to 20 basis points above the applicable LIBOR rate. Interest on the Parking Loan with the City of San Jose is adjusted monthly based on the City's investment Portfolio No.1's rate of return.

For purposes of calculating the annual debt service requirements as of June 30, 2006, the following assumed effective rates have been used:

Bond issues	Effective interest rate
1996 Merged Area Revenue, Series A	3.87%
1996 Merged Area Revenue, Series B	3.85%
2003 Merged Area Revenue, Series A	5.35%
2003 Merged Area Revenue, Series B	3.94%
2005 Housing, Series C	3.97%
2005 Housing, Series D	3.99%
HUD Section 108 loan	5.43%
Parking Loan with the City of San José	4.11%

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding as of June 30, 2006, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30,	Merged Tax Allocation Bonds		Housing Tax Allocation Bonds		Other Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 25,510	\$ 72,333	\$ 5,980	\$ 12,833	\$ 12,320	\$ 18,870	\$ 43,810	\$ 104,026
2008	35,395	70,691	6,720	12,637	13,475	18,126	55,590	101,454
2009	37,285	68,751	6,935	12,407	21,200	18,465	65,420	99,623
2010	39,255	66,755	7,175	12,143	16,060	16,809	62,490	95,707
2011	41,255	64,684	7,450	11,849	17,980	16,029	66,685	92,562
2012-2016	219,845	289,025	42,100	54,124	102,850	66,280	384,795	409,429
2017-2021	301,385	222,903	52,420	41,297	107,545	40,166	461,550	306,366
2022-2026	350,000	144,105	60,715	29,551	86,165	13,948	496,930	187,604
2027-2031	290,205	62,776	55,010	14,266	19,500	3,019	364,715	80,061
2032-2036	109,515	7,979	30,870	2,869	7,600	179	147,985	11,027
Total	\$ 1,469,900	\$ 1,070,002	\$ 275,375	\$ 205,976	\$ 404,695	\$ 211,891	\$ 2,149,970	\$ 1,487,869

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Conduit Debt

In April 1998, the Agency served as the conduit issuer of \$38,000,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance the acquisition and construction of a multifamily residential project in the Century Center Redevelopment Project Area. The Agency has no obligation for these bonds, as they will be payable solely from and secured to the extent provided in the indenture by a pledge of certain revenues and other amounts to be received by the Agency under the Loan Agreement. A developer has arranged for an initial irrevocable direct-pay letter of credit to be issued in favor of the trustee. As of June 30, 2006, the outstanding balance was \$38,000,000.

In August 1997, the Agency served as the conduit issuer of \$10,595,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance a multifamily rental housing project in the Japantown Redevelopment Project Area. The Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association. The bonds were issued for the purpose of expanding the community's supply of low to moderate-income housing, and to construct a community center and retail space. The loan is secured on a nonrecourse basis and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d) (4) of the National Housing Act and applicable regulations thereunder. As of year-ended June 30, 2006, the outstanding balance was \$10,058,000.

I. Net Assets/Fund Balances

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

- *Invested in Capital Assets* – This category groups all capital assets into one component of net assets. The balance is the net of accumulated depreciation; however, all bond proceeds associated with the acquisition have been repaid and, therefore, do not reduce the net asset position of the capital assets.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2006, the Agency's statement of net assets reported restricted net assets of \$57,280,238, of which \$0 was restricted by enabling legislation.
- *Unrestricted Net Assets (Deficit)* – This category represents net assets (deficit) of the Agency, not restricted for any project or other purpose.

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

As of June 30, 2006, reservations of fund balance are described below:

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

III. OTHER INFORMATION

A. Contingencies

Risk Management

The Agency is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities, workers' compensation, and unemployment claims for which the Agency carries commercial insurance policies. The insurance premiums are paid from the General Fund. 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 award. 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 includes amounts of incremental claims adjustment expense related to specific claims and other claims adjustments expenses, if any, regardless of whether allocated to specific claims. During the past three years, there have been no instances where the amount of claim settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

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

**Notes to the Basic Financial Statements
June 30, 2006**

Litigation

In August 2004, the City and the Agency filed a lawsuit seeking a judicial determination as to whether the County had breached an agreement entered into among the parties in May 2001 (the 2001 Agreement). In April 2005, the County filed a cross complaint against the City and the Agency alleging, among other things, breach of the 2001 Agreement, breach of the 2001 Agreement's implied covenant of good faith and fair dealing, and intentional interference with prospective economic relations.

In February 2006, the San Mateo Superior Court granted County's motion for Summary Judgment holding that the County had not breached the 2001 Agreement. Subsequently, the City, the Agency and the County have decided to settle the lawsuit and have come to a tentative settlement that is still in the negotiation process. The tentative settlement among the City, the Agency and the County is that each would drop their respective lawsuits and the Agency and/or City would pay the County a sum of \$22.5 million, to be used by County on specified facilities that benefit the citizens of the City of San José. The Agency and/or City will pay the \$22.5 million in three installments of \$7.5 million over a three-year period, commencing on July 1, 2007 (i.e., FY 2008).

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

Changes in the balances of unpaid claims liabilities during the past two years are as follows (in thousands):

	Fiscal Year	
	2006	2005
Unpaid claims, beginning of fiscal year	\$ 6,500	\$ -
Incurred claims	22,500	6,500
Claims payment	(6,500)	-
Unpaid claims, end of fiscal year	<u>\$ 22,500</u>	<u>\$ 6,500</u>

B. Commitments

Capital Expenditure Projections

On September 13, 2005, the Agency Board adopted the Operating and Capital Budgets for fiscal year 2005-2006 with Two-Year Spending Plan. The Two-Year Spending Plan shows a total spending of \$637 million for the 2-year period (fiscal years 2005-2006 and 2006-2007). Of this amount, \$209 million is to be spent on capital expenditures, \$316 million for financing/non-project costs, \$16 million for operating expenditures, \$55 million for obligated payments and \$41 million for capital reserve.

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

**Notes to the Basic Financial Statements
June 30, 2006**

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 pension benefits for its employees. For eligible employees who contribute 3.5% of their annual base salary, the Agency contributes approximately 9.0%. Agency contributions are based on a formula taking into account employee annual base salary and length of service. The Agency's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. Agency contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the Agency's contribution requirement or to offset the plan's operating expenses. Three Agency employees are co-trustees of the Plan. The Agency contracts with an advisor to manage the Plan with all assets being held in trust by a third party custodian in the name of each of the Plan's participants. Each of the Plan's participants directs the investments of their separate account. The Agency Board must authorize changes to the Plan.

The total payroll in fiscal year 2005-2006 for the Agency's direct employees was approximately \$7,453,000. Both the Agency and the participating employees made contributions to the Plan amounting to approximately \$689,299 and \$263,533, respectively.

Leases

A schedule by years of future minimum rental payments required under the Agency's noncancellable operating leases for office facilities, business equipment, and land as of June 30, 2006 (net of income from subleases) is as follows (in thousands):

Year Ending June 30,	Minimum payments	Income from Subleases	Net minimum payments
2007	\$ 3,084	\$ (42)	\$ 3,042
2008	2,728	-	2,728
2009	2,684	-	2,684
2010	2,214	-	2,214
2011	1,970	-	1,970
2012-2016	3,164	-	3,164
2017-2021	2,358	-	2,358
Total	<u>\$ 18,202</u>	<u>\$ (42)</u>	<u>\$ 18,160</u>

The total net rent expense for operating leases in fiscal year 2005-2006 was approximately \$3,103,640.

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

**Notes to the Basic Financial Statements
June 30, 2006**

C. Related Party Transactions with the City of San José

Amounts Received from and Payments to the City

The Agency is required by the California Community Redevelopment Law to designate 20% of all incremental property tax revenues for low and moderate-income housing activities (the Special Revenue Fund). In addition, in fiscal year 1992, the Agency elected to designate 20% of County supplemental assessment revenues for those purposes. The City's Housing Department administers these designated funds. During fiscal year 2005-06, the Agency transferred to the City's Housing Department \$30,013,987 of property taxes in the Special Revenue Fund.

Annually, the City's Housing Department makes payments to the Agency for the repayment of debt service on the Housing Bonds, Series A through K. Approximately \$12,867,063 of such payments was made during fiscal year 2005-2006. Also during fiscal year 2005-2006, the Agency transferred to the City's Housing Department \$20,867,305, representing drawdowns of proceeds from the 2005 Housing Set-Aside Tax Allocation Bonds issued in June 2005.

As part of the pledge agreement entered by the Agency and the City of San José Financing Authority on the 4th/San Fernando Garage Parking Revenue Bond - Series 2002A, the Agency transferred, during the year, the total amount of \$3,366,054 representing principal and interest due on the bonds in the subsequent year.

In June 2001, the Agency Board, in relation to Parkland Dedication Ordinance (PDO) and Park Impact Ordinance (PIO), adopted a resolution approving a Parkland In-Lieu Fee Low-Income Unit Voucher Program (Voucher Program) for the payment of subsidized parkland fees for low-income residential units by the Agency. On October 26, 2004 the Board extended the program until December 31, 2005. Under the PDO/PIO, developers of new residential projects are required to dedicate parkland, construct improvements and/or pay equivalent in-lieu fees for neighborhood and community-serving parks under the Voucher Program. Developers of low-income residential units are issued a voucher from the City's Housing Department to present to the City's Building Division in lieu of the payment of parkland fees, required by PDO and PIO. The Agency then reimburses the City's Parks Trust Fund in the amount of the voucher. As of June 30, 2006, the Agency paid a cumulative amount of \$22,343,000 to the City. For the fiscal year ended June 30, 2006, the Agency accrued an additional amount of \$2,618,200, representing unpaid vouchers turned in by the developers to the City during the fiscal year, resulting in an increase of the payable balance to the City to \$8,111,800 at June 30, 2006.

In addition, other payments are made to and received from the City. The following significant transactions were made during the year: 1) the Agency paid from its General Fund and Capital Projects Fund approximately \$5,138,889 for City support services, 2) a payment made by the City to the Agency in the amount of \$13,326,443 and reimbursed by the Agency pursuant to the Second Amended and Restated Reimbursement Agreement for the Convention Center Refunded Bonds, and 3) the payments related to the San José Arena management agreement are paid from the Agency's Capital Projects Fund and totaled \$315,000 for fiscal year 2005-2006.

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

**Notes to the Basic Financial Statements
June 30, 2006**

In the past, the Agency advanced a portion of a loan made by the City's Housing Department to a third party providing shelter for women. The advance is recorded at its net realizable value of \$580,362 and will be repaid when the loan is collected by the City's Housing Department.

In the current year, the Agency advanced the amount of \$604,350 to the City as a security for a downtown project development as required under a Subdivision Improvement Agreement with the understanding that the money will be returned by the City to the Agency once the developer met the required agreement.

On March 20, 2001, the Agency Board authorized a fund transfer of \$2,000,000 to the City to provide public improvements. The City used these improvement funds to extend a loan to a non-profit organization, which provides community events in downtown San José. As a guarantee of loan repayment, the non-profit organization issued a promissory note to the City in the amount of \$2,000,000, secured by its own land and building on May 31, 2001. As part of the City's arrangement with the Agency, the City will return the funds to the Agency when the non-profit organization repays the loan. The Agency reported the fund transfer as expenditures at the time of transfer and will be reported as revenue when City returns the money upon collection from the non-profit organization.

Cooperation Agreements with the City

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

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

The amounts paid for construction projects in connection with these Cooperation Agreements during fiscal year 2005-2006 totaled \$17,173,819.

At June 30, 2006, the Agency recorded a Due from the City of San José in the amount of \$1,154,574, representing the funds to be received from the City for unused construction money on capital projects funded by the Agency in accordance with the Cooperation Agreements.

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

**Notes to the Basic Financial Statements
June 30, 2006**

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

Tax Sharing

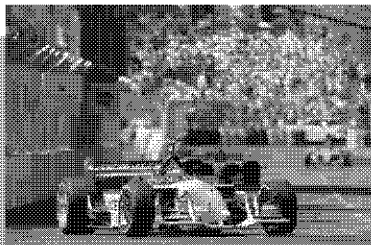
In 1983, the Agency and the County of Santa Clara (the County) entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project Area (the County Pass-Through Payment). On December 16, 1993,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

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

For the fiscal year 2005-2006, the Pass-Through amount totaled \$12,071,927 and the Delegated Payment was \$0.

ERAF Payment

On August 5, 2004, SB 1096 was signed into law requiring redevelopment agencies statewide to shift for two years (2004-2006) the amount of \$250 million in property tax increment revenues to the State of California Educational Revenue Augmentation Fund as a way to reduce the State's 2004-2006 budget deficit. The Agency's share of this revenue shift for fiscal year 2005-2006 amounted to \$14,500,614, which was paid on May 10, 2006.



San Jose Grand Prix



San Jose Museum of Art

Other Required
Supplementary Information

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Positive/(Negative)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
Investment income	\$ 107,790	\$ 107,700	\$ -	\$ 107,700	\$ -	\$ 107,700
Rent	574,596	574,596	-	574,596	-	574,596
Other	147,755	147,755	-	147,755	-	147,755
Total revenues	830,141	830,051	-	830,051	-	830,051
Expenditures:						
Current:						
General government:						
Personnel services	3,941,738	3,941,738	613,446	3,328,292	-	3,328,292
Non-personnel services	1,181,625	388,872	101,432	287,440	(188,273)	99,167
Intergovernmental:						
Payments to the City of San José	3,705,756	3,554,103	72,135	3,481,968	-	3,481,968
Total expenditures	8,829,119	7,884,713	787,013	7,097,700	(188,273)	6,909,427
Excess (deficiency) of revenues over (under) expenditures	(7,998,978)	(7,054,662)	(787,013)	(6,267,649)	188,273	(6,079,376)
Other financing sources (uses):						
Transfers in	7,765,665	6,975,898	-	6,975,898	-	6,975,898
Net change in fund balance	(233,313)	(78,764)	(787,013)	708,249	188,273	896,522
Fund balance, beginning of year	233,313	233,313	-	233,313	-	233,313
Fund balance, end of year	\$ -	\$ 154,549	\$ (787,013)	\$ 941,562	\$ 188,273	\$ 1,129,835

See Accompanying Notes to Other Required Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Special Revenue Funds
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Positive/(Negative)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
Tax increment	\$ 30,088,373	\$ 30,088,373	\$ (124,639)	\$ 29,963,734	\$ -	\$ 29,963,734
Expenditures:						
Intergovernmental:						
Payments to the City of San José	30,138,626	30,138,626	124,639	30,013,987	-	30,013,987
Net change in fund balance	(50,253)	(50,253)	-	(50,253)	-	(50,253)
Fund balance, beginning of year	50,253	50,253	-	50,253	-	50,253
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See Accompanying Notes to Other Required Supplementary Information

REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE

Notes to Other Required Supplementary Information
June 30, 2006

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget Information

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

General Fund

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

Special Revenue Fund

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

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

Original Budget

Prior to the beginning of the fiscal year, the Executive Director of the Agency presents to the Board the fiscal budget for the ensuing year, both operating and capital budget. After the tax revenue data is available in July from the County Assessor, an amended budget is submitted to the Board for approval. The budget is prepared on a budgetary basis, which does not conform with GAAP, as encumbrances are included as expenditures. Revenue estimates are presented to the Agency Board in total and are approved by revenue resolution.

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

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

REDEVELOPMENT AGENCY OF
THE CITY OF SAN JOSE

Notes to Other Required Supplementary Information
June 30, 2006

Final Budget

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

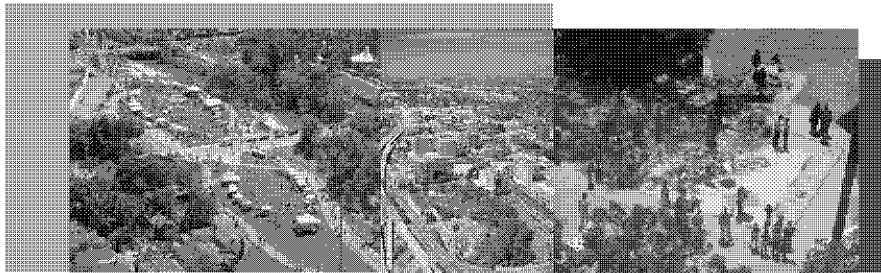
The Agency Board approves changes to the revenue estimates by adoption of a supplemental revenue resolution. The budgetary data presented in the accompanying budget to actual schedules includes all revisions approved by the Agency Board.

B. Budgetary Results Reconciled To GAAP

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

The only difference between the budgetary basis actual and GAAP basis is that the year-end encumbrances of \$188,273 are recognized as the equivalent of expenditures in the budgetary basis schedules, while encumbered amounts are not recognized as expenditures on the GAAP basis statements until recorded as actual expenditures.

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Guadalupe River Park & Gardens

Monopoly in the Park

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Other Supplementary
Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Housing Debt Service Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Positive/(Negative)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
Intergovernmental	\$ 12,867,063	\$ 12,867,063	\$ -	\$ 12,867,063	\$ -	\$ 12,867,063
Investment income	746,107	746,107	-	746,107	-	746,107
Total revenues	13,613,170	13,613,170	-	13,613,170	-	13,613,170
Expenditures:						
Intergovernmental:						
Payments to the City of San José	20,867,305	20,867,305	-	20,867,305	-	20,867,305
Debt service:						
Principal retirement	3,300,000	3,300,000	-	3,300,000	-	3,300,000
Interest	9,363,871	9,363,871	-	9,363,871	-	9,363,871
Total expenditures	33,531,176	33,531,176	-	33,531,176	-	33,531,176
Excess (deficiency) of revenues over (under) expenditures	(19,918,006)	(19,918,006)	-	(19,918,006)	-	(19,918,006)
Net change in fund balance	(19,918,006)	(19,918,006)	-	(19,918,006)	-	(19,918,006)
Fund balance, beginning of year	35,251,481	35,251,481	-	35,251,481	-	35,251,481
Fund balance, end of year	\$ 15,333,475	\$ 15,333,475	\$ -	\$ 15,333,475	\$ -	\$ 15,333,475

See Accompanying Notes to Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Merged Debt Service Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Positive/(Negative)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
Tax increment	\$ 97,534,256	\$ 97,534,256	\$ -	\$ 97,534,256	\$ -	\$ 97,534,256
Investment income	432,909	432,909	955,305	1,388,214	-	1,388,214
Total revenues	97,967,165	97,967,165	955,305	98,922,470	-	98,922,470
Expenditures:						
Debt service:						
Principal retirement	38,310,000	38,310,000	-	38,310,000	-	38,310,000
Interest	84,620,995	84,620,995	-	84,620,995	-	84,620,995
Bond issuance costs	5,538,538	5,538,538	-	5,538,538	-	5,538,538
Payment to refunded bond escrow agent	6,944,942	6,944,942	-	6,944,942	-	6,944,942
Total expenditures	135,414,475	135,414,475	-	135,414,475	-	135,414,475
Excess (deficiency) of revenues over (under) expenditures	(37,447,310)	(37,447,310)	955,305	(36,482,005)	-	(36,482,005)
Other financing sources (uses):						
Refunding bonds issued	220,080,000	220,080,000	-	220,080,000	-	220,080,000
Premium on refunding bonds	17,191,021	17,191,021	-	17,191,021	-	17,191,021
Payment to refunded bond escrow agent	(232,009,738)	(232,009,738)	-	(232,009,738)	-	(232,009,738)
Transfers in	32,033,164	32,033,164	-	32,033,164	-	32,033,164
Total other financing sources	37,294,447	37,294,447	-	37,294,447	-	37,294,447
Net change in fund balance	(152,863)	(152,863)	955,305	802,442	-	802,442
Fund balance, beginning of year	78,865,562	78,865,562	-	78,865,562	-	78,865,562
Fund balance, end of year	\$ 78,712,699	\$ 78,712,699	\$ 955,305	\$ 79,668,004	\$ -	\$ 79,668,004

See Accompanying Notes to Supplementary Information

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual on a Budgetary Basis - Capital Projects Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Positive/(Negative)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
Revenues:						
Tax increment	\$ 22,819,238	\$ 22,819,238	\$ (498,560)	\$ 22,320,678	\$ -	\$ 22,320,678
Intergovernmental	13,752,892	13,752,892	-	13,752,892	-	13,752,892
Investment income	3,837,688	3,476,932	323,792	3,800,724	-	3,800,724
Grant revenue	3,511,000	2,907,453	1,122,901	4,030,354	-	4,030,354
Rent	258,072	236,099	170,545	406,644	-	406,644
Other	3,091,047	4,187,425	(549,874)	3,637,551	-	3,637,551
Total revenues	47,269,937	47,380,039	568,804	47,948,843	-	47,948,843
Expenditures:						
Current:						
General government:						
Personnel services	9,101,028	9,101,028	717,026	8,384,002	-	8,384,002
Non-personnel services	2,546,234	3,814,910	720,151	3,094,759	(847,418)	2,247,341
Intergovernmental:						
Payments to the City of San José	13,641,443	13,641,443	-	13,641,443	-	13,641,443
Payments to the County of Santa Clara	28,183,783	28,183,783	-	28,183,783	-	28,183,783
Payments to other governmental agencies	395,992	395,992	-	395,992	-	395,992
Capital outlay:						
Project expenditures	82,451,790	162,597,393	58,719,019	103,878,374	(26,893,103)	76,985,271
Payments to the City of San José	19,398,870	19,398,870	2,225,051	17,173,819	2,618,200	19,792,019
Total expenditures	155,719,140	237,133,419	62,381,247	174,752,172	(25,122,321)	149,629,851
Excess (deficiency) of revenues over (under) expenditures	(108,449,203)	(189,753,380)	(61,812,443)	(126,803,329)	25,122,321	(101,681,008)
Other financing sources (uses):						
Notes issued	49,320,000	49,320,000	-	49,320,000	-	49,320,000
Proceeds from sale of land	13,400,000	2,639,600	8,809,190	11,448,790	-	11,448,790
Transfers out	(39,009,062)	(39,009,062)	-	(39,009,062)	-	(39,009,062)
Total other financing sources	23,710,938	12,950,538	8,809,190	21,759,728	-	21,759,728
Net change in fund balance	(84,738,265)	(176,802,842)	(53,003,253)	(105,043,601)	25,122,321	(79,921,280)
Fund balance, beginning of year	118,268,341	118,268,341	-	118,268,341	-	118,268,341
Fund balance, end of year	\$ 33,530,076	\$ (58,534,501)	\$ (53,003,253)	\$ 13,224,740	\$ 25,122,321	\$ 38,347,061

See Accompanying Notes to Supplementary Information

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

**Notes to the Supplementary Information
June 30, 2006**

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget Information

The budget process for the Housing Debt Service Fund, Merged Debt Service Fund, and Capital Projects Fund followed the same procedures to establish the budgetary data for the General Fund and Special Revenue Fund, which can be found in the Notes to Other Required Supplementary Information on pages 64-65.

Housing and Merged Debt Service Funds

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

Capital Projects Fund

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

B. Budgetary Results Reconciled To GAAP

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

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

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

**Notes to the Supplementary Information
June 30, 2006**

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

	<u>Capital Projects Fund</u>
Expenditures per statement of revenues, expenditures, and changes in fund balances (GAAP basis)	\$ 149,629,851
GAAP basis expenditures to be budgeted in subsequent periods	(8,111,800)
Prior year GAAP basis expenditures budgeted in this period	5,493,600
Encumbrances	<u>27,740,521</u>
Expenditures - budgetary basis	<u>\$ 174,752,172</u>

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The Alameda NSD Facade Improvements

California Theatre

Statistical Section

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
DESCRIPTION OF THE STATISTICAL SCHEDULES
JUNE 30, 2006

This part of the Agency's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and the required supplementary information says about the Agency's overall financial health.

Contents	Table	Page
Financial Trends These schedules contain trend information to help the reader understand how the Agency's financial performance and well-being have changed over time.	1 – 4	72 – 75
Revenue Capacity These schedules contain information to help the reader assess the Agency's tax increment revenue source.	5 – 6	76 – 77
Debt Capacity These schedules present information to help the reader assess the affordability of the Agency's current level of outstanding debt and the ability to issue additional debt in the future.	7 – 9	78 – 80
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the Agency's financial activities take place.	10 – 11	81 – 82
Operating Information These schedules contain service data to help the reader understand how the information in the Agency's financial report relates to the services the Agency's provides and the activities it performs.	12	83

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant years.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Table 1

Net Assets (deficit) by Component
Governmental Activities
Last Five Fiscal Years
(accrual basis of accounting)
(dollars expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets	\$ 6,375	\$ 6,125	\$ 7,008	\$ 6,831	\$ 40,455
Restricted for:					
Debt Service	50,734	58,109	37,849	43,734	41,947
Low and moderate housing income housing activities	42,470	351	191	35,298	15,333
Other	21,116	22,021	-	-	-
Unrestricted deficit	(1,221,108)	(1,389,801)	(1,488,094)	(1,626,222)	(1,747,045)
Total governmental activities net assets (deficit)	\$ (1,100,413)	\$ (1,303,195)	\$ (1,443,046)	\$ (1,540,359)	\$ (1,649,310)

Note: The Agency initially implemented the new reporting model (GASB 34) in fiscal year 2001-2002. Since GASB 34 changes significantly both the recording and presentation of financial data, fiscal years prior to 2002 have not been restated for the purpose of providing the 10-year comparative information for the above schedule.

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Table 2

Changes in Net Assets
Governmental Activities
Last Five Fiscal Years
(accrual basis of accounting)
(dollars expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
General government	\$ 25,064	\$ 26,903	\$ 22,269	\$ 8,498	\$ 6,910
Community development	232,048	334,344	181,384	134,001	147,052
Housing	65,521	82,227	61,679	60,545	50,881
Debt Service	86,245	92,895	94,084	91,512	96,989
Total governmental activities expenses	<u>408,878</u>	<u>536,369</u>	<u>359,416</u>	<u>294,556</u>	<u>301,832</u>
Program revenues					
Operating grants and contributions					
Community development	13,113	13,352	12,704	13,019	13,326
Housing	9,953	11,741	11,468	14,528	12,867
Capital grants and contribution					
Community development	<u>48,358</u>	<u>97,690</u>	<u>18,114</u>	<u>5,749</u>	<u>4,457</u>
Total program revenues	<u>71,424</u>	<u>122,783</u>	<u>42,286</u>	<u>33,296</u>	<u>30,650</u>
Net program expenses	<u>(337,454)</u>	<u>(413,586)</u>	<u>(317,130)</u>	<u>(261,260)</u>	<u>(271,182)</u>
General revenues					
Tax increment	188,459	198,026	170,208	149,977	149,819
Unrestricted investment earnings	14,155	7,513	4,331	6,029	6,043
Revenue from the collection of loans	215	-	-	4,435	-
Miscellaneous	<u>6,626</u>	<u>5,265</u>	<u>2,740</u>	<u>3,505</u>	<u>6,369</u>
Total general revenues	<u>209,455</u>	<u>210,804</u>	<u>177,279</u>	<u>163,946</u>	<u>162,231</u>
Changes in net assets	<u><u>\$(127,999)</u></u>	<u><u>\$(202,782)</u></u>	<u><u>\$(139,851)</u></u>	<u><u>\$(97,314)</u></u>	<u><u>\$(108,951)</u></u>

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Note: The Agency initially implemented the new reporting model (GASB 34) in fiscal year 2001-2002. Since GASB 34 changes significantly both the recording and presentation of financial data, fiscal years prior to 2002 have not been restated for the purpose of providing the 10-year comparative information for the above schedule.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Table 3

Fund Balances of Governmental Funds										
Last Ten Fiscal Years										
(modified accrual basis of accounting)										
(dollars expressed in thousands)										
	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved for:										
Advances and deposits	\$ -	\$ -	\$ -	\$ -	\$ 39	\$ 43	\$ 44	\$ 42	\$ 39	\$ 39
Encumbrances	541	694	1,515	1,365	2,207	2,230	1,486	1,420	187	188
Unreserved, designated for redevelopment activities	299	19	1,657	3,275	1,962	520	3,719	5,243	7	903
Total general fund	\$ 840	\$ 713	\$ 3,172	\$ 4,640	\$ 4,208	\$ 2,793	\$ 5,249	\$ 6,705	\$ 233	\$ 1,130 (a)
All other governmental funds										
Reserved for:										
Long-term receivables	\$ -	\$ -	\$ -	\$ 4,402	\$ 3,714	\$ 3,554	\$ 3,384	\$ 3,267	\$ 3,053	\$ 2,859
Advances and deposits	1,026	895	746	580	601	601	601	601	601	1,206
Debt service	28,550	37,304	46,383	49,506	49,981	87,631	94,185	76,546	78,869	79,668
Low and moderate income housing activities	20,669	11,073	11,626	1,610	679	42,470	351	191	35,298	15,333 (b)
Grants with purpose restrictions	-	-	-	-	20,171	21,116	22,021	-	-	-
Encumbrances	34,614	42,567	53,929	58,037	87,726	104,753	63,691	37,387	31,869	27,740
Unreserved, designated for redevelopment activities	99,614	170,822	288,296	181,056	7,261	137,196	8,747	138,864	82,746	6,543 (c)
Total all other governmental funds	184,473	262,661	400,980	295,191	170,133	397,321	192,980	256,856	232,436	133,348
Total fund balances of governmental funds	\$ 185,313	\$ 263,374	\$ 404,152	\$ 299,831	\$ 174,341	\$ 400,114	\$ 198,229	\$ 263,561	\$ 232,669	\$ 134,478

- (a) The increase in total fund balance of the general fund in fiscal year 2006 is explained in Management's Discussion and Analysis.
(b) The decrease in reserved fund balance in fiscal year 2006 was due to the drawdowns of the remaining proceeds of housing bonds issued in previous fiscal year for housing projects.
(c) The substantial decrease in unreserved, designated for redevelopment activities in fiscal year 2006 is explained in Management Discussion and Analysis.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Table 4

Changes in Fund Balances of Governmental Funds										
Last Ten Fiscal Years										
(modified accrual basis of accounting)										
(dollars expressed in thousands)										
	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Tax increment	\$ 76,020	\$ 93,739	\$ 112,216	\$ 129,981	\$ 142,151	\$ 188,459	\$ 198,026	\$ 170,208	\$ 149,977	\$ 149,819
Intergovernmental	1,000	-	-	-	30,581	42,311	94,482	38,407	32,276	26,620
Investment income	8,373	9,961	18,061	18,731	16,087	14,155	7,513	4,331	6,029	6,043
Developer contributions	911	4,798	20,219	4,641	13,703	29,630	27,949	2,148	-	-
Grant revenue	1,391	1,607	1,846	1,107	20,207	-	35	1,731	1,020	4,030
Rent	437	697	708	676	553	420	988	998	1,251	981
Other	1,140	2,190	1,662	2,892	11,469	6,206	6,848	1,896	11,298	3,785
Total revenue	89,272	112,992	154,512	157,728	234,751	281,181	335,841	219,719	201,851	191,278
Expenditures										
General government	13,667	15,928	20,145	18,652	16,867	18,622	19,864	16,538	14,761	14,059
Intergovernmental	10,889	26,945	22,951	37,370	109,415	105,824	129,445	118,732	111,532	96,584
Debt service:										
Principal repayment	12,490	13,200	25,013	17,975	22,450	24,445	28,125	33,860	31,265	41,610
Interest and other charges	52,781	58,148	65,968	78,512	77,580	75,332	93,710	91,529	94,603	93,965
Payments to refunded bond escrow agent	2,462	-	-	-	-	6,429	-	11,952	2,022	6,945
Bond issuance costs	2,253	1,548	2,461	-	1,070	9,768	-	8,868	3,977	5,539
Capital outlay	82,055	96,164	114,067	111,631	179,866	239,945	266,900	107,533	70,916	96,777
Other	334	867	724	359	-	-	-	-	-	-
Total expenditures	176,931	212,800	251,347	264,499	407,248	480,365	538,044	389,012	329,076	355,499
Deficiency of revenues under expenditures	(87,659)	(99,808)	(96,835)	(106,771)	(172,497)	(199,184)	(202,203)	(169,293)	(127,225)	(164,221)
Other financing sources (uses)										
Bonds issued	130,307	177,034	237,613	-	44,205	614,383	-	545,985	218,355	269,400
Discount on tax allocation bonds	-	-	-	-	-	(189)	-	-	-	-
Premium on bonds issued	-	-	-	-	-	-	-	16,725	395	17,191
Payment to refunded bond escrow agent	(11,185)	-	-	-	-	(189,651)	-	(332,571)	(126,899)	(232,010)
Proceeds from the sale of capital assets	3,700	835	-	2,450	2,802	-	317	4,486	4,482	11,449
Transfers in	26,993	33,626	46,459	35,492	36,335	42,440	45,238	65,091	21,759	39,009
Transfers out	(26,993)	(33,626)	(46,459)	(35,492)	(36,335)	(42,440)	(45,238)	(65,091)	(21,759)	(39,009)
Total other financing sources (uses)	122,842	177,869	237,613	2,450	47,007	424,543	317	234,625	96,333	66,030
Net change in fund balance	\$ 35,183	\$ 78,061	\$ 140,778	\$ (104,321)	\$ (125,490)	\$ 225,359	\$ (201,886)	\$ 65,332	\$ (30,892)	\$ (98,191)
Debt service as a percentage of noncapital expenditures	68.8%	61.2%	66.3%	63.1%	44.0%	41.5%	44.9%	44.5%	48.8%	52.4%

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Actual Assessed Value and Tax Increment Revenue

Merged Area Redevelopment Project

Last Ten Fiscal Years

(dollar amounts expressed in thousands)

Table 5

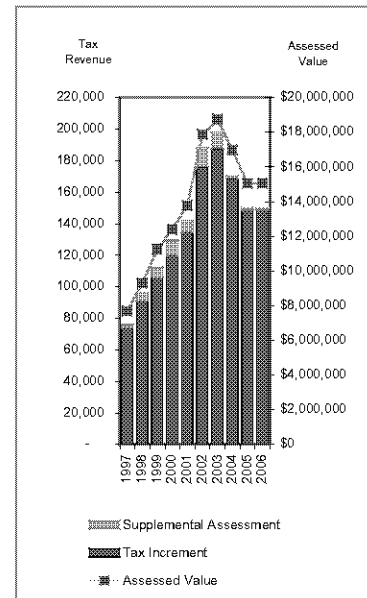
Fiscal Year	Assessed Value (1)	% Change	Tax Increment	Supplemental Assessment	Gross Tax Revenues	% Change
1997	7,680,818 (2)	7%	(3)	74,372	76,022	11.4%
1998	9,292,365	21%		5,100	96,213	26.6%
1999	11,228,356	21%		5,918	112,216	16.6%
2000	12,382,598	10%		9,699	129,681	15.6%
2001	13,761,356	11%		7,502	142,151	9.6%
2002	17,866,814	30%		12,533	188,459	32.6%
2003	18,732,944	5%		10,578	198,026	5.1%
2004	16,962,642	(9.5%)		1,706	170,208	(14.0%)
2005	15,040,831	(11.3%)		1,647	149,976	(11.9%)
2006	15,033,930	(0.5%)		1,527	149,819	(0.1%)

(1) Total assessed value for tax increment generating area of the Merged Area. Tax increment revenue calculated on incremental assessed value, after subtracting base year assessed value from total assessed value. For fiscal year 2005-2006, total assessed value includes \$11,211,223,000 in value on the secured roll and \$3,822,707,000 in value on the unsecured roll. The current base year is \$1,097,107,000.

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

(3) Percentage change does not include Park Center.

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



REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Merged Area Redevelopment Projects

Ten Largest Property Owners

Fiscal Year Ended June 30, 2006

(dollars expressed in thousands)

Table 6

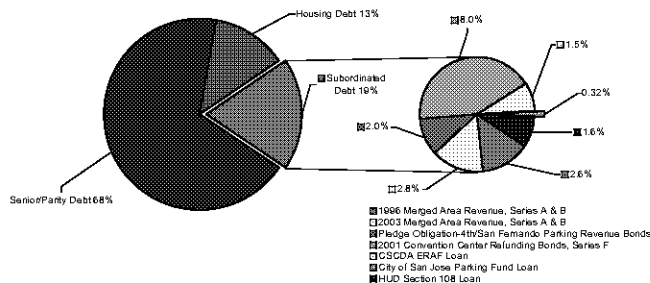
Taxpayer	Type of Industry	Assessed Secured Value	Assessed Unsecured Value	Total Assessed Value	% of Total
1 Cisco Systems, Inc.	Computer Networking Equipment	\$ 592,863	\$ 1,423,387	\$ 2,016,250	13.41%
2 Hitachi Global Storage Techs, Inc.	Computer Disc Storage	234,548	361,569	596,117	3.97%
3 Equity Office Properties	Real Estate Development	570,822	-	570,822	3.80%
4 Irvine Community Dev Company	Real Estate Development	383,982	7,681	391,663	2.61%
5 Sobrato Companies	Real Estate Development	358,405	-	358,405	2.38%
6 CarrAmerica Realty Corp.	Real Estate Development	281,865	504	282,369	1.88%
7 Adobe Systems	Computer Software	209,032	49,567	258,599	1.72%
8 Mission West	Real Estate Development	209,304	-	209,304	1.39%
9 Agilent Technologies Inc.	Test/Measurement Equipment	116,800	41,108	157,908	1.05%
10 eBay	Internet Software and Services	130,622	16,709	147,331	0.98%
Total - Ten Largest Property Owners		\$ 3,088,243	\$ 1,900,525	\$ 4,988,768	33.18%
Total Assessed Value in the Merged Area's income generating area		\$ 11,211,223	\$ 3,822,707	\$ 15,033,930	100.00%

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

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE

Debt Profile
June 30, 2006

Table 7



	Due Serially To	Amounts (in thousands)
Senior/Parity Debt (debt payment equally secured)		
1993 Merged Area Refunding Tax Allocation Bonds	2024	\$ 277,125
1997 Merged Area Tax Allocation Bonds	2028	11,600
1998 Merged Area Tax Allocation Bonds	2029	149,285
1999 Merged Area Tax Allocation Bonds	2031	166,595
2002 Merged Area Tax Allocation Bonds	2032	247,865
2003 Merged Area Tax Allocation Bonds	2033	128,280
2004 Merged Area Tax Allocation Bonds, Series A	2019	269,090
2005 Merged Area Tax Allocation Bonds, Series A & B	2028	220,080
Sub-Total		<u>1,469,900</u>
Housing Bonds		
1997 Housing Set-Aside Bonds, Series E	2027	17,045
2003 Housing Set-Aside Bonds, Series J & K	2029	62,460
2005 Housing Set-Aside Bonds, Series A & B	2035	129,720
2005 Housing Set-Aside Bonds, Series C & D	2035	66,150
Sub-Total		<u>275,375</u>
Subordinated Debt (in payment priority)		
1996 Merged Area Revenue, Series A & B	2026	56,200
2003 Merged Area Revenue, Series A & B	2032	60,000
Pledge Obligation-4th/San Fernando Parking Revenue Bonds	2026	42,545
2001 Convention Center Refunding Bonds, Series F	2022	171,800
CSCDA ERAF Loan	2015	32,645
City of San Jose Parking Fund Loan	2009	6,800
HUD Section 108 Loan	2025	34,705
Sub-Total		<u>404,695</u>
Grand Total		<u>\$ 2,149,970</u>

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Debt Service Coverage for Senior (Parity) Debt
Governmental Activities
As of June 30, 2006
(dollars expressed in thousands)

Table 8

Tax Allocation Revenue	\$ 149,818,668
Less: Housing Set-Aside (20%)	(29,963,734)
Net Statutory Pass-Through Payments	<u>(395,992)</u>
Tax Allocation Revenue Available for Debt Service	<u>119,458,942</u>
Maximum Annual Debt Service on Senior Lien Parity Bonds	<u>\$ 107,036,111</u>
Debt Service Coverage - June 30, 2006	<u>1.12</u>

Note:

Debt Service Coverage represents the ratio of tax revenue pledged for the payment of senior (parity) debt service.

New Senior (Parity) Bonds Issuance Coverage Test:

The 1993 Bonds, 1997 Bonds, 1998 Bonds, 1999 Bonds, 2002 Bonds, 2003 Bonds, 2004 Bonds, and 2005 Bonds represent the Parity Debt of the Agency, which are secured by a senior lien pledge of the tax revenues. Bond Indenture requires that tax revenues will be at least equal to 1.15 times the Maximum Annual Debt Service on all outstanding bonds and the then Parity Debt in order for new bonds to be issued.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Project Area and Debt Termination
June 30, 2006

Table 9

	Tax Increment Generating Project Areas	Acreage (a)	Plan Adoption	Plan Termination (b)	Last Day to Repay Debt
1	Almaden Gateway	21	4/7/1988	4/7/2029	4/7/2039
2	Century Center	18	11/8/1983	11/8/2025	11/8/2035
3	Edenvale Area:				
	Edenvale	1,050	7/15/1976	7/15/2018	7/15/2028
	Edenvale East	995	9/1/1981	9/1/2023	9/1/2033
4	Guadalupe Auzerias	73	5/19/1983	5/19/2025	5/19/2035
5	Julian Stockton	330	7/15/1976	7/15/2018	7/15/2028
6	Market Gateway	32	11/8/1983	11/8/2025	11/8/2035
7	Monterey Corridor	515	12/13/1994	12/13/2025	12/13/2040
8	Olinder	158	7/15/1976	7/15/2018	7/15/2028
9	Park Center	61	7/24/1961	1/1/2011	1/1/2021
10	Pueblo Uno	12	7/8/1975	7/8/2017	7/8/2027
11	Rincon Area:				
	Rincon Expansion	1,224	7/3/1979	7/3/2021	7/3/2031
	Rincon North	1,699	6/8/1982	6/8/2024	6/8/2034
	Rincon Original	1,872	7/16/1974	7/16/2016	7/16/2026
	Rincon South (c)		6/8/1982	6/8/2024	6/8/2034
12	San Antonio Plaza	50	1/3/1968	1/1/2011	1/1/2021

- (a) Acreages reflect an in-dept GIS analysis of the tax generation projects as of December 21, 2004.
(b) Reflects a one-year extension as permitted according to State Bill 1045 and 1096.
(c) Acreage for the Rincon South has been combined with Rincon North.

Source: Redevelopment Agency of the City of San Jose.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Miscellaneous Statistics
June 30, 2006

Table 10

Date Established:	1956
Governing Body:	City Council (as Board of Directors)
Number of Employees:	113
Population of City of San Jose	953,679*
Area:	
City of San Jose	177.8 sq. mi.*
Redevelopment Area (see geographical map)	18,687 acres dispersed throughout the City

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

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

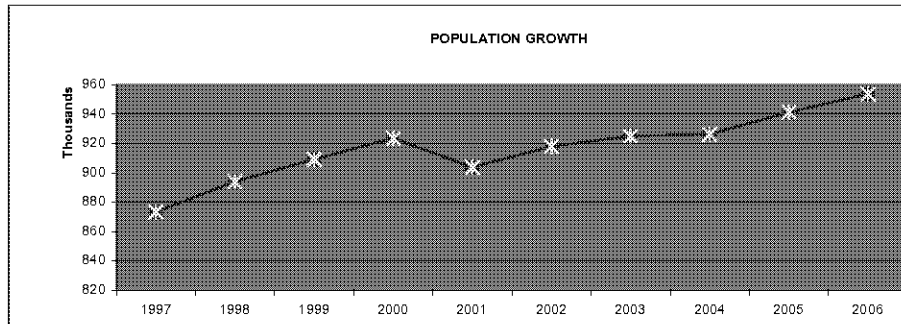
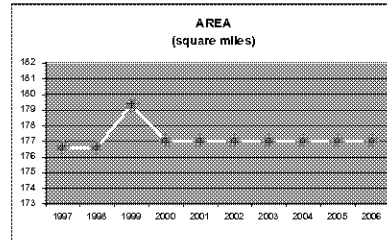
** - Acreages reflect an in-depth GIS analysis of the tax generating project areas as of December 21, 2004 by the Redevelopment Agency of the City of San Jose.

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REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Population and Area of the City of San Jose
Last Ten Years

Table 11

Fiscal Year	Date	Population	Area in Square Miles
1997	January 1	873,286	176.60
1998	January 1	893,969	176.60
1999	January 1	909,100	179.35
2000	January 1	923,591	177.00
2001	January 1	894,943	177.00
2002	January 1	917,971	177.00
2003	January 1	925,000	177.30
2004	January 1	926,200	177.70
2005	January 1	941,116	177.70
2006	January 1	953,679	177.80



Sources: City of San Jose Comprehensive Annual Financial Report for 1997 to 2001
California Department of Finance population estimates for 2002 to 2006.

REDEVELOPMENT AGENCY OF THE CITY OF SAN JOSE
Operating Indicators By Function
Last Six Fiscal Years

Table 12

	Fiscal Year					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Agency's Authorized Number of Employees	126	136	136	124	113	113
Core Services (1):						
Promote and Implement Neighborhood Improvement Strategies						
Number of Projects Completed:						
Façade Improvement Projects	16	51	114	44	53	24
Streetscapes Projects	-	6	6	2	17	10
Initiate and Facilitate Public Facilities and Spaces						
Number of Completed Public Projects	4	7	18	11	9	12
Enhance the Quality and Supply of the City's Housing Stock						
Number of New Housing Units Completed	1,176	945	889	624	254	292
Initiate and Facilitate Private Development						
Number of Jobs created	6,146	1,705	543	1,481	1,489	5,509

(1) The Core Services were approved by the Agency Board in fiscal year 2000. Indicators are available only beginning fiscal year 2001.

Source: Various Divisions of the Redevelopment Agency of the City of San Jose.

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of San José (Agency), a component unit of the City of San José, California, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Macias Gini & O'Connell LLP
Certified Public Accountants
Walnut Creek, California

September 20, 2006



APPENDIX C

SUMMARY OF THE INDENTURE

Certain provisions of the Indenture, dated December 1, 1993 (as supplemented, modified and amended by the herein defined First Supplemental Indenture, Second Supplemental Indenture, Third Supplemental Indenture, Fourth Supplemental Indenture, Fifth Supplemental Indenture, Sixth Supplemental Indenture, Seventh Supplemental Indenture, Eighth Supplemental Indenture, Ninth Supplemental Indenture, Tenth Supplemental Indenture and Eleventh Supplemental Indenture, and as may hereafter be amended, modified or supplemented by any other Supplemental Indenture, the "Indenture"), are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the respective documents listed above. Capitalized terms not otherwise defined herein have the meaning given in the Indenture or such other document as may be specified herein.

The Indenture is an agreement between the Agency and the Trustee, for the benefit of the Bondholders, which establishes the terms and conditions upon which the Series 1993 Bonds, the Series 1997 Bonds, the Series 1998 Bonds, the Series 1999 Bonds, the Series 2002 Bonds, the Series 2003 Bonds, the Series 2004A Bonds, the Series 2005A Bonds, the Series 2005B Bonds, the Series 2006A-T Bonds, the Series 2006B Bonds, the Series 2006C Bonds, the Series 2006D Bonds, the Series 2007A-T Bonds, the Series 2007B Bonds and any subsequent Series of Bonds are to be issued, and secures the payment of the Bonds and the performance and observance of all covenants set forth in the document.

DEFINITIONS

Accreted Value means the principal amount of any Capital Appreciation Bond, plus the interest accrued thereon, compounded at the approximate interest rate on each date specified in such Bonds. The Accreted Value at any date shall be the amount set forth in the Accreted Value Table (which appears as an exhibit to a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture) as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date.

Additional Revenues means the amount of Tax Revenues which, as shown in a Consultant's Report, are estimated to be receivable by the Issuer within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in the Project Area due to either (a) construction which has been completed and for which a certificate of occupancy has been issued but which is not then reflected on the tax rolls, or (b) transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls.

Annual Debt Service means for any Fiscal Year the aggregate amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Maximum Annual Debt Service.

Assumed Interest Rate means the average interest rate on any Variable Rate Bonds over the immediately preceding twelve month period.

Available Moneys means, with respect to Variable Rate Bonds, any money on deposit in trust with the Trustee (i) which is proceeds of drawings under a Credit Facility, (ii) which has been held by the Trustee for at least one hundred and twenty-three (123) days and not commingled with any moneys so held for less than said period and during which period no petition in bankruptcy has been filed by or against, and no receivership, insolvency, assignment for the benefit of creditors or other similar proceeding has been commenced by or against, the Issuer, unless such petition or proceedings have been dismissed and all applicable appeal periods have expired without an appeal having been filed, (iii) which is proceeds of the investment of any Available Moneys described in clause (i) or (ii), (iv) which is derived from the proceeds of bonds or obligations issued for the purpose of refunding Variable Rate Bonds or proceeds of the investment of money described in this clause (iv), but only if the Trustee receives an opinion of counsel from a nationally recognized firm experienced in bankruptcy, which opinion of counsel shall be acceptable to Moody's, if the Variable Rate Bonds are rated by Moody's, and Standard & Poor's, if the Variable Rate Bonds are rated by Standard & Poor's, that payment of such amount derived from the sources specified in this clause to the Owners of the Variable Rate Bonds would not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in the event a bankruptcy petition is filed by or against the Issuer, or (v) which, after conversion of such Variable Rate Bonds to a Fixed Rate, is available for use pursuant to the terms of the Indenture.

Beneficial Owner means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories. When used in connection with any particular Series of Bonds, "Beneficial Owner" means any person who has such power with respect to Bonds of such Series, including persons holding Bonds of such Series through nominees or depositories.

Bond Obligation means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value of such Bond.

Bond Reserve Costs means the amounts, including fees, expenses and accrued interest, owing to the provider of a letter of credit, insurance policy or surety bond which is used to satisfy all or a portion of the Bond Reserve Requirement.

Bond Reserve Requirement means, as of any date of calculation, an amount equal to the lesser of (i) Maximum Annual Debt Service on all Bonds Outstanding or (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on all Bonds Outstanding; provided that, with respect to the issuance of a Series of Bonds, if the Bond Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of the Series of Bonds (or, if the Series has more than a de minimis amount of original issue discount or premium, of the issue price of such Series of Bonds), then the Bond Reserve Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%); and provided that accrued interest on any Series of Bonds deposited with the Trustee upon delivery of such Series of Bonds shall be excluded for purposes of the calculation of the Bond Reserve Requirement.

Bonds means the Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds authorized by, and at any time Outstanding pursuant to, the Indenture.

Business Day means any day other than (i) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (ii) for purposes of payments and other actions relating to a Series of Bonds secured by a Credit Facility or a Liquidity Facility, a day upon which commercial banks, located in the city in which the office of the Credit Facility Provider or Liquidity Facility Provider, as the case may be, at which demands for payment under the Credit Facility or a Liquidity Facility are to be presented, are authorized or obligated by law or executive order to be closed.

Capital Appreciation Bonds means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series and on which interest is compounded and paid at maturity or on prior redemption.

Certified Fixed Rate means the maximum Fixed Rate as certified by a financial advisor or investment banking firm borne by all or a portion of a Series of Bonds or Parity Debt, taking into account the net economic effect of any Qualified Swap Agreement plus any other costs related to any Liquidity Facility or other costs related to such Bonds, as estimated by the financial advisor or investment banking firm, and without regard to the occurrence of any event that, under the provisions of the Qualified Swap Agreement, would allow the counterpart to make payments on any basis other than the actual variable interest rate on such Qualified Swap Agreement.

Consultant's Report means a report signed by an Independent Redevelopment Consultant, as may be appropriate to the subject of the report, and including: (1) a statement that the person or firm making or giving such report has read the pertinent provisions of the Indenture to which such report relates; (2) a brief statement as to the nature and scope of the examination or investigation upon which the report is based; (3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said Independent Redevelopment Consultant to express an informed opinion with respect to the subject matter referred to in the report.

Costs of Issuance means all items of expense directly or indirectly payable by or reimbursable to the Issuer and related to the authorization, execution, sale and delivery of the Bonds, as more particularly described in the Supplemental Indenture pursuant to which such Bonds were issued.

Continuing Disclosure Agreement means any continuing disclosure agreement or certificate executed and delivered by the Issuer in connection with the issuance and delivery of Bonds. When used in connection with any particular Series of Bonds, "Continuing Disclosure Agreement" means that certain continuing disclosure agreement or certificate, if any, executed and delivered by the Issuer in connection with the issuance and delivery of such Series of Bonds.

Credit Agreement means an agreement, relating to a Credit Facility provided in connection with a Series of Bonds, between the Issuer and a Credit Facility Provider, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with its terms.

Credit Facility means any letter of credit, surety bond, loan agreement or other credit agreement, facility, insurance or guarantee arrangement designated in a Supplemental Indenture as providing credit support for a Series of Bonds and issued by a financial institution, insurance company or association pursuant to which the Trustee and/or the Tender Agent, as the case may be, on behalf of the Issuer is entitled to obtain funds to pay the principal of and accrued interest on any Series of Bonds.

Credit Facility Provider means any issuer of a Credit Facility or any agent for the issuer or issuers of a Credit Facility as designated in a Supplemental Indenture as providing a Credit Facility for a Series of Bonds.

Current Interest Bonds means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and which pay interest at a Fixed Rate at least semiannually to the Owners of such Bonds, excluding the first payment of interest on the Bonds.

Eighth Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of July 1, 2005, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 2005A Bonds and the Series 2005B Bonds were issued and the payment of the principal thereof and interest thereon is secured.

Eleventh Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of November 1, 2007, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 2007A-T Bonds and the Series 2007B Bonds are being issued and the payment of the principal thereof and interest thereon is secured.

Event of Default means (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if the Issuer fails to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in parts (a) or (b) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Issuer by the Trustee or each Credit Facility Provider; except that, if such failure can be remedied but not within such sixty (60) day period and if the Issuer has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Issuer shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee or each Credit Facility Provider;

(d) if any default shall exist under any agreement governing any Parity Debt (except any Public Finance Contract) and such default shall continue beyond the grace period, if any, provided for with respect to such default;

(e) if the Issuer files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(f) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the Issuer insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Issuer, or approving a petition filed against the Issuer seeking reorganization of the Issuer under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(g) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Issuer or of the Revenues, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Expiration Date means the date on which any Credit Facility or Liquidity Facility expires pursuant to its terms (taking into account any extension or renewal of such Credit Facility or Liquidity Facility), terminates or becomes unavailable.

Fifth Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of January 1, 2002, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 2002 Bonds were issued and the payment of the principal thereof and interest thereon is secured.

First Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of December 1, 1993, by and between the Agency and Union Bank, as trustee, pursuant to which the Series 1993 Bonds were issued and the payment of the principal thereof and interest thereon is secured.

Fiscal Year means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected hereafter and designated as the official fiscal year period of the Issuer which designation shall be provided to the Trustee in a Certificate of the Issuer.

Fitch means Fitch Investor Service, L.P., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Fixed Rate means the per annum interest rate(s) to be borne by a Series of Bonds from their date of issuance or on and after a change to a Fixed Rate Mode established in accordance with the terms of the Indenture.

Fixed Rate Bonds means the Bonds of any Series which bear interest at a Fixed Rate from the date of issuance of such Series of Bonds or the date such Series of Bonds are changed to the Fixed Rate Mode until the specified maturity date of such Bonds or the date fixed for prior redemption.

Fixed Rate Mode means the period of time during which a Series of Bonds bear interest at a Fixed Rate from the date of issuance of such Series of Bonds or the date such Series of Bonds are changed to the Fixed Rate Mode until the specified maturity date of such Bonds or the date fixed for prior redemption.

Fourth Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of January 1, 1999, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 1999 Bonds were issued and the payment of the principal thereof and interest thereon is secured.

Indenture means the Indenture, dated as of December 1, 1993, between the Issuer and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture delivered pursuant to its provisions.

Independent Redevelopment Consultant means a consultant or firm of such consultants generally recognized to be well qualified in the field of consulting relating to tax allocation bond financing by California redevelopment agencies, appointed and paid by the Agency, and who, or each of whom: (1) is in fact independent and not under the domination of the Agency; (2) does not have any substantial interest, direct or indirect, with the Agency; and (3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to make annual or other reports to the Agency.

Interest Accrual Period means the period during which a Series of Bonds accrues interest payable on any Interest Payment Date.

Interest Payment Date means the date upon which interest is paid on a Bond, as specified in a Supplemental Indenture relating to such Series of Bonds.

Investment Securities means, except as otherwise provided in a Supplemental Indenture delivered in connection with the issuance of a Series of Bonds, the following:

- (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America and including interest strips of bonds issued by the Resolution Funding Corporation and held in book-entry form by the Federal Reserve Bank of New York;

- (ii) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note or other obligation described above in clause (i), provided that any such security has been stripped by the agency itself;

- (iii) obligations of Fannie Mae, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration, Federal Home Loan Mortgage Corporation, U.S. Export-Import Bank, Student Loan Marketing Association, Federal Financing Bank, Federal Housing Administration, General Services Administration, U.S. Maritime Administration, Farm Credit System and any obligation of

any other agency or instrumentality of the government of the United States hereafter created, provided such obligation is approved by Moody's and Standard & Poor's;

(iv) housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America, or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided that such bonds or notes are rated in either of the two highest long-term or highest short-term Rating Categories by Moody's and Standard & Poor's;

(v) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that such obligations are rated in either of the two highest long-term or highest short-term Rating Categories by Moody's and Standard & Poor's;

(vi) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vi) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vi), as appropriate, and (d) which are rated in one of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

(vii) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee) or by a state-licensed branch of any foreign bank, provided that such certificates of deposit shall be purchased directly from such a bank, trust company, national banking association or branch and shall be either (a) continuously and fully insured by the Federal Deposit Insurance Corporation, or (b) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to a level such that such certificates of deposit shall have a rating that is equal to or greater than the rating on the Bonds and such securities shall be lodged with the Trustee, as custodian, by the bank, trust company, national banking association or branch issuing such certificates of deposit, and the bank, trust company, national banking association or branch issuing each such certificate of deposit required to be so

secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to such required level and the Trustee shall be entitled to rely on each such undertaking;

(viii) taxable commercial paper or tax-exempt commercial paper rated in the highest Rating Category by Moody's and Standard & Poor's;

(ix) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars (\$100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement has a term of no more than thirty (30) days and is secured by any one or more of the securities and obligations described in clauses (i), (ii), (iii) or (iv) above, which shall have a market value (inclusive of accrued interest and valued at least weekly) equal to one hundred four percent (104%) of the amount of cash transferred by the Trustee to the bank, trust company, national banking association or bond dealer and at a level such that such repurchase agreement shall have a rating that is equal to or greater than the rating on the Bonds; such securities shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least weekly) will be an amount equal to such required level and the Trustee shall be entitled to rely on each such undertaking;

(x) any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (ix) of this definition of Investment Securities and any money market fund, including funds for which Union Bank or its affiliates or subsidiaries provide investment advisory or other management services, the entire investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), (v) and (ix) of this definition of Investment Securities; provided that, as used in this clause (x) and clause (xi), investments will be deemed to satisfy the requirements of clause (ix) if they meet the requirements set forth in clause (ix) ending with the words "clauses (i), (ii), (iii) or (iv) above" and without regard to the remainder of such clause (ix) and which investments are rated in either of the two highest Rating Categories by Moody's and Standard & Poor's;

(xi) any investment agreement with a financial institution or insurance company which (a) has an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated in either of the two highest long-term Rating Categories by Moody's and Standard & Poor's; or (b) is fully secured by obligations described in items (i), (ii), (iii) or (iv) of the definition of Investment Securities which are (1) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (2) held by the Trustee or owner custodian acceptable to the Trustee, (3) subject to a perfected first lien in the Trustee, and (4) free and clear from all third party liens, and (c) which investment agreement is approved by Moody's and Standard &

Poor's, to the extent required by such rating agency to maintain the ratings on the Bonds;

(xii) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended;

(xiii) bankers' acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by Moody's and Standard & Poor's, which purchases may not exceed two hundred seventy (270) days' maturity;

(xiv) the Local Agency Investment Fund (as that term is defined in Section 16429.1 of the Government Code of the State, as such Section may be amended or remodified from time to time); and

(xv) any investment approved by the Issuer for which confirmation is received from each rating agency then rating any of the Bonds that such investment will not adversely affect such agency's rating on such Bonds.

Issuer or Agency means the Redevelopment Agency of the City of San José, a public body, corporate and politic, duly organized and existing under the Law.

Liquidity Facility means any letter of credit, standby bond purchase agreement or other liquidity facility issued by a financial institution, insurance company or association pursuant to which the Trustee and/or the tender agent, as the case may be, is entitled to obtain funds to pay the Purchase Price of any Series of Bonds.

Liquidity Facility Provider means any issuer of a Liquidity Facility or any agent for the issuer or issuers of a Liquidity Facility.

Mandatory Sinking Account Payment means, with respect to Bonds of any Series and maturity, the amount required by the Indenture or a Supplemental Indenture to be deposited by the Issuer in a Sinking Account for the payment of Term Bonds of such Series and maturity.

Maturity Date means the date of maturity or maturities specified in a Supplemental Indenture establishing the terms and conditions of a Series of Bonds.

Maximum Annual Debt Service means the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) if the Bonds or Parity Debt is Variable Rate Indebtedness, the interest rate on such Bonds or Parity Debt shall be assumed to be the Maximum Interest Rate or such lesser rate established as the maximum interest rate pursuant to the Supplemental Indenture for such Variable Rate Indebtedness; provided, however, that if a Qualified Swap Agreement providing for a fixed rate of interest to maturity of such Bonds is in effect with respect to such Bonds or Parity Debt (as specified by the Issuer), the interest

rate on such Bonds or Parity Debt shall be assumed to be the Certified Fixed Rate (plus any other costs or fees related to such Bonds);

(b) principal and interest payments on Bonds and Parity Debt shall be excluded to the extent (i) such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and to the extent that such interest payments are to be paid from the proceeds of Bonds or Parity Debt held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest by the Trustee or other fiduciary or (ii) such payments are allocable to a portion of any Bonds required to remain unexpended and to be held in escrow pursuant to the terms of a Supplemental Indenture, provided that (X) projected interest earnings on such proceeds, plus such amounts, if any, deposited by the Issuer in the Interest Account, are sufficient to pay the interest due on such portion of the Bonds so long as it is required to be held in escrow, and (Y) the conditions for the release of such proceeds from escrow, insofar as they relate to Tax Revenue coverage and satisfaction of the Bond Reserve Requirement, are substantially similar to those provided in the Indenture for the issuance of Additional Bonds;

(c) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(d) if any Bonds or Parity Debt feature an option, on the part of its Owners or an obligation under the terms of such Bonds or Parity Debt, to tender all or a portion of such Bonds or Parity Debt to the Issuer, the Trustee or other fiduciary or agent and require that such Bonds or Parity Debt be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bonds or Parity Debt, the options or obligations of the Owners of such Bonds or Parity Debt to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which Owners of such Bonds or Parity Debt may or are required to tender such Bonds or Parity Debt, except that any such option or obligation to tender Bonds or Parity Debt shall be ignored and not treated as a principal maturity, if: (1) such Bonds or Parity Debt are rated in one of the two highest long-term Rating Categories by Moody's and by Standard & Poor's or such Bonds or Parity Debt are rated in the highest short-term note or commercial paper Rating Categories by Moody's and by Standard & Poor's; and (2) funds for the purchase price of such Bonds or Parity Debt are to be provided by a Liquidity Facility and the obligation of the Issuer with respect to the provider of such Liquidity Facility, other than its obligations on such Bonds or Parity Debt (including any increased interest rate thereon), shall be subordinated to the obligation of the Issuer on the Bonds or Parity Debt or, if not subordinate shall be incurred (assuming such immediate tender) under the conditions and meeting the tests for the issuance of Parity Debt as set forth in the Indenture, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Bonds or Parity Debt, such amounts shall be deemed to be equal to the scheduled repayment amounts, if any, set

forth in the amortization schedule established for such Bonds or Parity Debt, including any Mandatory Sinking Account Payments, or in the Liquidity Facility provided in connection with such Bonds or Parity Debt; and

(e) if any Bonds or Parity Debt are Paired Obligations, the interest rate on such Bonds or Parity Debt shall be the resulting fixed interest rate to be paid by the Issuer with respect to such Paired Obligations.

Maximum Interest Rate means the rate of twelve percent (12%) per annum, unless the Issuer shall obtain and deliver to the Trustee an Opinion of Bond Counsel to the effect that some higher rate of interest is then permitted under applicable law, the consent of each Credit Facility Provider to such increase in Maximum Interest Rate is delivered to the Issuer and the Trustee and unless the interest component of each Credit Facility and each Liquidity Facility then in effect with respect to any Series of Variable Rate Bonds effected by such increase shall be increased to cover such higher rate of interest.

Moody's means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

Ninth Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of November 1, 2006, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 2006A-T Bonds and the Series 2006B Bonds were issued and the payment of the principal thereof and interest thereon is secured.

Outstanding, when used as of any particular time with reference to Bonds, means all Bonds authenticated and delivered by the Trustee under the Indenture except (1) Bonds cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with the terms of the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner or Bondholder means the person in whose name such Bond is registered.

Paired Obligations means any one or more Series (or portion thereof) of Bonds or Parity Debt, designated as Paired Obligations in a Certificate of the Issuer, which are simultaneously issued, executed or delivered and the interest rates on which, taken together, result in an irrevocably fixed rate obligation of the Issuer for the term of such Bonds or Parity Debt.

Parity Debt means any indebtedness, Public Finance Contract, installment sale obligation, lease obligation or the obligation of the Issuer incurred pursuant to the terms of the Indenture and having an equal lien and charge upon the Revenues and therefore payable on a parity with the Bonds or an obligation of the Issuer the regularly scheduled payments of which are payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

Participating Underwriter shall have the meaning ascribed thereto in the Continuing Disclosure Agreement.

Person means a corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision.

Principal Payment Date means any date upon which a principal amount of Bonds is due under the Indenture, including the Maturity Date for a Series of Bonds, any Serial Maturity Date, or any Redemption Date.

Project means the undertaking of the Issuer pursuant to the Redevelopment Plans and the Law for the redevelopment of the Project Area, and the payment of all costs incidental to or connected with the accomplishment of such purpose including, without limitation, engineering, inspection, legal, fiscal agent, financial consultant and other fees, bond and other reserve funds, working capital, bond interest estimated to accrue during construction and for a period not to exceed three (3) years thereafter, and expenses for all proceedings for the authorization, issuance and sale of Bonds.

Project Area means the territory comprising the Issuer's Merged Area Redevelopment Project, including the project area known as the Park Center Redevelopment Project, as described in the Redevelopment Plans.

Proportionate Basis, when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed; provided that if the amount available for redemption of Fixed Rate Bonds of any maturity is insufficient to redeem a multiple of five thousand dollars (\$5,000) principal amount or Accreted Value payable at maturity, such amount shall be applied to the redemption of the highest possible integral multiple (if any) of \$5,000 principal amount or Accreted Value payable at maturity; and, provided further that if the amount available for redemption of Variable Rate Bonds of any maturity is insufficient to redeem a multiple of one hundred thousand dollars (\$100,000) principal amount, such amount shall be applied to the redemption of the highest possible integral multiple (if any) of \$100,000 principal amount. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or "purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

Public Finance Contract means a contract between or among the Issuer and one or more parties to provide for an interest rate swap or other hedging arrangement entered into pursuant to Section 5922 of the California Government Code, as amended, or any other applicable law.

Purchase Price means, with respect to any Series of Variable Rate Bonds, the amount specified as such in the Supplemental Indenture establishing the terms and conditions of such Series of Variable Rate Bonds.

Qualified Swap Agreement means a Public Finance Contract relating to a Series of Bonds or portion of such Series (a) in which the counterparty with which the Issuer or the Trustee may contract is limited to (i) entities the debt securities of which are rated in one of the two highest long-term debt Rating Categories by Moody's and Standard & Poor's or (ii) entities the obligations of which under the Qualified Swap Agreement are either guaranteed or insured by an entity the debt securities or insurance policies of which are so rated or (iii) entities the debt securities of which are rated in the third highest long-term debt Rating Categories by Moody's and Standard & Poor's or whose obligations are guaranteed or insured by an entity so rated and the obligations of which under the Qualified Swap Agreement are continuously and fully secured by Investment Securities (other than those described in clauses (iv) through (xv) of the definition thereof) which shall have a market value determined, by the party designated in such agreement, at least monthly (exclusive of accrued interest) at least equal to the termination value, if any, that would be payable by such counterparts under the Qualified Swap Agreement and which shall be deposited with a custodian acceptable to the Issuer, and (b) for which a Rating Confirmation Notice has been received; provided, however, that if the rating assigned by Moody's to the counterparts with which the Issuer or the Trustee has contracted falls below Baa2 or if the rating assigned by Standard & Poor's to such counterparts falls below BBB, such swap agreement shall no longer qualify as a Qualified Swap Agreement for any purpose under the Indenture, and (c) shall provide that the Issuer shall receive an amount equal to the actual positive difference between the actual variable rate on the Bonds or Parity Debt to which such Qualified Swap Agreement relates (plus any other costs or fees related to such Bonds) less the Certified Fixed Rate with respect to such Bonds or Parity Debt, shall provide that the notional amount of each Qualified Swap Agreement shall at all times equal the par amount of the Outstanding Bonds to which it relates, and shall terminate on the date of final maturity (or earlier redemption) of the Outstanding Bonds to which it relates.

Rating Category means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

Rating Confirmation Notice means a written notice or notices from all of Moody's, Standard & Poor's and Fitch, confirming that the rating on a Series of Bonds will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a long-term interest rate mode) as a result of the action proposed to be taken.

Record Date means (i) with respect to a Series of Bonds in a Weekly Mode or a Unit Pricing Mode, the day (whether or not a Business Day) next preceding each Interest Payment Date, (ii) with respect to a Series of Bonds in the Daily Mode, the last day of each month (whether or not a Business Day) and (iii) with respect to a Series of Bonds in a Term Rate Mode or the Fixed Rate Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

Redemption Date means the date fixed for redemption of Bonds in any notice of redemption given in accordance with the terms of the Indenture.

Redemption Price means, with respect to any Bond (or portion thereof) the principal amount or Accreted Value of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Redevelopment Plans means the redevelopment plans adopted for each of the project areas comprising the Project Area, including the Park Center Redevelopment Project, as they may be amended from time to time.

Reserve Provider means any issuer or issuers of a surety bond, insurance policy or letter of credit which may be issued to satisfy the Bond Reserve Requirement in accordance with provisions of the Indenture and is designated in a Supplemental Indenture.

Revenues means all Tax Revenues and all interest, profits and other income received from the investment of Tax Revenues or amounts held by the Trustee pursuant to the Indenture (other than amounts in the Rebate Fund) and all payments received pursuant to any Public Finance Contract. Revenues does not include lease revenues grants from the state or federal governments or any agency or instrumentality thereof or any other funds or assets of the Issuer except Tax Revenues, earnings and amounts paid pursuant to Public Finance Contracts described above; provided that, in accordance with the provisions set forth in the Indenture, the Issuer by Supplemental Indenture may provide for additional revenues or assets of the Issuer to be included in the definition of Revenues; provided, that payments to be made to the Issuer pursuant to any Qualified Swap Agreement shall not be considered additional revenues pursuant to the conditions precedent to an additional Series of Bonds.

Second Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of March 1, 1997, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 1997 Bonds were issued and the payment of the principal thereof and interest thereon is secured.

Serial Bonds means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

Serial Maturity Dates means the dates on which Serial Bonds mature.

Series, whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

Series 1993 Bonds means the \$649,020,000 outstanding aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 1993.

Series 1997 Bonds means the \$106,000,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 1997.

Series 1998 Bonds means the \$175,000,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 1998.

Series 1999 Bonds means the \$240,000,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 1999.

Series 2002 Bonds means the \$350,000,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2002.

Series 2003 Bonds means the \$135,000,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2003.

Series 2004A Bonds means the \$281,985,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2004A.

Series 2005A Bonds means the \$152,950,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2005A.

Series 2005B Bonds means the \$67,130,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2005B.

Series 2006A-T Bonds means the \$14,300,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2006A-T.

Series 2006B Bonds means the \$67,000,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2006B.

Series 2006C Bonds means the \$423,430,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2006C.

Series 2006D Bonds means the \$277,755,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2006D.

Series 2007A-T Bonds means the \$21,330,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T.

Series 2007B Bonds means the \$191,600,000 initial aggregate principal amount of Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2007B.

Seventh Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of May 1, 2004, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series

2004A Bonds are being issued and the payment of the principal thereof and interest thereon is secured.

Sixth Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of December 1, 2003, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 2003 Bonds were issued and the payment of the principal thereof and interest thereon is secured.

Standard & Poor's means Standard & Poor's Corporation, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Issuer.

State means the State of California.

Supplemental Indenture means any indenture duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate means the Tax Certificate delivered by the Issuer at the time of the issuance and delivery of any Series of Bonds, as the same may be amended or supplemented in accordance with its terms. There will be no Tax Certificate with respect to the Series 2006A-T Bonds or the Series 2007A-T Bonds.

Tax Revenue means for each Fiscal Year, the taxes (including all payments, reimbursements and subventions, if any, specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations) eligible for allocation to the Issuer pursuant to the Law in connection with the Project Area, excluding (a) amounts, if any, received by the Issuer pursuant to Section 16111 of the California Government Code to the extent required to be excluded pursuant to Section 16112.7(e) of the California Government Code, (b) amounts, if any, required to be deposited by the Issuer in the Low and Moderate Income Housing Fund pursuant to the Law, and (c) amounts, if any, required to be paid to any taxing agency pursuant to any agreement entered into pursuant to Section 33401 of the Law, except that such amounts shall not be excluded from Tax Revenues to the extent that such payments are subordinated to the Bonds and any Parity Debt.

Tenth Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of December 1, 2006, by and between the Agency and Union Bank of California, N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 2006C Bonds and the Series 2006D Bonds were issued and the payment of the principal thereof and interest thereon is secured.

Term Bonds means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

Third Supplemental Indenture means that certain Supplemental Indenture of the same name, dated as of March 1, 1998, by and between the Agency and Union Bank of California,

N.A. (successor to Union Bank by merger), as trustee, pursuant to which the Series 1998 Bonds were issued and the payment of the principal thereof and interest thereon is being secured.

Variable Rate Bonds means the Bonds of any Series which bear interest at a variable rate.

Variable Rate Indebtedness means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and which interest rate has not at some subsequent date been fixed at a single numerical rate for the entire term of the indebtedness.

ISSUANCE OF BONDS

By Supplemental Indenture, the Issuer may establish one or more Series of Bonds, payable from Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued. The Issuer must comply with the provisions set forth in the Indenture and any additional requirements set forth in a Supplemental Indenture, and is subject to the following specific conditions precedent to the issuance of any additional Series of Bonds:

(a) No Event of Default shall have occurred and then be continuing.

(b) Subject to the provisions of the Indenture, the Supplemental Indenture providing for the issuance of an additional Series shall require that the balance in the Bond Reserve Fund, upon the receipt of the proceeds of the sale of the additional Series of Bonds, be increased, if necessary, to an amount at least equal to the Bond Reserve Requirement with respect to all Bonds to be considered Outstanding upon the issuance of the new Series of Bonds. The deposit to the Bond Reserve Fund may be made from the proceeds of the sale of Bonds of such Series, from other funds of the Issuer or from both such sources, or in the form of a letter of credit, surety bond or insurance policy as described in the Indenture and as provided for in the Supplemental Indenture.

(c) The aggregate principal amount of Bonds issued thereunder shall not exceed any limitation imposed by law or by any Supplemental Indenture or by the Redevelopment Plans.

(d) The Issuer shall have obtained and placed on file with the Trustee a Certificate of the Issuer certifying that the amount of Tax Revenues allocable to the Issuer for the Fiscal Year in which such additional Series of Bonds will become Outstanding, plus any Additional Revenues shall have been at least equal to 1.15 times the amount of Maximum Annual Debt Service on all Series of Bonds and Parity Debt then Outstanding and the additional Series of Bonds then proposed to be issued.

For the purposes of paragraph (d) above, Outstanding Bonds do not include any Bonds the proceeds of which are deposited in an escrow fund held by the Trustee, provided that the Supplemental Indenture authorizing issuance of such Additional Bonds shall provide that: (i) such proceeds shall be deposited or invested with or secured by an institution rated "AA" or higher by Standard & Poor's and "Aa" or higher by Moody's at a rate of interest which, together with amounts made available by the Issuer from bond proceeds or otherwise, is at least sufficient to pay Annual Debt Service on the foregoing Bonds; (ii) moneys may be transferred from said escrow fund only if the requirements of the preceding paragraphs of this summary of the provisions relating to the issuance of

Bonds will be met with respect to all Outstanding Bonds less a principal amount of Bonds which is equal to moneys on deposit in said escrow fund after each such transfer; and (iii) the Additional Bonds shall be redeemed from moneys remaining on deposit in said escrow fund at the expiration of a specified escrow period in such manner as may be determined by the Issuer.

(e) If and to the extent deemed practical in the reasonable judgment of the Issuer with regard to the type of Bond to be issued, the principal payments of such additional Series of Bonds shall be due on August 1 in each year in which principal is to be paid and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments shall be due on February 1 and August 1 in each year, as appropriate.

In the event additional assets or revenues are irrevocably included within the definition of "Revenues" by a Supplemental Indenture, such additional assets or revenues may be included in the calculations in subsection (d) above as if such additional assets or revenues were Tax Revenues; provided that a Rating Confirmation Notice is obtained and further that the consent of each Credit Facility Provider to such inclusion is obtained. Nothing in the section of the Indenture relating to the issuance of Bonds or otherwise in the Indenture contained prevents the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of the additional Series of Bonds.

Whenever the Issuer determines to issue an additional Series of Bonds pursuant to the terms of the Indenture, the Issuer is required to authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the forms of Bonds of such additional Series and providing the terms, conditions, distinctive designation, Authorized Denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal of or Redemption Price, if any, and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of the Indenture.

Before such additional Series of Bonds is issued and delivered, the Issuer must file with the Trustee the appropriate documents pursuant to the terms of the Indenture (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

Refunding Bonds. Refunding Bonds may be authorized and issued by the Issuer without compliance with the provisions of the Indenture regarding the issuance of an additional Series of Bonds; provided that Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding following the issuance of such refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds and Parity Debt Outstanding prior to the issuance of such refunding Bonds. Such refunding Bonds may be issued in an aggregate principal amount sufficient to provide funds for the payment of all of the following: (1) the principal or Redemption Price of the Outstanding Bonds or Parity Debt to be refunded; (2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or Parity Debt and the Costs of Issuance of such refunding Bonds; (3) interest on all Outstanding Bonds or Parity Debt to be refunded to the date such Bonds or Parity Debt will be called for redemption or paid at maturity; (4) interest on the refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Debt to be refunded.

Before an additional Series of refunding Bonds is issued and delivered, the Issuer must file the appropriate documents with the Trustee in accordance with the terms of the Indenture (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

In the event that a Series of Bonds is to be used both for refunding of Outstanding Bonds and for other purposes, the portion of such Series of Bonds allocable to refunding purposes will be treated as a separate Series of Bonds.

Limitations on the Issuance of Obligations Payable from Revenues. The Issuer will not, so long as any of the Bonds are Outstanding, issue any obligations or securities payable in whole or in part from Revenues except the following:

- (a) Bonds of any Series authorized pursuant to the terms of the Indenture;
- (b) Refunding Bonds authorized pursuant to the Indenture;
- (c) Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:
 - (1) Such Parity Debt has been duly and legally authorized for any lawful purpose;
 - (2) No Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the Issuer filed with the Trustee;
 - (3) Unless such Parity Debt is for refunding purposes, the Issuer shall have obtained and placed on file with the Trustee a Certificate of the Issuer, upon which the Trustee may conclusively rely, certifying (on the basis of calculations as of the date of delivery of such Parity Obligations) that the debt service coverage requirements set forth in the Indenture with respect to additional Bonds have been met with respect to such Parity Debt;
 - (4) The Issuer shall have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with law;
 - (5) The Trustee shall be designated as paying agent or trustee for such Parity Debt, if appropriate, and the Issuer will deliver to the Trustee a transcript of the proceedings providing for the execution and delivery of such Parity Debt;
 - (6) If such Parity Debt is Variable Rate Indebtedness and/or involves any Public Finance Contract, the Issuer and the Trustee shall have received a Rating Confirmation Notice and consent of the Bond Insurer with respect to such Parity Debt and any other Outstanding Bonds or Parity Debt;
 - (7) If such Parity Debt are not Bonds and it is customary and appropriate to fund a reserve fund in connection with the issuance and delivery of such Parity Debt, the Issuer shall fund such a reserve fund in an amount which

would satisfy the Bond Reserve Requirement that would be applicable if such Parity Debt were Bonds of an equal aggregate principal amount.

(d) Obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinated obligations are payable only out of Revenues after the prior payment of all amounts then required to be paid from Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture.

REDEMPTION OF BONDS

Each Series of Bonds may be made subject to redemption, or mandatory or optional tender and purchase, prior to their respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions and upon such notice and with such effect as may be provided in the Supplemental Indenture creating such Series of Bonds.

Unless otherwise specified in a Supplemental Indenture, each notice of redemption will be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each Owner, the Securities Depositories, two or more Information Services and each Credit Facility Provider. Notice of redemption to the Owners, the Information Services and each Credit Facility Provider will be given by first class mail and state all information and terms in accordance with the provisions of the Indenture. Each such notice must also state that, unless such notice is rescinded as provided for in the Indenture, on said date there will become due and payable on each of said Bonds the Redemption Price or, if the Bond is to be redeemed in part only, the specified portion of the principal amount of the Bond to be redeemed, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Any notice of redemption pursuant to the Indenture (except any notice of mandatory redemption or tender) may be rescinded by the Issuer at any time prior to the redemption date by instrument in writing delivered to the Trustee. In the event such notice of redemption is rescinded, the Trustee will provide notice of such rescission to the parties in the manner (but without regard to the time limitations) set forth above.

ALLOCATION AND APPLICATION OF REVENUES

Pledge of Revenues. The Bonds are limited obligations of the Issuer and are payable as to both principal and interest, and any premium upon redemption, exclusively from the Revenues and other funds pledged under the terms of the Indenture. All Revenues are pledged under the Indenture to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds, the Bond Reserve Costs and any Parity Debt in accordance with their terms, subject only to the provisions of the Indenture. The Issuer pledges to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds in accordance with their terms with all amounts held by the Trustee under the terms of the Indenture and all proceeds of the Bonds, including earnings thereon, held by the Issuer in any fund or account established pursuant to the Indenture (except for amounts held in the Rebate Fund), subject only to the terms and conditions of the Indenture. The Issuer's pledge

constitutes a first lien on the Revenues and amounts in such funds and is valid and binding from and after delivery by the Trustee of the Bonds or Parity Debt.

The Revenues are pledged to the payment of Bonds and Parity Debt without priority or distinction of one over the other and the Revenues constitute a trust fund for the security and payment of the Bonds and Parity Debt; but certain amounts out of Revenues may be applied for other purposes as provided in the Indenture. All sums required for the payment of the principal of, redemption premium, if any, and interest on the Bonds and all Parity Debt, together with any sinking fund payments of Bonds and Parity Debt, reserve fund requirements, fees and expenses and similar charges payable to Credit Facility Providers and Liquidity Facility Providers will be applied out of Revenues. All remaining Revenues, after making the foregoing allocation, will be available to the Issuer for all lawful Issuer purposes. The pledge of Revenues herein described is irrevocable until all of the Bonds, all Parity Debt, all Bond Reserve Costs and amounts owed to Credit Facility Providers and Liquidity Providers are no longer Outstanding.

The Revenues will be received and held in trust by the Trustee for the benefit of the Owners of the Bonds and the owners of the Parity Debt and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture. As long as any Bonds are Outstanding or any Parity Debt remains unpaid, the Issuer will assign and is required to cause Revenues to be transmitted directly to the Trustee. The Trustee will deposit all Revenues in a trust fund, designated as the "Merged Area Redevelopment Project Special Funds (the "Special Fund"), which fund the Trustee will maintain. Investment income on amounts held by the Trustee (other than amounts held in the Rebate Fund or for which particular instructions are provided in a Supplemental Indenture) is also required to be deposited in the Special Fund. All moneys at any time held in the Special Fund must be held in trust for the benefit of the Owners of the Bonds, the owners of Parity Debt, the Credit Facility Providers and the Liquidity Facility Providers and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

Allocation of Revenues. So long as any Bonds are Outstanding, the Trustee is required to set aside following receipt of the Tax Revenues the moneys in the Special Fund in the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Owners of the Bonds) in the following amounts and in the following order of priority. The requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit are to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided for in the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

(1) Interest Fund. The Trustee is required to deposit in the Interest Fund an amount equal to (a) the aggregate amount of interest becoming due and payable on the Outstanding Current Interest Bonds during the period up to and including the next Interest Payment Date with respect to Outstanding Current Interest Bonds (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during the period up to and including the next Interest Payment Date with respect to Outstanding Current Interest Bonds plus (b) with respect to Outstanding Paired Obligations, such amount as shall be sufficient to pay the aggregate of the resulting fixed interest obligation coming due and payable on the next Interest Payment Date for such Paired Obligations. No deposit need be made into the Interest

Fund if the amount contained therein is at least equal to the interest to become due and payable on the next succeeding Interest Payment Date upon all of the Bonds issued thereunder and any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having Interest Payment Dates other than February 1 and August 1) is required to be transferred to the Issuer (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Dates).

(2) Principal Fund; Sinking Accounts. The Trustee is required to deposit in the Principal Fund an amount equal to (a) the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates on the next semiannual maturity date, plus (b) with respect to Outstanding Serial Bonds of all Series having annual maturity dates, during each six-month period prior to each such maturity date, one-half of the aggregate amount of Bond Obligation becoming due and payable on such Bonds on the next annual maturity date, plus (c) for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, the aggregate of the Mandatory Sinking Account Payments to be paid on the next semi-annual Sinking Account Payment Date into the respective Sinking Accounts, plus (d) for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts, during each six-month period prior to such redemption date, one-half of the aggregate of the Mandatory Sinking Account Payments to be paid on the next annual Sinking Account Payment Date into the respective Sinking Accounts; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need be set aside towards such principal to be so refunded or paid.

All of the Mandatory Sinking Account Payments are required to be made without priority of any payment into any one such Sinking Account over any other such payment. In the event that the Revenues are not sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys will be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding twelve-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six-month period. In the event that the Revenues are not sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts will be made on a Proportionate Basis, in such proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current twelve-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such twelve-month period.

No deposit need be made into the Principal Fund so long as there is in such Principal Fund (i) moneys sufficient to pay the Bond Obligation of all Serial Bonds issued under the

Indenture and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such twelve-month period, but less any amounts deposited into the Principal Fund during such twelve-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such twelve-month period; provided that if the Issuer certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in the Bond Reserve Fund that would be in excess of the Bond Reserve Requirement upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than July 15 of each year, the Trustee will request from the Issuer a Certificate of the Issuer setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason deposits will not be necessary.

(3) **Bond Reserve Fund.** The Trustee will deposit in the Bond Reserve Fund, except as otherwise provided in the Indenture, upon the occurrence of any deficiency therein, the aggregate amount of each unreplenished prior withdrawal from the Bond Reserve Fund plus the Bond Reserve Costs (as set forth in a written notice to the Trustee from the Issuer relating to any draw on a letter of credit, insurance policy or surety bond satisfying all or a portion of the Bond Reserve Requirement and the amount of any deficiency in the Bond Reserve Fund due to any required valuations of the investments in the Bond Reserve Fund until the balance in the Bond Reserve Fund is at least equal to the Bond Reserve Requirement. In making a Bond Reserve Requirement deposit in compliance with the Indenture, the Issuer shall be required to first reimburse each Credit Facility Provider for any prior unreimbursed draws on any such surety bond, letter of credit or insurance policy (each, a "Reserve Fund Credit Facility"), on a pro rata basis calculated according to the respective maximum amounts thereof, before replenishing the Bond Reserve Fund for any prior draws on the cash portion thereof.

Any Revenues remaining in the Special Fund after the foregoing transfers outlined above, except as otherwise provided in a Supplemental Indenture, are required to be transferred on the same Business Day to the Issuer. The Issuer may use and apply the Revenues when received by it for any lawful purpose of the Issuer, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine.

If five (5) days prior to any Principal Payment Date, Interest Payment Date or mandatory redemption date the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee must immediately notify the Issuer in writing, of such deficiency and direct that the Issuer transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Issuer is required to transfer to the Trustee from any Revenues in its possession the amount of such deficiency on or prior to the principal or Interest Payment Date or mandatory redemption date referenced in such notice.

Application of Interest Fund. All amounts in the Interest Fund must be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Fund. All amounts in the Principal Fund are required to be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts will be used and

withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided for in the Indenture.

The Trustee will establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee will transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee will apply the Mandatory Sinking Account Payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to selecting Term Bonds for redemption, the Trustee will, upon receipt of a Request of the Issuer, apply moneys in or to be transferred to such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) may not exceed the principal amount or Accreted Value of the Term Bonds. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, prior to the selection of Term Bonds for redemption, the Issuer has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and in each instance allocated to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed must be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding must be withdrawn by the Trustee and transferred to the Issuer to be used for any lawful purpose. All Term Bonds purchased from a Sinking Account in excess of the amount of Term Bonds then subject to mandatory redemption or deposited by the Issuer with the Trustee will be allocated as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer. All Term Bonds optionally redeemed by the Trustee from the Redemption Fund will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

Funding and Application of Bond Reserve Fund. In lieu of making the Bond Reserve Requirement deposit in compliance with the terms of the Indenture, or in replacement of moneys then on deposit in the Bond Reserve Fund (which will be transferred by the Trustee to the Issuer), the Issuer may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest long-term Rating Categories of Moody's and Standard & Poor's, in an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in the Indenture) on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such letter of credit must have an original term of no less than three (3) years or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained and such letter of credit must provide by its terms that it may be drawn upon as provided for in the Indenture. At least one (1) year prior to the stated expiration of such letter of credit, the Issuer must either (i)

deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Series of Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements of the Indenture. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee must deliver the then-effective letter of credit to or upon the order of the Issuer. If the Issuer fails to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the Issuer must immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement will be on deposit in the Bond Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Bond Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee must draw on the letter of credit to fund the deficiency resulting therefrom in the Bond Reserve Fund.

In lieu of making the Bond Reserve Requirement deposit in compliance with provisions of the Indenture, or in replacement of moneys then on deposit in the Bond Reserve Fund (which is to be transferred by the Trustee to the Issuer), the Issuer may deliver to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Bond Reserve Fund, equal to the Bond Reserve Requirement. Such surety bond or insurance policy must be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated in one of the two highest long-term Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy must have a term of no less than the maturity of the Series of Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Issuer must immediately implement (i) or (iii) of the preceding paragraph or make the required deposits to the Bond Reserve Fund. The provisions summarized in this paragraph are not to be construed as superseding or otherwise limiting the requirement that the Issuer, in replenishing the Bond Reserve Fund, must first reimburse each Credit Facility Provider for any unreimbursed draws on any Reserve Fund Credit Facility issued by such Credit Facility Provider and on deposit in the Bond Reserve Fund, before replenishing the Bond Reserve Fund for any prior draws on the cash portion thereof.

All amounts in the Bond Reserve Fund (including all amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Bond Reserve Fund) will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payment of a Series of Bonds, if following such payment the amounts in the Bond Reserve Fund (including the amounts which may be obtained from letters of credit and surety bonds and insurance policies on deposit therein) will equal the Bond Reserve Requirement and for the payment of all Bond Reserve Costs. The Trustee shall draw on the Bond Reserve Fund, in a timely manner and in accordance with the terms of any applicable Reserve Fund Credit Facilities, to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds when due; provided, however, that any cash and Investment Securities in the Bond Reserve Fund must be drawn down completely before any demand is made on any Reserve Fund Credit Facility on deposit therein; and further provided that, to the extent more than one Reserve Fund Credit Facility is on deposit in the Bond Reserve Fund, any draws on such Reserve Fund Credit Facilities shall be made pro rata, calculated by reference to the

maximum respective amounts of such Reserve Fund Credit Facilities. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Bondowner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or bond insurance policy, if any, securing the Bonds so provide, must so notify the issuer thereof and draw on such letter of credit or surety bond or policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or policy in order to pay to such Bondowners the principal of and interest so recovered. Any amounts in the Bond Reserve Fund in excess of the Bond Reserve Requirement must be transferred by the Trustee to the Issuer on April 1 and October 1 of each year; provided that such amounts may be transferred only from the portion of the Bond Reserve Fund held in the form of cash or Investment Securities.

At the request of the Trustee, the Issuer agrees to provide the Trustee with such information as is necessary to enable the Trustee to calculate the Bond Reserve Requirement. At the Issuer's option it may provide for separate accounts within the Bond Reserve Fund for separate Series of Bonds and, in such case, the Bond Reserve Requirement would be calculated separately for such Series. Funds in one account are only available to pay debt service on the Series of Bonds to which that account relates and no amounts on deposit in any other account would be available to pay debt service on such Series of Bonds.

Application of Redemption Fund. The Trustee will establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Issuer with the Trustee for the purpose of optionally redeeming Bonds of any Series must, unless otherwise directed by the Issuer, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund must be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to the selection of Bonds for redemption, the Trustee must, upon receipt of a Request of the Issuer, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Issuer, except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund must be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Issuer.

INVESTMENT OF FUNDS AND ACCOUNTS

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture will be invested, as directed by the Issuer, solely in Investment Securities. All Investment Securities shall, as directed by the Issuer in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations set forth in the Tax Certificate and in the Indenture, and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Issuer, and as may be established in a Supplemental Indenture delivered in connection with the issuance of a Series of Bonds. The Trustee must notify the Issuer no less than two (2) Business Days prior to the date moneys held thereunder will be available for investment, requesting that the Issuer deliver to the Trustee a Written Request of the Issuer specifying the Permitted Investments to be acquired by the Trustee with such moneys. If and to the extent the Trustee does not receive investment

instructions from the Issuer with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys will be invested in investments as described in clauses (i), (vii) or (x) of the definition of Investment Securities and the Trustee must thereupon request investment instructions from the Issuer for such moneys.

Moneys in the Bond Reserve Fund must be invested in Investment Securities available on demand or maturing within five (5) years of the date of such investment. Moneys in the remaining funds and accounts will be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee. Moneys invested in the Principal Fund, Interest Fund and Bond Reserve Fund will be invested in Investment Securities with a rating not less than the rating on the Bonds.

Unless otherwise provided in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account held by the Trustee, other than the Rebate Fund, must be transferred to the Special Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund must be deposited in the Rebate Fund, except as provided in the Indenture. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account from which such accrued interest was paid.

All Investment Securities credited to the Bond Reserve Fund will be valued as of January 31 and July 31 of each year (or the next succeeding Business Day if such day is not a Business Day) at their fair market value determined to the extent practical by reference to the closing bid price thereof published in The Wall Street Journal or any other financial publication or quotation service selected by the Trustee in its sole discretion.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture, other than the Rebate Fund, into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the Issuer, may impose its customary charge therefor. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Issuer may and the Trustee are required, upon the Request of the Issuer, to enter into a financial futures or financial option contract with an entity the debt securities of which are rated in the highest short-term or one of the two highest long-term Rating Categories by Moody's and Standard & Poor's.

The Issuer may and the Trustee must, upon the Request of the Issuer, enter into a Public Finance Contract corresponding to the interest rate or rates payable on a Series of Bonds or any portion thereof. If the Issuer so designates, amounts payable under the Public Finance Contract will be secured by Revenues and other assets pledged thereunder to the Bonds on a parity basis therewith; provided such agreement is entered into in compliance with the requirements for the execution and delivery of Parity Debt. As such, the counterparty to

such agreement is not treated as an Owner under the Indenture for any purpose other than the right to receive such payments from Revenues.

COVENANTS OF THE ISSUER

Punctual Payment. The Issuer will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, and must punctually pay or cause to be paid all Mandatory Sinking Account Payments, but in each case only out of Revenues as provided in the Indenture.

Extension of Payment of Bonds. The Issuer will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any Bonds or claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest are not entitled, in case of any default under the terms of the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Section relating to the extension of payment of Bonds limits the right of the Issuer to issue bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not constitute an extension of maturity of Bonds.

Waiver of Laws. The Issuer will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of any law now or at any time in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Issuer to the extent permitted by law.

Further Assurances. The Issuer will make, execute and deliver any and all such instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Against Encumbrances. The Issuer will not create any pledge, lien or charge upon any of the Revenues having priority over or having parity with the lien of the Bonds except as permitted by the terms of the Indenture.

Accounting Records and Financial Statements. The Issuer will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries are required to be made of all transactions relating to the Revenues. Such books of record and account are required to be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Issuer will furnish the Trustee and each Credit Facility Provider, within one hundred and eighty (180) days after the end of each Fiscal Year, the financial statements of the Issuer relating to the Revenues for such Fiscal Year, together with the report and opinion of an independent certified public accountant stating that the financial statements have been prepared

in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of the chief financial officer of the Issuer stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Issuer to cure such default. Thereafter, a copy of such financial statements will be furnished to any owner of Bonds upon written request to the Trustee.

Management and Operation of Properties. The Issuer will manage and operate all properties owned by the Issuer and comprising any part of the Project in a sound and business-like manner and in conformity with all valid requirements of any governmental authority relative to the Project or any part thereof, and will keep such properties insured at all times in conformity with sound business practice.

Payment of Claims. The Issuer will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Issuer or upon the Tax Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds; provided that nothing in the Indenture requires the Issuer to make any such payments so long as the Issuer in good faith is contesting the validity of any such claims.

Payment of Taxes and Other Charges. Subject to the provisions of the Indenture, the Issuer will pay and discharge all taxes, service charges, assessments and other governmental charges which may be lawfully imposed upon the Issuer or any properties owned by the Issuer in the Project Area, or upon the revenues therefrom, when the same becomes due; provided that nothing contained in the Indenture requires the Issuer to make any such payments so long as the Issuer in good faith is contesting the validity of any such taxes, service charges, assessments or other governmental charges.

Financing the Project. The Issuer will commence the financing or refinancing of the Project to be aided with the proceeds of the Bonds with all practicable dispatch, and such financing will be accomplished and completed in a sound, economical and expeditious manner and in conformity with the Redevelopment Plans and the Law so as to complete the Project as soon as possible.

Taxation of Leased Property. Whenever any property in the Project is redeveloped by the Issuer and thereafter is leased by the Issuer to any person or persons, or whenever the Issuer leases any real property in the Project to any person or persons for redevelopment, the property shall be assessed and taxed in the same manner as privately-owned property (in accordance with the Law), and the lease or contract must provide (1) that the lessee shall pay taxes upon the assessed value of the entire property and not merely upon the assessed value of the leasehold interest, and (2) that if for any reason the taxes paid by the lessee on such property in any year during the term of the lease shall be less than the taxes that would have been payable upon the entire property if the property were assessed and taxed in the same manner as privately-owned property, the lessee shall pay such difference to the Issuer within thirty (30) days after the taxes for such year become payable, and in any event prior to the delinquency date of such taxes established by law, which such payments shall be treated as Tax Revenues and shall be deposited by the Issuer in the Special Fund.

Disposition of Property. Except as provided below, the Issuer will not authorize the disposition of any real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except for public ownership or use contemplated by the Redevelopment Plans in effect on the date of execution and delivery of the Indenture, or property to be used for public streets or public off-street parking facilities or easements or rights of way for public utilities, or other similar uses) if such dispositions, together with all similar prior dispositions on or subsequent to the effective date of the Indenture, comprise more than ten percent (10%) of the land area in the Project Area. If the Issuer proposes to make any such disposition which, together with all similar dispositions on or subsequent to the effective date of the Indenture, comprise more than ten percent (10%) of the land area in the Project Area, it must cause to be filed with the Trustee a Consultant's Report on the effect of such proposed disposition. If such Consultant's Report concludes that the Tax Revenues will not be materially reduced by such proposed disposition, the Issuer may proceed with such proposed disposition. If such Consultant's Report concludes that Tax Revenues will be materially reduced by such proposed disposition, the Issuer may not proceed with such proposed disposition unless, as a condition precedent to such proposed disposition, the Issuer requires that such new owner or owners either (1) pay to the Issuer, so long as any of the Bonds are Outstanding, an amount equal to the amount that would have been received by the Issuer as Tax Revenues if such property were assessed and taxed in the same manner as privately-owned non-exempt property, which payment must be made within thirty (30) days after taxes for each year would become payable to the taxing agencies for non-exempt property and in any event prior to the delinquency date of such taxes established by law, or (2) pay to the Issuer a single sum equal to the amount estimated and certified to the Issuer by an Independent Redevelopment Consultant to be receivable from taxes on such property from the date of such payment to the last maturity date of all Outstanding Bonds, less a reasonable discount value.

All such payments to the Issuer in lieu of taxes will be treated as Tax Revenues and must be transferred by the Issuer to the Trustee to be deposited by the Trustee in the Special Fund.

Amendment of Redevelopment Plans. If the Issuer proposes to amend any of the Redevelopment Plans, it will file with the Trustee a report of an Independent Redevelopment Consultant on the effect of such proposed amendment. If such report concludes that Tax Revenues will not be materially reduced by such proposed amendment, the Issuer may adopt such amendment. If such report concludes that Tax Revenues will be materially reduced by such proposed amendment, the Issuer may not adopt such proposed amendment.

Tax Revenues. The Issuer agrees to comply with all requirements of the Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of Santa Clara County.

Agreements with Other Taxing Agencies. So long as any Bonds are Outstanding, the Issuer will not enter into any agreement or amend any existing agreement with any other taxing agency entered into (i) pursuant to Section 33401 of the Law or (ii) which operates as a waiver of the Issuer's right to receive Tax Revenues under the Redevelopment Plans, unless the Issuer's obligations under such agreement are made expressly subordinate and junior to the Issuer's obligations under the Indenture and the Bonds.

Annual Review of Tax Revenues. The Agency shall manage its fiscal affairs in a manner which ensures that it will have sufficient Tax Revenues available under the Merged

Area Redevelopment Plans in the amounts and at the times required to enable the Agency to pay the principal of and interest and premium (if any) on the outstanding Bonds when due.

Additionally, the Agency has covenanted that it will annually review, no later than December 1 of each year (commencing December 1, 2004), the total amount of tax increment revenue remaining available to be received by the Agency under the Merged Area Redevelopment Plans (but not including any tax increment revenue otherwise excluded under the Merged Area Redevelopment Plans' limitation on the amount of tax increment revenue that can be allocated to the Agency), as well as (i) future cumulative Annual Debt Service on the Bonds, (ii) future cumulative annual debt service on subordinate bonds (determined as set forth in the instruments pursuant to which such subordinate bonds were issued), (iii) the future annual cumulative debt service under the Second Amended and Restated Reimbursement Agreement dated as of August 1, 2003 between the Agency and the City, and (iv) the future cumulative annual payments pursuant to any obligations of the Agency payable from Tax Revenues, whether on a parity with or subordinate to debt service on the Bonds. If, based on such review, the allocation of tax increment revenue (subtracting therefrom amounts required to be paid to other taxing entities pursuant to statutory pass-throughs and amounts required to be deposited in the Agency's Low and Moderate Income Housing Fund) in any of the next three succeeding Fiscal Years (including the Fiscal Year during which such calculation is being made) will (assuming an increase in tax increment revenue of 2% per Fiscal Year) cause an amount equal to ninety percent (90%) of the amount of tax increment revenue (subtracting therefrom amounts required to be paid to other taxing entities pursuant to statutory passthroughs and amounts required to be deposited in the Agency's Low and Moderate Income Housing Fund) remaining to be allocated under the Merged Area Redevelopment Plans to fall below the sum of (i), (ii), (iii) and (iv), the Agency shall either (1) defease Bonds by depositing an amount of tax increment revenues equal to the amount that is required to ensure continuing compliance with this covenant in a defeasance escrow to be held by the Trustee to be pledged solely to the payment of debt service on the Bonds, which escrow shall be invested in Government Obligations and used for the payment of interest on and principal of and redemption premiums, if any, on the Bonds or (2) adopt a plan approved by an Independent Redevelopment Consultant which demonstrates the Agency's continuing ability to pay debt service on the Bonds. In determining the amount to be deposited in escrow with the Trustee, the Agency may take into account projected interest earnings on the amounts so deposited.

The Agency shall annually no later than December 1 (commencing December 1, 2004), transmit to the Trustee, a Certificate of the Agency setting forth the calculations described above, including the total amount of tax increment revenue remaining available to be received by the Agency under the Merged Area Redevelopment Plans, the amounts calculated pursuant to (i), (ii), (iii) and (iv) of the immediately prior paragraph, the amount of tax increment revenue allocated to or received by the Agency during the prior Fiscal Year covered by the statement, and the amount of tax increment revenue, if any, that were used, or escrowed during the prior Fiscal Year for future use, to pay interest on and principal of and redemption premiums, if any, on the Bonds and the Subordinate Bonds.

Rebate Fund. The Trustee will establish and maintain a fund separate from any other fund established and maintained under the terms of the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee must maintain such accounts necessary to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund will be held by the Trustee for the account of the Issuer in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America, and neither the Trustee nor the

Owner of any Bonds have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund are governed by the Indenture and by the Tax Certificate.

The Issuer is required to comply with the directions contained in the Tax Certificate and the Trustee is required to comply with all written instructions of the Issuer delivered to the Trustee pursuant to the Tax Certificate (which instructions are required to state the actual amounts to be deposited in or withdrawn from the Rebate Fund and will not require the Trustee to make any calculations). The Trustee will be deemed conclusively to have complied with the provisions of the Indenture relating to the Rebate Fund if it follows such instructions of the Issuer, and the Trustee has no liability or responsibility to enforce compliance by the Issuer with the terms of the Tax Certificate nor to make computations in connection with the Tax Certificate.

Pursuant to the Tax Certificate, (a) an amount will be deposited in the Rebate Fund by the Issuer so that the balance of the amount on deposit thereto is equal to the Rebate Requirement (computations of the Rebate Requirement will be furnished by or on behalf of the Issuer to the Trustee in accordance with the Tax Certificate); (b) the Trustee will invest all amounts held in the Rebate Fund, pursuant to written instructions of the Issuer, in Investment Securities, subject to the restrictions set forth in the Tax Certificate (money will not be transferred from the Rebate Fund except as provided in this paragraph); (c) upon receipt of the requisite Rebate Instructions, the Trustee will remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Rebate Instructions so direct, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Rebate Instructions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, will be withdrawn and remitted to the Issuer in accordance with a Request of the Issuer.

Notwithstanding any other provision of the Indenture, the obligation of the Issuer to remit the Rebate Requirement to the United States of America and to comply with all other requirements of the provisions relating to the Rebate Fund and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

Tax Covenants. The Issuer will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Issuer may exclude the application of the covenants contained in the Indenture to such Series of Bonds. Without limiting the foregoing, the Issuer agrees that it will comply with all requirements of the Tax Certificate relating to each Series of Bonds. In the event that at any time the Issuer is of the opinion that for purposes of the Section relating to Tax Covenants it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Issuer will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Issuer agrees that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Bonds from time to time. This covenant will survive payment in full or defeasance of the Bonds. The Issuer specifically covenants to pay or cause to be paid to the United States of America the Rebate Requirement at the times and in the amounts determined under and as described in the Tax Certificate.

Notwithstanding any provision of the Indenture and the Tax Certificate, if the Issuer receives an Opinion of Bond Counsel to the effect that any action required under the Indenture and the Tax Certificate is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to the Code, the Issuer and the Trustee may rely conclusively on such opinion in complying with the provisions of the Indenture, and the covenants are deemed modified to that extent.

The tax covenants do not apply to the Series 2006A-T Bonds and the Series 2007A-T Bonds.

EVENTS OF DEFAULT AND REMEDIES

The Trustee agrees to immediately notify each Credit Facility Provider of an Event of Default described in the Indenture and will provide notification of any other Event of Default to each Credit Facility Provider within thirty (30) days of the Trustee's actual knowledge or notification of such Event of Default. In determining whether a payment default has occurred under the terms of the Indenture, no effect will be given to payments made under a Credit Facility where the Credit Facility Provider has not been reimbursed for such payment.

Application of Revenues and Other Funds After Default. If an Event of Default occurs and continues, the Issuer will immediately transfer to the Trustee all Revenues held by it and the Trustee will apply all Revenues and any other funds (other than any Purchase Fund and any undelivered bonds fund) then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

- (1) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and the owners of Parity Debt, including the fees, costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

- (2) to the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (excluding Public Finance Contract termination payments) (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or their surrender if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and Parity Debt, and to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available is insufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment of unpaid principal or Redemption Price ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled to such payment, without any discrimination or preference;

- (3) to the payment of the whole amount of Public Finance Contract termination payments, if any, entered into in connection with any Parity Debt.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture, the Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, and subject to the rights of any Credit Facility Provider or Liquidity Facility Provider, if applicable, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, must, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture, the Law or any other law; and upon instituting such proceeding, the Trustee is entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or their production in any related proceeding, and any such suit, action or proceeding instituted by the Trustee must be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. Subject to the rights of any Credit Facility Provider or Liquidity Facility Provider, if applicable, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee, provided that such direction may not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

Limitation on Bondholders' Right to Sue. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Law or any other applicable law with respect to such Bond, unless (1) such Owner has given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted to the trustee or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee has refused or omitted to comply with such request for a period of sixty (60) days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (5) the Trustee has not received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

Such notification request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the terms of the Indenture or under law; it being understood and intended that no one or more Owners of Bonds have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture, the Law or other applicable law with respect to the Bonds, except in the manner provided for in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the Issuer. Nothing in any provision of the Indenture, or in the Bonds, will affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, but only out of the Revenues and other assets pledged pursuant to the Indenture, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default is discontinued or abandoned for any reason or determined adversely to the Trustee or the Bondholders, then in every such case the Issuer, the Trustee and the Bondholders, subject to any determination in such proceedings, will be restored to their former positions and rights, severally and respectively, and all rights, remedies, powers and duties of the Issuer, the Trustee and the Bondholders will continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the Bonds by virtue of the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given thereunder or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default will impair any such right or power or be construed to be a waiver of any such default; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

THE TRUSTEE

The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants may be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

The Issuer may remove the Trustee at any time unless an Event of Default occurs and continues, and is required to remove the Trustee if at any time requested to do so by an

instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with the terms of the Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and each Credit Facility Provider, a copy of which will be provided to Moody's. The Issuer will appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee and upon transfer of any Credit Facility and/or Liquidity Facility then in effect to such successor Trustee. If no successor Trustee has been appointed and has accepted such appointment within forty-five (45) days of giving notice of removal or notice of resignation, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may, after such notice, as it may deem proper, appoint such successor Trustee. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Issuer is required to give notice of the succession of such Trustee to the Bondholders by mail at the addresses shown on the registration books maintained by the Trustee. If the Issuer fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Issuer.

Liability of Trustee. The Trustee assumes no responsibility for the correctness of the statements of the Issuer, and makes no representations as to the validity or sufficiency of the Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Revenues or the priority of the lien presented by the Indenture, or as to the financial or technical feasibility of any portion of the Project and does not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations imposed upon it expressly by the terms of the Indenture or the Bonds. The Trustee will not be liable in connection with the performance of its duties, except for its own negligence or willful misconduct.

The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture, unless such Bondholders have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred; provided that no indemnity is requested or required for the Trustee to take the action necessary to obtain funds under a Credit Facility or Liquidity Facility for payment of the principal of and interest on, or Purchase Price of, Bonds.

Compensation and Indemnification of Trustee. The Issuer agrees to pay to the Trustee reasonable compensation for all services rendered by the Trustee in the exercise and performance of any of the powers and duties under the terms of the Indenture, and the Issuer will pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of the Indenture, except any such expense, disbursement or advance as may arise from its negligence or willful misconduct. The Issuer, to the extent permitted by law, is required to indemnify, defend and hold harmless the Trustee against any loss, damages, liability or expense incurred without negligence or bad faith on the part of the Trustee, arising out of or in connection with the acceptance or administration of the trusts created by the Indenture (including any agreements

authorized to be entered into by the Trustee under the Indenture or Supplemental Indentures), including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers.

AMENDMENT OF THE INDENTURE

The Indenture and the rights and obligations of the Issuer, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding and the written consent of each Credit Facility Provider of each such Series of Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, the Credit Facility Provider with respect to such Series of Bonds) which consents have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the provision of the Indenture described in this paragraph.

The Indenture and the rights and obligations of the Issuer and of the Owners of the Bonds and of the Trustee may also be modified or amended at any time by a Supplemental Indenture entered into by the Issuer and the Trustee which will become binding when the written consents of each Credit Facility Provider for the Bonds have been filed with the Trustee, provided that at such time the payment of all the principal of and interest on all Outstanding Bonds is insured by a policy or policies of municipal bond insurance or payable under a Credit Facility the provider of which must be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such Credit Facility, in one of the two highest Rating Categories of Moody's and Standard & Poor's.

No such modification or amendment may (a) extend the fixed maturity of any Bond, or reduce the amount of principal of any Bond, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest on any Bond, or extend the time of payment of interest on any Bond, or reduce any premium payable upon the redemption thereof, without the written consent of each Credit Facility Provider of each Bond so affected and the consent of the Owner of each Bond so affected, or (b) reduce the percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding.

It is unnecessary for the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if there exists Bondholders consent to approve the substance of such a Supplemental Indenture. Promptly after the execution and delivery by the Trustee and the Issuer of any Supplemental Indenture pursuant to the provision of the Indenture described in this paragraph, the Trustee will mail a notice setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the Issuer, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Issuer and the Trustee may execute without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Issuer contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion of Bonds), or to surrender any right or power reserved to or conferred upon the Issuer;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Issuer may deem necessary or desirable, and which does not materially and adversely affect the interests of the Owners of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Law of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Bonds or Parity Debt with such interest rate, payment, maturity and other terms as the Issuer may deem desirable subject to the provisions of the Indenture;

(5) to make modifications or adjustments necessary, appropriate or desirable to provide for change of Bonds from variable to fixed rate or fixed to variable rate pursuant to the terms of the Supplemental Indenture pursuant to which such bonds were issued;

(6) to make modifications or adjustments necessary, appropriate or desirable to accommodate credit enhancements, including letters of credit and surety bonds and insurance policies delivered with respect to the Bond Reserve Fund;

(7) if the Issuer agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such modifications or adjustments as are necessary or appropriate to maintain such exclusion;

(8) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture;

(9) to provide for separate Auctions or separate Interest Payment Dates for Paired Obligations that have been defeased as provided in the Indenture, or to provide that Paired Obligations that have been so defeased may be fixed and separated as provided in the Supplemental Indenture pursuant to which such Paired Obligations are issued and for mandatory tender of such Paired Obligations or to provide for the

continuation of other provisions in the Supplemental Indenture applicable to the Paired Obligations;

(10) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

Amendment of Particular Bonds. The provisions of Article IX (relating to modification or amendment) do not prevent any Bondholder from accepting any amendment as to particular Bonds held by the Bondholder, provided that due notation of the amendment is made on such Bonds.

DEFEASANCE

Discharge of Indenture. Bonds, or a portion of Bonds, of any Series may be paid by the Issuer in any of the following ways: (a) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when the same become due and payable; (b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem such Outstanding Bonds; or (c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Issuer pays all Series for which any Bonds are Outstanding and also pays or causes to be paid all Bond Reserve Costs and amounts owing to the Credit Facility Providers and Liquidity Facility Providers and all other sums payable thereunder by the Issuer (including Trustee's fees and expenses), then and in that case at the election of the Issuer, and notwithstanding that any Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Issuer under the Indenture (other than the obligations of the Issuer to compensate the Trustee) shall cease, terminate, become void and be completely discharged and satisfied.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount, as provided by the terms of the Indenture, to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption will have been given pursuant to the terms of the Indenture, then all Liability of the Issuer in respect of such Bond shall cease, terminate and be completely discharged, provided that the Owner of the Bond will thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Issuer remains liable for such payment, but only out of such money or securities deposited for their payment, subject, however, to the provisions of the Indenture for payment after discharge.

Deposit of Money or Securities in Escrow. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee, escrow agent or other fiduciary money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that,

in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given pursuant to the terms of the Indenture, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Investment Securities, as described in the definition section of the Indenture, which are not subject to redemption or prepayment prior to maturity and the principal of and interest on which when due will, in the opinion of an independent certified public accountant or other financial services firm delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity of such Bonds, notice of such redemption shall have been given as provided for in the Indenture.

In each case, the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by request of the Issuer) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

In the event that the Bonds to be paid or redeemed are Variable Rate Bonds, (i) the amount necessary to pay interest on such Variable Rate Bonds shall be determined at the Maximum Interest Rate to the extent that the interest rate payable by the Issuer on such Variable Rate Bonds pursuant to the provisions of the Indenture is unknown, (ii) if such Variable Rate Bonds are tendered for purchase prior to their stated maturity date or redemption in accordance with the provisions of the Supplemental Indenture establishing the terms and conditions for such Series of Variable Rate Bonds, upon surrender, and payment of the Purchase Price, such Variable Rate Bond shall be cancelled and (iii) unless Available Moneys are used for the deposit provided pursuant to the Indenture, the Issuer is required to provide the Trustee with an opinion of counsel from a nationally recognized firm experienced in bankruptcy, which opinion of counsel shall be acceptable to Moody's and Standard & Poor's, if each rating agency is then maintaining a rating on the Bonds, to the effect that payment of principal of and interest on or Purchase Price of the Variable Rate Bonds would not constitute avoidable preferences under Section 547 of the United States Bankruptcy Code in the event a bankruptcy petition is filed by or against the Issuer.

Payment of Bonds After Discharge of Indenture. Any moneys held by the Trustee in trust for the payment of the principal or Redemption Price of, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, is required to be repaid to the Issuer upon Request therefrom, free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will cease; provided, however, that before the repayment of such moneys to the Issuer, the Trustee will (at the cost of the Issuer) first mail to the Owners of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Issuer of the moneys held for payment. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, are required to be held in

trust for the account of the Owners of such Bonds and the Trustee will not be required to pay Owners any interest on, or be liable to the Owners or any other person for any interest earned on, moneys so held.

LIMITED LIABILITY OF ISSUER

Notwithstanding anything contained in the Indenture or in the Bonds, the Issuer will not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the provisions of the Indenture for any of the purposes mentioned in the Indenture, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

LIMITATION OF RIGHTS TO INTERESTED PARTIES

Nothing in the Indenture or in the Bonds expressed or implied is intended or will be construed to give to any person other than the Issuer, the Trustee, each Credit Facility Provider, and the Owners of the Bonds and any Parity Debt, any legal or equitable right, remedy or claim under or in respect of the Indenture; and all such covenants, conditions and provisions are for the sole and exclusive benefit of the Issuer, the Trustee, each Credit Facility Provider, and the Owners of the Bonds and the owners of any Parity Debt.

DISQUALIFIED BONDS

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned or held by or for the account of the Issuer, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Issuer or any other obligor on the Bonds, are required to be disregarded and deemed to be not Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the provision of the Indenture described in this paragraph if the pledge establishes to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Issuer or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel is full protection to the Trustee.

CREDIT FACILITY PROVIDER

Municipal Bond Investors Assurance Corporation (MBIA) is designated as the Credit Facility Provider for the Series 1993 Bonds and is providing a municipal bond new issue insurance policy that guarantees payment of principal of and interest on the Series 1993 Bonds.

Municipal Bond Investors Assurance Corporation (MBIA) is designated as the Credit Facility Provider for the Series 1997 Bonds and is providing a municipal bond new issue insurance policy that guarantees payment of principal of and interest on the Series 1997 Bonds.

Ambac Assurance Corporation is designated as the Credit Facility Provider for the Series 1998 Bonds and is providing a municipal bond new issue insurance policy that guarantees payment of principal of and interest on the Series 1998 Bonds other than the Series 1998 Bonds maturing on August 1, 2029.

Ambac Assurance Corporation is designated as the Credit Facility Provider for the Series 1999 Bonds and is providing a municipal bond new issue insurance policy that guarantees payment of principal of and interest on the Series 1999 Bonds.

MBIA Insurance Corporation (MBIA) is designated as the Credit Facility Provider for the Series 2002 Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2002 Bonds.

Financial Guaranty Insurance Corporation (FGIC) is designated as the Credit Facility Provider for the Series 2003 Bonds and is providing a financial guaranty bond insurance policy that guarantees payment of principal of and interest on the Series 2003 Bonds.

MBIA Insurance Corporation (MBIA) is designated as the Credit Facility Provider for the Series 2004A Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2004A Bonds other than the Series 2004A Bonds maturing on August 1, 2004.

MBIA Insurance Corporation (MBIA) is designated as the Credit Facility Provider for the Series 2005A Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2005A Bonds.

Ambac Assurance Corporation is designated as the Credit Facility Provider for the Series 2005B Bonds and is providing a financial guaranty insurance policy that guarantees payment of principal of and interest on the Series 2005B Bonds.

Radian Asset Assurance Inc. is designated as the Credit Facility Provider for the Series 2006A-T Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2006A-T Bonds.

Radian Asset Assurance Inc. is designated as the Credit Facility Provider for the Series 2006B Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2006B Bonds.

MBIA Insurance Corporation (MBIA) is designated as the Credit Facility Provider for the Series 2006C Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2006C Bonds.

Ambac Assurance Corporation is designated as the Credit Facility Provider for the Series 2006D Bonds and is providing a financial guaranty insurance policy that guarantees payment of principal of and interest on the Series 2006D Bonds.

XL Capital Assurance Inc. is designated as the Credit Facility Provider for the Series 2007A-T Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2007A-T Bonds.

XL Capital Assurance Inc. is designated as the Credit Facility Provider for the Series 2007B Bonds and is providing a municipal bond insurance policy that guarantees payment of principal of and interest on the Series 2007B Bonds.

Except as otherwise provided in the Indenture, written consent of the relevant Credit Facility Provider must be obtained prior to (a) the issuance of any additional variable rate Parity Debt or the execution of any Public Finance contract in connection any such additional Parity Debt or (b) any amendment or modification to the Indenture. Further, the consent of the relevant Credit Facility Provider must be obtained if the Bond Reserve Requirement is to be satisfied by a letter of credit, surety bond or insurance policy, as provided for in the Indenture.

Notwithstanding any contrary provision of the Indenture, no acceleration of the Series 1993 Bonds, the Series 1997 Bonds, the Series 1998 Bonds, the Series 1999 Bonds, the Series 2002 Bonds, the Series 2003 Bonds, the Series 2004A Bonds, the Series 2005A Bonds, the Series 2005B Bonds, the Series 2006A-T Bonds, the Series 2006B Bonds, the Series 2006C Bonds, the Series 2006D Bonds, the Series 2007A-T Bonds and the Series 2007B Bonds may be declared without the prior written consent of the applicable Credit Facility Provider. The Credit Facility Provider for a Series of Bonds is deemed to be the Owner of all of such Series of Bonds covered by such Credit Facility for purposes of exercising, directing or consenting to the exercise of any remedies under the Indenture in case of an Event of Default, and for the purpose of consenting to any amendment to the Indenture for which the consent of the Owners of the Bonds is required or which otherwise adversely affects such Credit Facility Provider.

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APPENDIX D

THE CITY OF SAN JOSE: DEMOGRAPHIC, ECONOMIC AND FINANCIAL INFORMATION

General Description

The City is the tenth largest city in the United States and the third largest city in California (the “State”) with a January 1, 2007, population estimated at 973,672, according to the California Department of Finance. The territory of the City encompasses approximately 178 square miles. Located at the southern end of the San Francisco Bay, the City is the county seat of the County of Santa Clara (the “County”).

Having originated as a Spanish pueblo established in 1777, the City is the oldest city in the State. From a former rich agricultural setting, San José has become the capital of the innovative, high-technology based Silicon Valley -- so named for the principal material used in producing semiconductors. During the 1980’s and 1990’s the City experienced an economic resurgence with expansion in manufacturing, service, retail and tourist industries. In the early part of this decade, the City experienced significant declines in economic activity given the national economic slowdown. Based on recent economic forecasts, the U.S. economy is expected to continue to grow, but at a slower rate in 2007 primarily due to results of impact of housing market slowdown, and slowing of profit growth for the country’s largest corporations. However, current unemployment rates remain relatively low for the nation, the state, and the region.

San José Municipal Government

The City is governed by the City Council, consisting of a Mayor and ten other council members. The Mayor is elected at large for a four-year term. Council members are elected by district for staggered four-year terms. The Mayor and the council members are limited to two consecutive four-year terms. The City is a charter city, which means the City, through its charter (the “Charter”), may regulate municipal affairs, subject only to restrictions and limitations provided in the Charter; in matters other than municipal affairs, the City is subject to State law.

The City Council appoints the City Manager who is responsible for the operation of all municipal functions except the offices of City Attorney, City Clerk, City Auditor and Independent Police Auditor. The officials heading these offices are appointed by the City Council and carry out the policies set forth by the City Council.

The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under State law. These services include public safety, sanitation and health, environmental enforcement, recreational and cultural activities, public improvements, planning, zoning and general administrative services.

Demographic and Economic Information

Introduction

The demographic and economic information provided below has been collected from sources that the City has determined to be reliable. Because it is difficult to obtain complete and timely regional economic and demographic information, the City’s economic condition may not be fully apparent in all of the publicly available regional economic statistics provided herein.

Population

City residents account for approximately half of the population of the County, which is the most populous of the San Francisco Bay Area counties. While the period from 1960 to 1980 was characterized by extremely rapid population growth in both the City and County, the last two decades reflect a trend of slower but steady growth. Table 1 below shows the population of the City, the County and the State according to the U.S. Census for the years 1960, 1970, 1980, 1990 and 2000 and the California Department of Finance for 2001 through 2007.

Table 1
CITY, COUNTY AND STATE POPULATION STATISTICS

	City of San José	County of Santa Clara	State of California
1960.....	204,196	642,315	15,717,204
1970.....	459,913	1,064,714	19,953,134
1980.....	629,442	1,295,071	23,667,902
1990.....	782,248	1,497,577	29,760,021
2000.....	894,943	1,682,585	33,871,648
2001.....	905,522	1,701,060	34,441,561
2002.....	915,761	1,715,051	35,088,671
2003.....	923,368	1,726,628	35,691,442
2004.....	931,232	1,740,699	36,271,091
2005.....	944,857	1,759,585	36,810,358
2006.....	953,679	1,773,258	37,172,015
2007.....	973,672	1,808,056	37,662,518

Source: U.S. Census (1960-2000), California Department of Finance (2001-2007).

Employment

Table 2 below sets forth employment figures for the City and the County and unemployment rates for the City, the State and the United States for the five most recent years. The City's unemployment rate rose sharply after 2000 as a result of the contraction in the telecommunications and technology industries that dominate the City's employment base. Although the City's unemployment rate has decreased from 9.6% in 2003 to 5.6% as of August 2007, the labor force in the City during the same period declined by 12,000, or 2.6%.

Table 2 SANTA CLARA COUNTY ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND UNEMPLOYMENT OF RESIDENT LABOR FORCE					
Civilian Labor Force (in thousands)	2003	2004	2005	2006	2007⁽¹⁾
City of San José					
Employed.....	415	401	403	414	422
Unemployed	44	31	26	22	25
Total ⁽²⁾	459	432	429	436	447
County of Santa Clara					
Employed.....	821	775	779	797	812
Unemployed	74	54	45	37	43
Total ⁽²⁾	895	829	824	834	855
Unemployment Rates					
City	9.6%	7.2%	6.0%	5.0%	5.6%
County	8.2	6.6	5.5	4.5	5.0
State	6.8	6.2	5.4	4.9	5.4
United States	6.0	5.5	5.1	4.6	4.6

⁽¹⁾ Preliminary, not seasonally adjusted, data are for August 2007.
⁽²⁾ Totals may not add due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division.

The City occupies the geographic center of Silicon Valley. The high technology industry component of the City's economy is diversified in research, development, manufacturing, marketing and management. Development of high technology has been supported by the area's proximity to Stanford University, San José State University, Santa Clara University and other institutions of higher education, and such research and development facilities as SRI International (formerly the Stanford Research Institute), the Stanford Linear Accelerator Center and Ames Research Center (NASA).

While the County is known worldwide as "Silicon Valley," the silicon-based semiconductor industry is only a part of the industrial picture. Other industries include information systems, computers, peripherals, instruments, software and a wide array of communication electronics.

Table 3 displays the composition of employment in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area by general category for the most recent three years available.

Table 3
SAN JOSE-SUNNYVALE-SANTA CLARA METROPOLITAN STATISTICAL AREA
EMPLOYMENT BY CATEGORY
ANNUAL AVERAGES

	2004	Percent of Total	2005	Percent of Total	2006	Percent of Total
Farm	4,100	0.48%	3,800	0.44%	3,800	0.43%
Natural Resources & Mining	100	0.01	200	0.02	300	0.03
Construction.....	41,500	4.87	42,700	4.97	45,200	5.13
Manufacturing	171,800	20.14	168,000	19.53	167,400	18.99
Wholesale Trade.....	34,000	3.99	35,400	4.12	37,600	4.26
Retail Trade	81,000	9.50	82,200	9.56	83,100	9.43
Transport., Warehousing, Utilities	13,200	1.55	12,800	1.49	12,600	1.43
Information	32,500	3.81	35,200	4.09	38,400	4.36
Financial Activities	35,100	4.12	36,000	4.19	36,800	4.17
Professional & Business Services .	158,000	18.53	159,100	18.50	164,000	18.60
Educational & Health Services.....	94,400	11.07	96,100	11.17	100,500	11.40
Leisure & Hospitality	69,400	8.14	71,400	8.30	74,000	8.39
Other Services	24,600	2.88	24,200	2.81	24,400	2.77
Government	93,200	10.93	92,900	10.80	93,500	10.61
Total ⁽¹⁾	852,900		860,000		881,600	

⁽¹⁾ Totals may not add due to independent rounding.

Source: California Employment Development Department, Labor Market Information Division.

Major Employers

Table 4 shows fifteen selected major employers in San José, ranked by the number of their employees, estimated as of April 2007.

Table 4
SELECTED MAJOR SAN JOSE EMPLOYERS
As of April 2007

Company/Organization	Type of Industry	Approximate Number of Employees
1. Cisco Systems	Computer Equipment	17,200
2. Santa Clara County	Government	15,360
3. City of San José	Government	6,840
4. IBM Corporation	Computer Equipment	6,650
5. San José State University	Education	3,030
6. eBay/Paypal	On-Line Auction	3,010
7. Hitachi	Storage Software	2,800
8. San José Unified School District	Education	2,670
9. Xilinx	Semiconductor	2,440
10. Kaiser Permanente	Health Care	2,120
11. Adobe Systems Inc.	Computer Software	2,000
12. Good Samaritan Health System	Health Care	1,850
13. KLA Tencor Corporation	Semiconductor Equipment	1,850
14. Cadence Design Systems Inc.	Computer Software	1,800
15. Sanmina-SCI	Semiconductor Equipment	1,480

Source: City of San José, Office of Economic Development.

Effective Buying Income

“Effective Buying Income” (“EBI”), also referred to as “disposable” or “after tax” income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g. proprietor’s income, rental income, dividends and interest, pensions, and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g. fines, fees and penalties), and personal contributions to a retirement program. Table 5 shows the top ten metropolitan markets (as defined by Sales and Marketing Management Magazine) in median EBI for 2004, among which the San José Metropolitan Area ranked second.

Table 5
2004 TOP TEN METROPOLITAN AREAS
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

1. Los Alamos, New Mexico.....	\$68,286
2. San José-Sunnyvale-Santa Clara, California	62,221
3. Bridgeport-Stamford-Norwalk, Connecticut	57,720
4. Juneau, Alaska	57,002
5. Washington-Arlington-Alexandria, D.C.-Virginia-Maryland-West Virginia	54,693
6. San Francisco-Oakland-Fremont, California	54,541
7. Edwards, Colorado	53,681
8. Oxnard-Thousand Oaks-Ventura, California	52,652
9. Anchorage, Alaska.....	51,827
10. Boulder, Colorado	51,311
U.S. Median.....	\$39,324

Source: Sales & Marketing Management Magazine, “2005 Survey of Buying Power and Media Markets,” published 2005.

Retail Sales

Table 6 sets forth a history of taxable sales for the City from calendar year 2001 through 2005. A comparison of the total taxable sales in the City between the first three quarters of 2006 and the first three quarters of 2006 (the most recent data available), shows an increase of \$485.3 million, or 5.71%.

Table 6 CITY OF SAN JOSE TAXABLE SALES <i>(in thousands)</i>					
	2001	2002	2003	2004	2005
Apparel Stores.....	\$ 334,087	\$ 344,800	\$ 372,107	\$ 428,926	\$ 476,095
General Merchandise					
Stores	1,213,970	1,147,174	1,145,069	1,192,548	1,273,994
Food Stores	417,951	406,783	397,685	396,216	401,720
Eating and Drinking					
Establishments.....	896,298	868,944	898,859	977,463	1,046,629
Home Furnishings and					
Appliances	376,544	351,613	336,072	342,719	363,119
Building Materials and					
Farm Implements	726,447	732,972	737,588	833,766	853,656
Auto Dealers and Auto					
Supplies	1,582,391	1,442,279	1,463,891	1,553,456	1,573,954
Service Stations.....	763,075	654,091	744,517	872,202	1,021,176
Other Retail Stores.....	1,617,105	1,410,114	1,362,282	1,349,032	1,417,102
Retail Stores Total.....	\$ 7,927,868	\$ 7,358,770	\$ 7,458,070	\$ 7,946,328	\$ 8,427,445
All Other Outlets.....	4,426,922	3,328,201	3,373,127	3,190,904	3,279,248
Total All Outlets.....	\$12,354,790	\$10,686,971	\$10,831,197	\$11,137,232	\$11,706,693
<i>Source: California State Board of Equalization.</i>					

Construction Activity

A history of construction valuation and new dwelling units for the most recent five calendar years appears in Table 7 below.

Table 7					
CITY OF SAN JOSE					
CONSTRUCTION VALUATION AND NEW DWELLING UNITS					
(in thousands)⁽¹⁾					
	2002	2003	2004	2005	2006
Valuation:⁽²⁾					
Residential	\$ 398,003	\$ 662,691	\$ 500,222	\$ 469,782	\$ 448,971
Non-Residential .	558,857	313,387	334,593	370,613	365,338
TOTAL	\$ 956,860	\$ 976,078	\$ 834,815	\$ 840,395	\$ 814,309
New Dwelling Units:					
Single Family	621	887	960	831	599
Multi-Family	1,863	3,631	2,017	1,951	2,374
TOTAL	2,484	4,518	2,977	2,782	2,973

⁽¹⁾ Totals may not add due to independent rounding.
⁽²⁾ Valuation figures are adjusted to 2006 dollars per Bureau of Labor Statistics Consumer Price Index, San José-San Francisco-Oakland, all items index.
Source: City of San José, Department of Planning, Building and Code Enforcement, October 2007.

Education

For the school year 2006-07, an estimated 256,502 students were enrolled in the County's 239 elementary schools; 59 middle schools and junior high schools; 48 high schools; 40 community, alternative, special education, continuation and juvenile hall schools; and 17 charter schools. In addition, there are a number of private schools serving the residents of the County. The County has seven community colleges (within four community college districts: Foothill-DeAnza, Gavilan Joint, San Jose-Evergreen, and West Valley-Mission). Major universities in the County include Stanford University, Santa Clara University, and San José State University.

The City is served by 18 of the 33 public school districts in the County. These school districts cross municipal boundaries. Principal public school systems serving the City are the San José Unified School District (grades K-12), with an estimated enrollment for school year 2006-07 of 31,702, and the East Side Union High School District with an estimated enrollment for school year 2006-07 of 25,998.

Transportation

The San José area is served by a network of freeways providing regional, national and international access. U.S. 101, a major north-south highway between San Francisco and Los Angeles, provides access to the deepwater seaports at San Francisco and Redwood City, and to air passenger and cargo facilities at Norman Y. Mineta San José International Airport (the "Airport") and San Francisco International Airport. Interstate 880 connects San José with the Oakland International Airport and the Port of Oakland. Interstates 280 and 680 provide access to the peninsula and eastern regions of the San Francisco Bay Area, respectively, and State Route 17 serves to connect San José with the Pacific Coast at Santa Cruz. Additional freeways serving the local area are State Routes 85, 87 and 237. During the past two decades,

approximately \$1.8 billion has been invested by the State and the County to expand and improve the area freeway system.

The VTA provides public transit service throughout Santa Clara County, servicing 326 square miles of urbanized area. Transit services are readily accessible to residents of San José, as most residences and businesses in the City are within a quarter mile of bus or light rail service. VTA's bus network is comprised of 70 bus routes, 4,337 bus stops, 16 transit centers, and 8 park and ride bus lots. The backbone of the bus network is Line 22, which operates between Eastridge Shopping Center in San José and the Menlo Park Caltrain Station, and carries almost six million passengers per year. Express routes offer a commute alternative to employment centers located throughout the County. VTA Light Rail runs on three alignments spanning from Mountain View to Campbell and East San José to South San José. The two routes are Alum Rock – Santa Teresa via Baypointe (#901) and Mountain View – Winchester (#902). An auxiliary spur route on the Alum Rock-Santa Teresa links the Ohlone/Chynoweth Station to the Almaden Station (#900). VTA also partners with Altamont Commuter Express (ACE) and Caltrain to provide commuter rail service, with Santa Cruz Metro to provide regional bus service from Santa Cruz to Downtown San José, and with the Dumbarton Express for bus services between the East Bay to northern Santa Clara County work centers and communities. In addition, VTA offers light rail and ACE Train bus shuttles to various worksites and locations.

In the November 2000 election, the voters of the County approved a 30-year, half-cent sales tax that commenced collection in 2006 upon the expiration of the current one-half cent sales tax. This sales tax will finance various transit projects, including the possible extension of the Bay Area Rapid Transit (BART) system to the City. BART is a heavy rail rapid transit system currently serving Alameda, Contra Costa, and San Francisco Counties and the northern portions of San Mateo County.

The main coastline of the Union Pacific Railroad traverses the City, providing connections to San Francisco, Oakland, Sacramento and Los Angeles. Commuter rail service operates on this line between Gilroy and San Francisco. The Union Pacific Railroad also operates a branch line in the City serving heavy industry.

The Airport is located on approximately 1,050 acres of land approximately two miles north of Downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport is a commercial service and general aviation airport and is classified by the FAA as a “medium hub” (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States).

During fiscal year 2006-07, the Airport served approximately 5.32 million enplaned passengers and accommodated approximately 184,914 operations (takeoffs and landings). According to preliminary traffic statistics published by the Airports Council International-North America (“ACI-NA”), in calendar year 2006, the Airport was the 41st busiest airport in North America in terms of total passengers and the 56th busiest in terms of total cargo.

The City has a foreign trade zone that is located near the Airport in an approximately 374-acre business park. Foreign and domestic merchandise may be moved into the zone for storage, exhibition, manipulation, manufacturing or other processing without payment of federal duties or excise taxes until the goods leave the zone.

Property Taxes and Assessed Valuations

The assessed valuation of property is established by the County Assessor and reported at 100% of the full cash value as of January 1, except for public utility property, which is assessed by the State Board of Equalization.

The County collects the ad valorem property taxes. Taxes arising from the 1% levy are apportioned among local taxing agencies based on a formula established by State law in 1979. Under this formula, the City receives a base year allocation plus an allocation based on growth in assessed value (consisting of new construction, change of ownership and inflation). Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. Beginning in FY 1990-91 (with the adoption of new State legislation), the County deducts the pro-rata cost of collecting property taxes from the City's allocation.

The California Community Redevelopment Law authorizes redevelopment agencies to receive the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, the other local taxing authorities realize tax revenues from such properties only on base-year valuations that are frozen at the time a redevelopment project area is created. The tax revenues resulting from increases in assessed valuations flow to the redevelopment areas. The City has created redevelopment project areas pursuant to California law. Generally, funds must be spent within the redevelopment areas in which the tax increment revenues were generated, and may only be spent on projects that qualify under California redevelopment law.

Table 8 below sets forth a ten-year history of the City's assessed valuation.

Table 8
CITY OF SAN JOSE
HISTORICAL END OF FISCAL YEAR ASSESSED VALUE OF PROPERTY
(in thousands)

Fiscal Year	Gross Assessed Valuation⁽¹⁾	Percentage Change
1997-98.....	\$ 52,485,787	8.33%
1998-99.....	58,440,635	11.35
1999-00.....	63,947,881	9.42
2000-01.....	57,175,296	(10.59)
2001-02.....	63,975,252	11.89
2002-03.....	67,915,616	6.16
2003-04.....	73,077,977	7.60
2004-05.....	77,532,649	6.10
2005-06.....	85,234,836	9.93
2006-07.....	93,616,483	9.83

⁽¹⁾ Valuations as of the end of the fiscal year.

Source: *City of San José Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2007.*

Property Tax receipts collected for the City by the County are set forth in Table 12. Under current County policy, the City's allocation of total ad valorem taxes is received in approximately the following cumulative percentages: 40% by mid-December, 50% by the first week of January, 85% by the third week of April, 90% by the end of April and 100% by the end of June.

The County Board of Supervisors approved the implementation of an alternative method of distribution of tax levies and collections and of tax sale proceeds (a "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. The County then receives all future delinquent payments, penalties and interest. The Teeter Plan was effective in the County beginning the fiscal year commencing July 1, 1993.

The Teeter Plan is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County treasury is the legal depository of tax collections. As adopted

by the County, the Teeter Plan excludes Mello-Roos Community Facilities Districts and special assessment districts that provide for accelerated judicial foreclosure of property for which special taxes or assessments are delinquent.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may, by resolution adopted no later than July 15 of the fiscal year for which it is to apply, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any political subdivision in the County if the rate of secured property tax delinquency in that political subdivision in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that political subdivision. If the Teeter Plan were discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency.

Table 9
CITY OF SAN JOSE
PROPERTY TAX RECEIPTS
(in thousands)

Fiscal Year	Property Tax Receipts	Percentage of General Fund Revenues
2003-04	\$ 95,649	17.1%
2004-05 ⁽¹⁾	144,048	24.3
2005-06 ⁽¹⁾	166,560	25.2
2006-07 ⁽²⁾	189,683	27.1
2007-08 Adopted Budget ⁽²⁾	198,154	24.8

⁽¹⁾ Includes motor vehicle license fee (MVLFF) property tax replacement revenue, less \$11.1 million in 2004-05 and 2005-06 reflecting the impact of the State's 2004-05 and 2005-06 Budget Acts.

⁽²⁾ Includes motor vehicle license fee (MVLFF) property tax replacement revenue.

Source: City of San José FY 2007-08 Adopted Operating Budget.

Property Tax receipts collected for the City by the County are set forth in Table 9 above. In preparing its budget, the City forecasts property taxes based on each of the specific categories of receipts (secured and unsecured, current and delinquent receipts, supplemental, and State replacement funds). Current receipts are based on the County Assessor's estimate of growth in assessed valuation, adjusted for estimates in growth for redevelopment project areas. Estimates of other property tax receipts are primarily based on historical collections.

Investment Policy and Practices of the City

The City and its related entities are required to invest all funds under the Director of Finance's control in accordance with principles of sound treasury management and in accordance with the provisions of the California Government Code, the Charter of the City of San José, the City Municipal Code and the City Investment Policy (the "Policy"). The Policy was originally adopted by the City Council in its present format on April 2, 1985 (Resolution No. 58200) and is reviewed annually by the City Council. The City Council most recently amended the Policy on June 5, 2007. The Association of Public Treasurers of the United States and Canada has certified the Policy.

The primary objectives of the Policy, in their order of priority, are to (1) provide for the safe preservation of principal, (2) ensure that there is sufficient liquidity for operating needs, and (3) attain the maximum yield possible as long as investment practices are consistent with the first two stated objectives.

Current Investment Portfolio

As of September 30, 2007, the size of the City's pooled investment fund was \$1,049,549,920 while the market value was \$1,054,803,724. The composition of this fund, including the weighted average days to maturity and yield, is provided below. The Redevelopment Agency's portion of the pool was approximately 0.62%.

Table 25
CITY OF SAN JOSE POOLED INVESTMENT FUND
GENERAL POOL INVESTMENTS
As of September 30, 2007 ⁽¹⁾

	Book Value	Percent of Portfolio	Market Value	Weighted Average Days to Maturity	Weighted Average Yield
U.S. Treasury Bills and Notes...	\$ 10,182,988	1.0%	\$ 10,089,000	46	2.712%
Federal Agency Securities.....	942,082,377	89.8	947,423,000	660	4.798
Medium Term Notes (corp.).....	0	0.0	0	0	0.000
Bankers Acceptance.....	0	0.0	0	0	0.000
Commercial Paper.....	18,102,831	1.7	18,110,000	1	4.818
Repurchase Agreements	0	0.0	0	0	0.000
Neg. Certificate of Deposit.....	0	0.0	0	0	0.000
Money Market Mutual Fund	0	0.0	0	0	0.000
State of California LAIF ⁽²⁾	79,181,724	7.5	79,181,724	1	5.231
Total	\$1,049,549,920	100.0%	\$1,054,803,724	594	4.811%

⁽¹⁾ Totals may not add due to independent rounding.

⁽²⁾ Estimated based upon City's participation in the Local Agency Investment Fund (LAIF). Weighted average yield for LAIF is based upon the most recently reported quarterly earnings rate.

Source: City of San José, Finance Department.

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned

by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Redevelopment Agency of the City of San José (the "Agency") in connection with the issuance of its \$21,330,000 aggregate principal amount of Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T (the "Series 2007A-T Bonds") and its \$191,600,00 aggregate principal amount of Merged Area Redevelopment Project Tax Allocation Bonds, Series 2007B (the "Series 2007B Bonds" and, together with the Series 2007A-T Bonds, the "Bonds"). The Bonds are being issued pursuant to a resolution of the Agency adopted October 16, 2007, and an Indenture dated as of December 1, 1993, between the Agency and Union Bank, as succeeded by Union Bank of California, N.A., as trustee (the "Trustee"), as heretofore supplemented and amended and as supplemented and amended by an Eleventh Supplemental Indenture dated as of October 1, 2007, between the Agency and the Trustee, which Indenture, as so amended and supplemented, shall be referred to hereinafter as the "Indenture." The Agency covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Agency for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"CPO" means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission.

"Dissemination Agent" means Union Bank of California, N.A., or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency and the Trustee a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" means the Official Statement dated October 24, 2007, relating to the Bonds.

"Participating Underwriters" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository. Information on the State Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

Section 3. Provision of Annual Reports

(a) The Agency shall provide, or shall cause the Dissemination Agent to provide, to each Repository (or, in lieu of providing to each Repository, provide to the CPO) an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement by not later than seven months after the end of the Agency's fiscal year in each year commencing not later than February 1, 2008. The first Annual Report shall consist of the Official Statement for the Bonds together with the Agency's audited financial statements referenced in Section 4(a) below. Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent (if other than the Agency). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If the Project Area's fiscal year changes, the Agency, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the Agency is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Agency shall, by written direction, cause the Dissemination Agent to provide to (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A. In lieu of filing the notice with each Repository, the Agency or the Dissemination Agent may file such notice with the CPO.

(d) With respect to the Annual Report, the Dissemination Agent shall, unless the Agency has done so pursuant to Section 3(a) above:

(i) determine the name and address of each National Repository and each State Repository, if any, each year prior to the date for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the Agency, file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Agency's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, and as further modified according to applicable State law. If the Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the usual format utilized by the Agency, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following additional items:

1. Incremental taxable values and tax increment revenues for the fiscal year to which the Annual Report pertains, by means of an update to the "Total Merged Area Available Tax Revenues" table (Table 9) shown in the Official Statement, and debt service coverage for the year to which the Annual Report pertains, by means of an update to the "Merged Area Debt Service and Estimated Coverage - Parity Debt" table (Table 2) shown in the Official Statement;

2. Description of any Parity Debt (date, amount, term, rating, insurance) issued by the Agency in the fiscal year to which the Annual Report pertains; and

3. The calculations regarding Tax Revenues required by Section 35.04 of the Indenture.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so included by reference.

The Trustee shall have no responsibility for the content of the Annual Report, or any part thereof.

Section 5. Reporting of Significant Events

(a) Pursuant to the provisions of this Section 5, the Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.

6. Adverse tax opinions or events affecting the tax-exempt status of the Series 2007B Bonds.

7. Modifications to rights of security holders.

8. Bond calls.

9. Defeasances.

10. Release, substitution or sale of property securing repayment of the Bonds.

11. Rating changes.

(b) Promptly after obtaining actual knowledge of the occurrence of any of the Listed Events at the principal corporate trust office of the Trustee in San Francisco, California, the Trustee shall contact the Dissemination Agent (if other than the Trustee) and the Agency at its notice address in the Indenture, inform such person of the event, and request that the Agency promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Agency shall determine as soon as possible if such event would constitute material information for Holders of Bonds within the meaning of the federal securities laws.

(d) If the Agency has determined that knowledge of the occurrence of a Listed Event would be material, the Agency shall notify the Dissemination Agent promptly in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Agency determines that the Listed Event would not be material, the Agency shall so notify the Dissemination Agent in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Agency to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the with (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Indenture and notice of any other Listed Event is only required following the actual occurrence of the Listed Event. In lieu of filing the notice of Listed Event with each Repository in accordance with the preceding paragraph, the Agency or the Dissemination Agent may file such notice of a Listed Event with the CPO.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the Agency's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

Section 6. Termination of Reporting Obligation. The Agency's, the Trustee's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c) hereof.

Section 7. Dissemination Agent. From time to time, the Agency may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a), 4 or 5(a), it may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, in the opinion of nationally recognized bond counsel, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) in the opinion of the Trustee or nationally recognized bond counsel, does not materially impair the interests of the holders or beneficial owners of the Bonds.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Agency to comply with any provision of this Disclosure Agreement, any holder or beneficial owner of the Bonds or the Trustee may (and, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, the Trustee shall) take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture,

and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Agency agrees to indemnify and hold harmless the Dissemination Agent, its officers, directors, employees and agents, against any loss, expense and liabilities which the Dissemination Agent may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Trustee shall not be required to consent to any amendment which would impose any greater duties or risk of liability on the Trustee. No person shall have any right to commence any action against the Trustee seeking any remedy other than to compel specific performance of this Agreement. The Trustee shall not be liable under any circumstances for monetary damages to any person for any breach of this Disclosure Agreement.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Agency, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: November __, 2007

REDEVELOPMENT AGENCY OF THE
CITY OF SAN JOSE

By: _____
Chief Financial Officer and
Director of Finance and Administration

APPROVED AS TO FORM:

Chief Deputy General Counsel

The undersigned hereby agrees to act as Dissemination Agent pursuant to the foregoing Disclosure Agreement.

UNION BANK OF CALIFORNIA, N.A.

By: _____

Its: _____ Authorized Officer

EXHIBIT A
NOTICE
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Redevelopment Agency of the City of San José

Name of Bond Issue: Redevelopment Agency of the City of San José
Merged Area Redevelopment Project Taxable Tax Allocation Bonds
Series 2007A-T

and

Redevelopment Agency of the City of San José
Merged Area Redevelopment Project Tax Allocation Bonds
Series 2007B

Date of Issuance: November __, 2007

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that the Redevelopment Agency of the City of San José (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated November __, 2007, executed by the Agency for the benefit of the holders and beneficial owners of the above-referenced bonds. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

REDEVELOPMENT AGENCY OF THE
CITY OF SAN JOSE

By: _____

Its: _____

cc: Union Bank of California, N.A.
 Corporate Trust
 350 California Street, 11th Floor
 San Francisco, CA 94104
 Attention: Corporate Trust Department

APPENDIX G
FORMS OF OPINIONS OF BOND COUNSEL

November __, 2007

Redevelopment Agency of the
City of San José
200 East Santa Clara Street
San José, California 95113

OPINION: \$21,330,000 Redevelopment Agency of the City of San José Merged Area
Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T

Members of the Agency:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of San José (the "Agency"), of \$21,330,000 Redevelopment Agency of the City of San José Merged Area Redevelopment Project Taxable Tax Allocation Bonds, Series 2007A-T (the "Bonds"), pursuant to Community Redevelopment Law (being Division 24 of the Health and Safety Code of the State of California) (the "Law"), a resolution of the Agency adopted on October 16, 2007 (the "Resolution"), and the Indenture, dated as of December 1, 1993 (the "Master Indenture"), by and between the Agency and Union Bank, as succeeded in merger by Union Bank of California, N.A., as trustee (the "Trustee"), as heretofore supplemented and amended and as supplemented and amended by an Eleventh Supplemental Indenture dated as of October 1, 2007 (the "Eleventh Supplemental Indenture" and, together with the Master Indenture, as heretofore supplemented and amended, the "Indenture"), by and between the Agency and the Trustee. We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Indenture and in certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public body, corporate and politic, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.

2. The Indenture (including the Eleventh Supplemental Indenture) has been duly approved by the Agency and constitutes a valid and binding obligation of the Agency enforceable upon the Agency.

3. The Indenture (including the Eleventh Supplemental Indenture) has been duly authorized, executed and delivered by the Agency and constitutes a valid and binding obligation of the Agency enforceable against the Agency in accordance with its terms. The Indenture creates a valid pledge of and first lien on all Revenues (as defined in the Indenture) to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and the payment of any Parity Debt and the Bond Reserve Costs (as such terms are defined in the Indenture) in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid pledge of and first lien on all amounts held by the Trustee under the Indenture in any fund or account established under the Indenture (except for amounts held in the Rebate Fund) to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and the payment of any Parity Debt and Bond Reserve Costs in accordance with their terms, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. The Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency, payable solely from the sources provided therefor in the Indenture.

5. The interest on the Bonds is not excluded from gross income for federal income tax purposes.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

To ensure compliance with requirements imposed by the Internal Revenue Service, we inform owners of the Bonds that any U.S. federal tax advice contained in this opinion is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

Respectfully submitted,

A Professional Law Corporation

November __, 2007

Redevelopment Agency of the
City of San José
50 West San Fernando Street
San José, California 95113

OPINION: \$191,600,000 Redevelopment Agency of the City of San José Merged Area
Redevelopment Project Tax Allocation Bonds, Series 2007B

Members of the Agency:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of San José (the "Agency"), of \$191,600,000 Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2007B (the "Bonds"), pursuant to Community Redevelopment Law (being Division 24 of the Health and Safety Code of the State of California) (the "Law"), a resolution of the Agency adopted on October 16, 2007 (the "Resolution"), and the Indenture, dated as of December 1, 1993 (the "Master Indenture"), by and between the Agency and Union Bank, as succeeded in merger by Union Bank of California, N.A., as trustee (the "Trustee"), as heretofore supplemented and amended and as supplemented and amended by an Eleventh Supplemental Indenture dated as of October 1, 2007 (the "Eleventh Supplemental Indenture" and, together with the Master Indenture, as heretofore supplemented and amended, the "Indenture"), by and between the Agency and the Trustee. We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Indenture and in certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public body, corporate and politic, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.

2. The Indenture (including the Eleventh Supplemental Indenture) has been duly approved by the Agency and constitutes a valid and binding obligation of the Agency enforceable upon the Agency.

3. The Indenture (including the Eleventh Supplemental Indenture) has been duly authorized, executed and delivered by the Agency and constitutes a valid and binding obligation of the Agency enforceable against the Agency in accordance with its terms. The Indenture creates a valid pledge of and first lien on all Revenues (as defined in the Indenture) to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and the payment of any Parity Debt and the Bond Reserve Costs (as such terms are defined in the Indenture) in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid pledge of and first lien on all amounts held by the Trustee under the Indenture in any fund or account established under the Indenture (except for amounts held in the Rebate Fund) to secure the payment of the principal of and redemption premium, if any, and interest on the Bonds and the payment of any Parity Debt and Bond Reserve Costs in accordance with their terms, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. The Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency, payable solely from the sources provided therefor in the Indenture.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX H
SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY
FOR THE 2007 BONDS

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**MUNICIPAL BOND
INSURANCE POLICY****ISSUER:** []**Policy No:** []**BONDS:** []**Effective Date:** []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. Pacific time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of California, the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

IN THE EVENT THAT XLCA WERE TO BECOME INSOLVENT, ANY CLAIMS ARISING UNDER THIS POLICY ARE NOT COVERED BY THE CALIFORNIA GUARANTY INSURANCE FUND SPECIFIED IN ARTICLE 12119(b) OF THE CALIFORNIA INSURANCE CODE.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN

Name:

Title:

SPECIMEN

Name:

Title:

APPENDIX I
SPECIMEN DEBT SERVICE RESERVE FUND SURETY BOND FOR THE 2007 BONDS

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1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium:

XL CAPITAL ASSURANCE INC. ("XLCA"), a New York stock insurance company, for consideration received, hereby unconditionally and irrevocably agrees to pay the trustee or the paying agent (the "**Beneficiary**") under the documentation (the "**Bond Document**") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

XLCA will make payment as provided in this Policy to the Beneficiary on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which XLCA shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received by XLCA prior to 10:00 a.m. (Pacific time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by XLCA is incomplete or does not conform to the terms and conditions of this Policy, it shall be deemed not to have been received by XLCA for purposes of the preceding sentence and XLCA shall promptly so advise the Beneficiary, who may thereupon submit an amended Notice of Nonpayment. Payment by XLCA to the Beneficiary for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy. Upon such payment, XLCA shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Financial Guaranty Agreement. Upon disbursement in respect of a Bond, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by XLCA hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Beneficiary under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to XLCA by or on behalf of the Issuer. Within three Business Days of such reimbursement, XLCA shall provide the Beneficiary and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall XLCA incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that XLCA has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “**Business Day**” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of California or the State of New York are, or the Insurer’s Fiscal Agent is, authorized or required by law or executive order to remain closed. “**Due for Payment**” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or on a mandatory sinking fund redemption date stated in the Bond or the Bond Document and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the date stated in the Bond for payment of interest. “**Financial Guaranty Agreement**” means the Financial Guaranty Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. “**Nonpayment**” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. “**Notice**” means telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Beneficiary to XLCA substantially in the form of Attachment I which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. “**Owner**” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that “Owner” shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. “**Policy Limit**” shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the “**Debt Service Reserve Requirement**”), but in no event shall the Policy Limit exceed \$[Amount of Debt Reserve]. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. “**Termination Date**” means the earlier of (i) [Final Maturity of Bonds] and (ii) the date the Bonds are no longer outstanding under the Bond Document.

XLCA may appoint a fiscal agent (the “**Insurer’s Fiscal Agent**”) for purposes of this Policy by giving written notice to the Beneficiary specifying the name and notice address of the Insurer’s Fiscal Agent. From and after the date of receipt of such notice by the Beneficiary, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer’s Fiscal Agent and to XLCA pursuant to this Policy and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer’s Fiscal Agent on behalf of XLCA. The Insurer’s Fiscal Agent is the agent of XLCA only and the Insurer’s Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer’s Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, XLCA agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim setoff or otherwise) and defenses (including, without limitation, the defense of fraud) whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to XLCA to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy shall be governed by and interpreted under the laws of the State of New York, and any suit hereunder in connection with any amount due hereunder may be brought only by the Issuer or the Beneficiary and only within one year after the date on which the applicable Notice of Nonpayment can be made pursuant to the terms of this Policy.

This Policy sets forth in full the undertaking of XLCA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked.

IN THE EVENT THAT XLCA WERE TO BECOME INSOLVENT, ANY CLAIMS ARISING UNDER THIS POLICY ARE NOT COVERED BY THE CALIFORNIA GUARANTY INSURANCE FUND SPECIFIED IN ARTICLE 12119(b) OF THE CALIFORNIA INSURANCE CODE.

In witness whereof, XL CAPITAL ASSURANCE INC. has caused this Policy to be executed on its behalf by its duly authorized officers.

XL CAPITAL ASSURANCE INC.

SPECIMEN

Name:
Title:

SPECIMEN

Name:
Title:

NOTICE OF NONPAYMENT

XL CAPITAL ASSURANCE INC.
1221 Avenue of the Americas
New York, New York 10020

Attention:

Reference is made to the Policy No. [.....] (the "**Policy**") issued by XL Capital Assurance Inc. ("**XLCA**"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Policy unless the context otherwise requires.

The Beneficiary hereby certifies that:

1. \$ _____ became [will become] Due for Payment on _____;
2. The amount on deposit in the [Bond Fund] available to pay such amount is \$ _____, which is \$ _____ less than the amount due (the "**Deficiency Amount**");
3. The Beneficiary hereby demands payment of \$ _____ which amount does not exceed the lesser of (i) the Deficiency Amount and (ii) the amount available to be drawn under the Policy which in no event shall exceed the Policy Limit;
4. The Beneficiary has not heretofore made demand under the Policy for the amount specified in 3. above or any portion thereof; and
5. The Beneficiary hereby requests that payment of the amount specified in 3. above be made by XLCA under the Policy and directs that payment under the Policy be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Policy:

_____ [Beneficiary's Account]

[Any Person Who Knowingly And With Intent To Defraud Any Insurance Company Or Other Person File An Application For Insurance Or Statement Of Claim Containing Any Materially False Information; Or Conceals For The Purpose Of Misleading, Information Concerning Any Fact Material Thereto, Commits A Fraudulent Insurance Act, Which Is And Shall Also Be Subject To A Civil Penalty Not To Exceed Five Thousand Dollars And The Stated Value Of The Claim For Each Such Violation.] [Foregoing language to be included in the case of issuers in certain states.]

[Beneficiary]

By: _____

Its: _____

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