

Redevelopment Agency of the City of Sunnyvale

Sunnyvale, California



**Basic Financial Statements
and Independent Auditors' Reports**
For the year ended June 30, 2009



Redevelopment Agency of the City of Sunnyvale
Basic Financial Statements
And Independent Auditors' Reports
For The Fiscal Year Ended
June 30, 2009



City of Sunnyvale
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Prepared by the Department of Finance
Mary J. Bradley, Director of Finance

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June 30, 2009

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INDEPENDENT AUDITORS' REPORT

Members of the Redevelopment Agency
of the City of Sunnyvale
Sunnyvale, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Sunnyvale (Agency), a component unit of the City of Sunnyvale, California, as of and for the fiscal year ended June 30, 2009, which collectively comprise the Agency's component unit basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for 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 examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

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, 2009 and the respective changes in the financial position for the fiscal year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009 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 accompanying required supplementary information such as the Management's Discussion and Analysis and the respective budgetary comparison information as listed on the table of contents are not required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

Maize & Associates

November 13, 2009

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Redevelopment Agency
of the City of Sunnyvale
Sunnyvale, California

We have audited the financial statements of the Redevelopment Agency of the City of Sunnyvale (Agency) as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with generally accepted auditing standards 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the Guidelines for Compliance Audits of California Redevelopment Agencies. 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Members of the Agency, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

Yare & Associates

November 13, 2009

Management's Discussion and Analysis

***Management's Discussion and Analysis
Fiscal Year Ended June 30, 2009***

This analysis of the Redevelopment Agency (Agency) of the City of Sunnyvale's (City) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the accompanying basic component unit financial statements and the accompanying notes to those component unit financial statements.

A. FINANCIAL HIGHLIGHTS

- At June 30, 2009, under accrual basis of accounting, the Agency had net deficits (excess of liabilities over assets) of \$67.9 million, which is a reduction of deficits of \$1.4 million from the previous year.
- The Agency's total bonded debt decreased by \$0.9 million due to principal retirement. Liquidation of prior recognized Town Center pollution remediation obligations amounted to \$2.4 million. However, the Agency recognized additional current liabilities of approximately \$2 million, primarily due to the accrual of environmental costs disbursed in July 2009 and the recognition of a liability for property valuation currently under appeal.
- Net tax increment revenues received during the year amounted to \$8.3 million, approximately \$3.4 million higher than the previous year. The Agency relies on tax increment revenues and investment income from the debt service reserve account to service its debt. Cash shortages are covered by the City General Fund advances.
- At June 30, 2009, the Agency's loans payable to the City General Fund amounted to \$64 million, increased by \$5.4 million from last year. The Agency repaid the City \$7.7 million using tax increment revenue after paying for Central Core Project debt service. Interest accrued on old loans during the fiscal year was \$4.7 million. During the year the Agency also received additional City advances of \$8.3 million to pay for debt service, operations and projects due to cash shortage.
- At June 30, 2009, the Agency's cash balance in the City's cash and investment pool was \$6.8 million, coming from advances from the City General Fund. The funds will be used for infrastructure improvements and environmental costs.
- At June 30, 2009, the Agency's General Fund owed to the Low and Moderate Income Housing Fund \$10.7 million, increased by \$1.7 million from last year. The Agency has to defer repayments of this interfund liability due to preexisting debt obligations.

B. OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

The basic financial statements include only the Redevelopment Agency of the City of Sunnyvale, which is a component unit of the City and is reported in the City's financial statements using the blended method.

Management's Discussion and Analysis, Continued

Fiscal Year Ended June 30, 2009

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Government-Wide Financial Statements

The government-wide financial statements present the financial picture of the Agency and provide readers with a broad view of the Agency's finances. These statements present governmental activities and include all assets of the Agency (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The statement of net assets and the statement of activities and changes in net assets report information about the Agency as a whole and about its activities. These statements include *all* assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The statement of net assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, changes 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 and changes in net assets presents information showing how the Agency's net assets changed during the 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.

The Agency only has governmental activities, which are shown in the statement of net assets and the statement of activities and changes in net assets. All of the Agency's basic services are reported in this category, including Planning and Management, Community Development and Transportation. Property tax and investment income finance these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's individual funds, not the Agency as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other monies.

The fund financial statements include statements for the Agency's governmental activities. These statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The Agency does not have any business-type activities.

Management's Discussion and Analysis, Continued

Fiscal Year Ended June 30, 2009

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Fund Financial Statements, Continued

Governmental Funds—The 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 funds financial statements focus on current financial resources, which emphasize near-term inflows and outflows of spendable resources as well as balances of spendable resources at the end of the fiscal year. This information is essential in evaluating the Agency's near-term financial requirements.

In order to better understand the Agency's long-term and short-term requirements, it is useful to compare the Agency's governmental fund statements with the governmental activities in the government-wide financial statements. A reconciliation is provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances to facilitate this comparison.

All of the Agency's funds were determined to be major funds. These funds include the General Fund, the Low and Moderate Income Housing Special Revenue Fund, the Debt Service Fund and the Capital Projects Fund, which are reported in detail in the governmental fund financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements, this report also presents certain Required Supplementary Information which includes the Agency's budgetary comparison schedules for the General Fund and the Low and Moderate Income Housing Special Revenue Fund.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets are a good indicator of the Agency's financial position. At June 30, 2009 the Agency had net deficits of \$67.9 million.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2009 and 2008.

Management's Discussion and Analysis, Continued

Fiscal Year Ended June 30, 2009

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Net Assets, Continued

**Redevelopment Agency of the City of Sunnyvale
Condensed Statements of Net Assets
June 30, 2009 and 2008
(Amounts in Thousands)**

	2009	2008	Total % Change
Assets:			
Current Assets	\$ 9,187	\$ 3,910	135.0 %
Capital Assets, Net	13,960	13,960	-
Total Assets	<u>23,147</u>	<u>17,870</u>	<u>29.5 %</u>
Liabilities:			
Current Liabilities	2,403	612	292.6 %
Advances from City	63,990	58,609	9.2 %
Noncurrent Liabilities	24,615	27,933	(11.9)%
Total Liabilities	<u>91,008</u>	<u>87,154</u>	<u>4.4 %</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	(4,632)	(5,574)	(16.9)%
Unrestricted	(63,229)	(63,710)	(0.8)%
Total Net Assets	<u>\$ (67,861)</u>	<u>\$ (69,284)</u>	<u>(2.1)%</u>

Current assets were higher at the end of fiscal year 2009 because the Agency kept cash from tax increment revenues and repaid less to the City due to project needs. Current liabilities were substantially higher than the previous year. At fiscal year end, the Agency recorded a current liability of \$1.1 million that was liquidated in July 2009 to the Town Center Developer for prior environmental costs. Another \$1 million current liability was recorded to correspond to the tax increment revenue adjustment to reflect property valuation currently under appeal.

At June 30, 2009, the Agency reported negative balances in two categories of net assets. Invested in capital assets net of related debt shows a negative balance of \$4.6 million, as the debt related to the assets has not yet been liquidated.

Unrestricted net assets also show a negative balance due to the advances given to the Agency by the City for development of the downtown project area and for operations of the Agency. The Agency's ability to repay its debt obligations was undermined by the passage of Proposition 13, which stripped the Agency of approximately two-thirds of its property tax increment. In addition, other state laws, such as caps on the time period of revenue collection and actual revenue limits have further damaged the Agency's ability to repay its loan. Currently the time limit for tax increment collection is 2028 and the total revenue limit is \$600 million.

Management's Discussion and Analysis, Continued

Fiscal Year Ended June 30, 2009

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2009 and 2008.

**Redevelopment Agency of the City of Sunnyvale
Condensed Statement of Activities and Changes in Net Assets
For the Fiscal Years Ended June 30, 2009 and 2008
(Amounts in Thousands)**

	<u>2009</u>	<u>2008</u>	<u>Total % Change</u>
Revenues	\$ 8,275	\$ 5,072	63.2 %
Expenses	6,852	14,861	(53.9)%
Increase (Decrease) in Net Assets	1,423	(9,789)	(114.5)%
Net Assets - Beginning	(69,284)	(59,495)	16.5 %
Net Assets - Ending	<u>\$ (67,861)</u>	<u>\$ (69,284)</u>	<u>(2.1)%</u>

Functional expenses for the fiscal years ended June 30, 2009 and 2008 were as follows (amounts in thousands):

	<u>2009</u>	<u>2008</u>	<u>Total % Change</u>
Planning and Management	\$ 176	\$ 187	(5.9)%
Community Development	248	199	24.6%
Environmental Management	-	9,016	(100.0)%
Transportation	816	-	100.0%
Total	<u>\$ 1,240</u>	<u>\$ 9,402</u>	<u>(86.8)%</u>

Interest expense for fiscal year 2009 was \$5.6 million, about \$0.2 million higher than the previous year. Revenues consisted of property taxes and investment earnings, which were sufficient to meet current year's expenses. As a result, net assets increased by \$1.4 million.

Management's Discussion and Analysis, Continued

Fiscal Year Ended June 30, 2009

D. FUND FINANCIAL STATEMENT ANALYSIS

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Agency's governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements.

As of the end of fiscal year 2009, the Agency's governmental funds reported a combined ending fund deficit of \$57.4 million. This deficit was largely due to the advances from the City General Fund as discussed in the government-wide analysis of the statement of net assets.

E. BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council/Agency Board revised the Agency budget as needed. Possible budget amendments fall into the following categories:

- Changes made to the budget as a result of mid-year review.
- New appropriations approved by the City Council/Agency Board.
- Existing appropriations for capital improvement projects will not lapse at year end unless completed, closed out, or modified by the City Council/Agency Board.

In mid-year, the Agency revised budgeted tax increment revenues from \$6.4 million to \$6.9 million due to redevelopment activity in the project area. There were no other budget modifications.

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

At June 30, 2009, capital assets of the governmental activities totaled \$13.9 million, which was the carrying value of the Agency's land.

Management's Discussion and Analysis, Continued

Fiscal Year Ended June 30, 2009

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued

Long-term Obligations

As of June 30, 2009 the Agency had outstanding bonded debt obligations as listed below.

Tax Allocation Bonds	\$ 6,352
Certificates of Participation	<u>12,240</u>
Total Long-term Bonded Debt	<u><u>\$ 18,592</u></u>

Other than bonded debt obligations, the Agency is obligated to repay City advances (see Note 4).

According to the 2007 Amended and Restated Disposition and Development Agreement (ARDDOPA), the Agency and the developer, Downtown Sunnyvale Mixed Use LLC, have agreed to cooperate and share the costs in certain environmental costs. Refer to Note 6 for more information.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The former owner of the Sunnyvale Town Center Mall property initiated Chapter 11 bankruptcy proceedings on September 24, 2002 in the United States Bankruptcy Court of the Central District of California. The mall closed in the summer of 2003. The two anchor stores (Macy's and Target) are independently owned and operated and remain open for business. As part of the bankruptcy proceedings, the principal creditor of the mall property identified a potential developer and together they proposed a plan to purchase the property out of bankruptcy. As part of the plan, they obtained a special development permit from the City for a new mixed-use retail, office, and residential development. A Disposition and Development and Owner Participation Agreement (DDOPA) was also negotiated with the Redevelopment Agency for the project. A confirmation hearing, which was required by the Bankruptcy Court on the bankruptcy plan, was held on November 12, 2004, and the plan was confirmed on April 25, 2005. Ownership of the Town Center Mall property was transferred to Stanley Thomas, principal equity investor in the Forum Development Group of Smyrna, Georgia (under the legal name of Fourth Quarter Properties XLVIII,LLC). This action completed the bankruptcy process and placed all of the property under the control of the same developer with whom the Agency negotiated the DDOPA. However, the new developer then did not meet certain requirements of the DDOPA and in March 2006 the Agency notified the developer that he was in breach of the agreement.

On October 2, 2006, Fourth Quarter Properties requested permission from the Agency to transfer the project to RREEF America III (RREEF), a large real estate investment trust, which would develop the property in joint venture with Sand Hill Properties, a local developer. After due diligence review, on December 12, 2006, the Agency gave preliminary approval to transfer the project to RREEF and Sand Hill Properties. On February 6, 2007, the Agency approved the Amended and Restated Disposition, Development and Owner Participation Agreement (ARDDOPA) with Downtown Sunnyvale Mixed Use LLC, a joint venture of RREEF and Sand Hill Properties Company.

Management's Discussion and Analysis, Continued

Fiscal Year Ended June 30, 2009

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, Continued

The construction of the Sunnyvale Town Center redevelopment project had been well underway until February 2009. The Developer stopped all construction work when additional financing for the Town Center Project could not be secured to complete the Project. Information about subsequent events is provided in Note 12.

The fiscal year 2010 Budget for the Redevelopment Agency includes the redevelopment of the Sunnyvale Town Center by RREEF/Sand Hill Properties. As part of the Amended and Restated Disposition, Development, and Owner Participation Agreement (ARDDOPA) signed with the Town Center developer in February 2007, the Agency has agreed to give the developer up to \$4.5 million per year of Tax Increment generated by the project plus 50% of any receipts above this amount, in return for construction by the developer of public streets and underground parking. This agreement reflects on the Agency Long Term Financial Plan as *Repayment to City – Town Center Developer*, since the mechanism for making the payments will be repayment of the General Fund loan. On the City General Fund Long-Term Financial Plan, a corresponding revenue is shown and an expense item that shows *Payment to Town Center Developer*. The tax increment agreement ends in fiscal year 2026.

Administration of the Agency, which is managed by the Community Development Department, is reflected in the Agency Fund in the amount of \$368,000 for fiscal year 2010. Another ongoing expenditure of \$59,000 is to pay City General Fund for the services of the Agency's Treasurer and related support services.

The Agency Long-Term Financial Plan assumes that funds available after paying debt service, projects and operating costs are used to pay the existing loan advanced by the City.

Included in current requirements are debt service payments totaling \$1.8 million for the Central Core Redevelopment Project Tax Allocation Bonds (TABs) and the Parking Facility Certificates of Participation (COPs). It is now projected that the Parking Facility COPs will be repaid by fiscal year 2015 and the Central Core TABs will be repaid in fiscal year 2023. The Agency maintains one reserve that reflects Debt Service Reserve Funds held by the trustees for these two outstanding bond issues.

Management's Discussion and Analysis, Concluded

Fiscal Year Ended June 30, 2009

H. REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Sunnyvale Finance Department, 650 W. Olive Avenue, Sunnyvale, California 94086.

Government-Wide Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Statement of Net Assets
June 30, 2009

	Governmental Activities
Assets:	
Cash and Investments Held by City	\$ 6,813,719
Receivables	19,362
Deferred Charges	424,494
Restricted Assets:	
Cash and Investments Held by Fiscal Agent	1,929,618
Capital Assets:	
Land and Nondepreciable Assets	<u>13,959,752</u>
Total Assets	<u><u>23,146,945</u></u>
Liabilities:	
Accounts Payable and Accrued Liabilities	2,147,672
Interest Payable	255,887
Advance from Other City Funds	63,989,598
Noncurrent Liabilities:	
Due Within One Year	5,624,081
Due in More than One Year	<u>18,991,035</u>
Total Liabilities	<u><u>91,008,273</u></u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(4,632,311)
Unrestricted (Deficit)	<u>(63,229,017)</u>
Total Net Assets	<u><u>\$ (67,861,328)</u></u>

See Accompanying Notes to Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

**Statement of Activities and Changes in Net Assets
Year Ended June 30, 2009**

Functions/Programs	Governmental Activities		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Program Revenues	
Primary Government:			
Governmental Activities:			
Planning and Management	\$ 175,969	\$ -	\$ (175,969)
Community Development	248,205	-	(248,205)
Transportation	816,231	-	(816,231)
Interest on Long-term Debt	5,612,089	-	(5,612,089)
Total Governmental Activities	6,852,494	-	(6,852,494)
Total Primary Government	6,852,494	-	(6,852,494)
General Revenues:			
Taxes:			
Property Taxes			8,264,077
Investment Earnings			11,424
Total General Revenues			8,275,501
Change in Net Assets			1,423,007
Net Assets (Deficit) - Beginning of Year			(69,284,335)
Net Assets (Deficit) - End of Year			\$ (67,861,328)

Governmental Fund Financial Statements

General Fund accounts for all financial resources necessary to carry out basic governmental activities of the Agency that are not accounted for in another fund.

Low and Moderate Income Housing Special Revenue Fund accounts for the funds deposited to improve and increase the supply of low and moderate income housing within the City.

Debt Service Fund accumulates funds for payment of the Central Core Tax Allocation Refunding Bonds, Series 2003 , the 1998 Parking Lease Certificates of Participation, and the Advances from the City General Fund. Debt service is financed with incremental property tax revenues and the City's General Fund loan to the Agency in the form of parking lease payments. Since the Agency has preexisting debt obligations that require tax increment financing, the City General Fund makes advances to the Agency to cover the Agency's cash shortage in projects and operations.

Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of Agency capital projects.

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

**Balance Sheet
Governmental Funds
June 30, 2009**

	Major Funds		
	General Fund	Low and Moderate Income Housing Special Revenue	Debt Service
Assets:			
Cash and Investments Held by Agency	\$ 6,142,797	\$ -	\$ -
Cash and Investments Held by Fiscal Agent	-	-	1,929,618
Receivables	19,362	-	-
Due From Other Funds	-	10,667,213	-
Total Assets	\$ 6,162,159	\$ 10,667,213	\$ 1,929,618
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 2,147,672	\$ -	\$ -
Due to Other Funds	10,667,213	-	-
Advances from Other City Funds	-	-	63,989,598
Total Liabilities	12,814,885	-	63,989,598
Fund Balances:			
Reserved for Low and Moderate Income Housing	-	10,667,213	-
Reserved for Debt Service	-	-	1,929,618
Total Reserved	-	10,667,213	1,929,618
Unreserved and Designated for Capital Projects	-	-	-
Unreserved and Undesignated (Deficit)	(6,652,726)	-	(63,989,598)
Total Fund Balances	(6,652,726)	10,667,213	(62,059,980)
Total Liabilities and Fund Balances	\$ 6,162,159	\$ 10,667,213	\$ 1,929,618



Major Funds	
Capital Projects	Total Governmental Funds
\$ 670,922	\$ 6,813,719
-	1,929,618
-	19,362
-	10,667,213
<u>\$ 670,922</u>	<u>\$ 19,429,912</u>
	\$ 2,147,672
-	10,667,213
-	63,989,598
<u>-</u>	<u>76,804,483</u>
-	10,667,213
-	1,929,618
-	12,596,831
670,922	670,922
-	(70,642,324)
<u>670,922</u>	<u>(57,374,571)</u>
<u>\$ 670,922</u>	<u>\$ 19,429,912</u>

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

**Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
Year Ended June 30, 2009**

Total Fund Balances - Total Governmental Funds \$ (57,374,571)

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. This amount represents capital assets net of accumulated depreciation. 13,959,752

Town Center Pollution Remediation Obligations are not recognized in the fund financial statements on the modified accrual basis. (6,023,053)

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (255,887)

Long-term liabilities applicable to governmental activities are not reported as fund liabilities. All liabilities are reported in the statement of net assets.

Bonds payable, par (18,640,000)

Unamortized discount on bonds 47,937

Unamortized deferred charges - bond issuance cost 424,494

Net Assets (Deficit) of Governmental Activities \$ (67,861,328)

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009**

	Major Funds		
	General Fund	Low and Moderate Income Housing Special Revenue	Debt Service
Revenues:			
Property Taxes	\$ 8,264,077	\$ -	\$ -
Intergovernmental Revenues	-	-	-
Investment Earnings	-	-	11,424
Total Revenues	8,264,077	-	11,424
Expenditures:			
Current:			
Planning and Management	175,969	-	-
Community Development	248,205	-	-
Environmental Management	2,376,947	-	-
Transportation	-	-	-
Debt Service:			
Principal Retirement	-	-	945,000
Interest	-	-	5,576,139
Fiscal Charges	-	-	9,685
Total Expenditures	2,801,121	-	6,530,824
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	5,462,956	-	(6,519,400)
Other Financing Sources (Uses):			
Transfers In	-	1,667,960	1,108,973
Transfers Out	(2,776,933)	-	-
Total Other Financing Sources (Uses)	(2,776,933)	1,667,960	1,108,973
Net Change in Fund Balances	2,686,023	1,667,960	(5,410,427)
Fund Balances (Deficits) - Beginning of Year	(9,338,749)	8,999,253	(56,649,553)
Fund Balances (Deficits) - End of Year	\$ (6,652,726)	\$ 10,667,213	\$ (62,059,980)

Continued



<u>Major Funds</u>	
<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ -	\$ 8,264,077
-	-
-	11,424
-	8,275,501
-	175,969
-	248,205
-	2,376,947
816,231	816,231
-	945,000
-	5,576,139
-	9,685
816,231	10,148,176
(816,231)	(1,872,675)
-	2,776,933
-	(2,776,933)
-	-
(816,231)	(1,872,675)
1,487,153	(55,501,896)
\$ 670,922	\$ (57,374,571)

Concluded

REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (1,872,675)

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

Repayment of the principal of long-term debt uses financial resources of governmental funds. The repayment has no effect on the statement of activities. 945,000

This amount represents Town Center Pollution Remediation Obligations that were expended in the current-year fund financial statements but had been recognized in prior-year government-wide financial statements on the accrual basis. 2,376,947

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued. These amounts are deferred and amortized in the statement of activities.

This amount represents amortization of discount on bonds. (3,661)

This amount represents amortization of deferred charge on bonds. (32,421)

Some expenses reported in the Government-Wide Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in Governmental Funds. This amount represents the change in accrued interest from prior year. 9,817

Change in Net Assets of Governmental Activities \$ 1,423,007

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

The component unit financial statements of the Redevelopment Agency (Agency) of the City of Sunnyvale (City), California, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

Redevelopment Agency of the City of Sunnyvale

The Agency was established under the provisions of the community redevelopment laws of the State of California by a resolution of the City Council adopted on November 19, 1957. In this resolution, the City Council declared itself to be the governing members of the Agency.

Because City Council members serve as the governing members of the Agency, management activities of the Agency are conducted by City staff, and the Agency is dependent upon the City for fiscal operations including preparation of the annual financial report, the Agency is considered a component unit of the City and blended into the City's Comprehensive Annual Financial Report.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Agency government-wide financial statements include a statement of net assets and a statement of activities and changes in net assets. These statements present summaries of governmental activities for the Agency. The Agency has no business-type activities.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

The government-wide financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net assets. The statement of activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as revenues for the Agency are general revenues such as property tax increment and interest revenues. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the statement of activities and changes in net assets, interfund transfers have been eliminated.

The Agency applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) to the governmental activities.

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all governmental funds as major funds because the Agency believes the financial position and activities of those funds are significant to the Agency as a whole.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (60 days after year end for property tax and non-grant revenues, and 90 days for grant revenues) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax increment and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

D. Cash, Deposits and Investments

The Agency pools unrestricted cash resources of its various funds with the City to facilitate cash management. No interest earnings from the City's cash and investment pool are apportioned to the Agency since the Agency, because of debt obligations, relies on the City to supplement its cash needs. Interest income from cash and investments with fiscal agents is credited directly to the related fund of the Agency.

E. Property Tax Revenue

California State Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1 percent of its assessed value unless an additional amount has been approved by voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be increased by no more than 2 percent per year unless there is new construction on the property or the property is sold or transferred. The California Legislature has determined the method of distribution of receipts from the 1 percent tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties, bills, and collects property taxes for the Agency. Secured and unsecured taxes are levied on the preceding January 1. Secured tax is due in two installments on November 1 and February 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payments. Unsecured tax is due as of the January 1 lien date and becomes delinquent if unpaid on August 31. A 10% penalty attaches to delinquent unsecured tax. If unsecured tax remains unpaid on October 31, an additional 1.5% attaches to it on the first day of each month until paid. The term "unsecured" refers to taxes on property not secured by liens on real property.

Property tax revenues are recorded when they become measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

The Agency's property taxes consist of tax increment revenue. This revenue is calculated by property taxes generated by the Agency through development activities. At the time a development project is undertaken the base property tax levy on the property is frozen and the full amount of incremental taxes due to increased value of the property becomes the Agency's revenue. The Agency's tax increment revenue is based on development activity in the project area, which is the downtown area of the City.

F. Interfund Balances

Outstanding balances between the Agency's funds are reported as due to and due from other funds.

G. Advances from Other City Funds

Outstanding balances owed to the City by the Agency are reported as advances from other City funds.

H. Capital Assets

The Agency's capital assets, which include land only at the end of fiscal year 2009, are reported in the governmental activities in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost was not available.

I. Long-term Debt

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the governmental activities.

Fund Financial Statements

The fund financial statements do not present long-term debt which is shown in the reconciliation of the governmental funds balance sheet to the government-wide statement of net assets.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Net Assets and Fund Balance

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted– This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted – This amount includes all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Fund Financial Statements

Fund Balance – Reservations and designations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balance be segregated or identify the portion of the fund equity not available for future expenditures.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenditures and expenses. Actual results could be different from these estimates and assumptions.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

2. CASH AND INVESTMENTS

The Agency pools its cash with the City. At June 30, 2009, the Agency had the following cash and investment balances:

Cash and Investments Held by the Agency	\$ 6,813,719
Cash and Investments Held by Fiscal Agent	<u>1,929,618</u>
Total Cash and Investments	<u>\$ 8,743,337</u>

Refer to the City’s Comprehensive Annual Financial Report for detailed disclosure on cash and investments.

3. INTERFUND RECEIVABLES/PAYABLES

Fund Financial Statements

Due to/from Other Funds

At June 30, 2009, the Agency General Fund owed the Low and Moderate Income Housing Special Revenue Fund \$10,667,213. This amount represents the 20% of redevelopment property tax increment revenues that are set aside for low and moderate income housing by State mandate. The Agency cannot provide funding due to pre-existing indebtedness. State law allows the Agency to continue collecting tax increment after the Project time and increment limits are reached to fund its housing liability. Repayments of the housing liability are expected to begin in fiscal year 2013.

4. ADVANCES FROM CITY GENERAL FUND

The Redevelopment Agency (as lessor) entered into a lease agreement with the City (as lessee) on May 1, 1977, for a two-level parking structure at the Sunnyvale Town Center Mall. (In 2005, the leased asset, a two-level parking structure, was demolished and two surface parking lots with improvements were substituted as the leased assets for the 1998 Parking Facility Certificates of Participation). The lease, as amended, requires the City to pay to the Agency base rental payments ranging from \$1,131,103 to \$1,281,250 each year until October 1, 2022. In addition to base rental payments, the City is also obligated to pay all taxes, assessments, administrative costs, certain insurance premium, certain maintenance costs, and all other such costs in order to maintain the existence of the parking structure or to comply with the terms of the related bond resolutions. During the fiscal year ended June 30, 2009, the City made \$1,208,280 in base rental payments to the Agency. The Agency uses these funds to make the annual debt service payments on the 1998 Parking Facility, Series A, Certificates of Participation.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

4. ADVANCES FROM CITY GENERAL FUND, Continued

According to the terms of the First Amended Repayment Contract signed in 1977, the Agency made the commitment to repay the City for costs advanced on its behalf and base rentals plus 8% interest on the unpaid balance. The funds needed to repay the City are generated from tax increment revenues. The Agency's first obligation is to pay the Central Core bonded debt service. The remaining tax increment revenues determine each year's repayment to the General Fund.

During the fiscal year ended June 30, 2002, the City's General Fund advanced an additional \$1,500,000 to the Agency to fund downtown public improvements. This advance bears interest at 6% and repayment is deferred until all other City advances to the Agency are paid off.

Total interest accrued on unpaid City advances for the fiscal year amounted to \$4,702,918 which includes \$4,567,591 accrued at 8% on unpaid City advances based on the first amended repayment contract and \$135,327 accrued at 6% on the \$1.5 million advance for the downtown improvement.

At June 30, 2009, outstanding project loan balance under the 1977 Repayment Agreement was \$37,644,230; outstanding administrative loan balance was \$23,954,596; outstanding loan balance for downtown public improvements was \$2,390,772. The total loan balance was \$63,989,598.

The following is a summary of transactions during the fiscal year ended June 30, 2009:

Advances from Other City Funds, July 1, 2008	\$ 58,609,600
Additional Advances from City for:	
Base Rental Payments	1,208,280
Operations, Projects and Debt Services	7,122,935
Repayments to City from:	
Tax Increment Revenue after Central Core Debt Service	(7,654,135)
Interest Accrued on Unpaid City Advances	4,702,918
Advances from Other City Funds, June 30, 2009	<u>\$ 63,989,598</u>

5. CAPITAL ASSETS

Government-Wide Financial Statements

At June 30, 2009, the Agency's capital assets consisted of the following:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Land	\$ 13,959,752	\$ -	\$ -	\$ 13,959,752
Total Capital Assets	<u>\$ 13,959,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,959,752</u>

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

5. CAPITAL ASSETS, Continued

Funds Financial Statements

The fund financial statements do not present general government capital assets that are shown in the reconciliation of the governmental funds balance sheet to the government-wide statement of net assets.

6. LONG-TERM DEBT

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2009:

Description	Beginning Balance July 1, 2008	Additions	Reductions	Bond Amortization	Ending Balance June 30, 2009	Amounts Due Within One Year	Amount Due in More than One Year
Governmental Activities:							
Bonds Payable:							
Certificates of Participation:							
1998 Parking Facility Series A	\$ 12,830,000	-	\$ (590,000)	-	\$ 12,240,000	\$ 620,000	\$ 11,620,000
Tax Allocation Bonds							
Central Core Series 2003	6,703,402	-	(355,000)	3,661	6,352,063	360,000	5,992,063
Town Center Pollution Remediation							
Obligations	8,400,000	-	(2,376,947)		6,023,053	4,644,081	1,378,972
Total Governmental Activities	\$ 27,933,402	\$ -	\$ (3,321,947)	\$ 3,661	\$ 24,615,116	\$ 5,624,081	\$ 18,991,035

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Bonds Payable

Tax Allocation Bonds

\$7,960,000 Central Core Redevelopment Project Tax Allocation Refunding Bonds, Series 2003

Due in original annual installments of \$230,000-\$585,000 through August 1, 2022, interest at 2.00-4.50%, repayments made from incremental property taxes are recorded in the Redevelopment Agency Special Revenue Fund. The bonds are presented net of unamortized discount of \$47,937. The bonds also had deferred charges of \$606,763, which were recorded as an asset and amortized over the life of the bonds on a straight-line basis. The balance of the deferred charges at June 30, 2009 was \$424,494.

The debt service requirements for the bonds at June 30, 2009 were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 360,000	\$ 246,536	\$ 606,536
2011	370,000	236,486	606,486
2012	385,000	224,776	609,776
2013	395,000	211,704	606,704
2014	405,000	197,451	602,451
2015-2019	2,290,000	729,634	3,019,634
2020-2023	2,195,000	201,523	2,396,523
	6,400,000	2,048,110	8,448,110
Less Unamortized Discount	(47,937)	-	(47,937)
Total	<u>\$ 6,352,063</u>	<u>\$ 2,048,110</u>	<u>\$ 8,400,173</u>

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Bonds Payable, Continued

Certificates of Participation

\$17,525,000 1998 Parking Facility, Series A, Certificates of Participation

Due in original annual installments of \$315,000-\$1,250,000 through October 1, 2022, interest at 3.65%-5.00%, repayments are made from base rental payments from the City General Fund.

The debt service requirements for the Certificates of Participation at June 30, 2009 were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 620,000	\$ 590,892	\$ 1,210,892
2011	645,000	561,475	1,206,475
2012	675,000	530,118	1,205,118
2013	710,000	496,523	1,206,523
2014	745,000	460,689	1,205,689
2015-2019	4,315,000	1,693,125	6,008,125
2020-2023	4,530,000	470,500	5,000,500
Total	<u>\$ 12,240,000</u>	<u>\$ 4,803,322</u>	<u>\$ 17,043,322</u>

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

6. LONG-TERM DEBT, Continued

B. Town Center Pollution Remediation Obligations

Pursuant to the Amended and Restated Disposition and Development and Owner Participation Agreement (ARDDOPA), the Redevelopment Agency (Agency) and Downtown Sunnyvale Mixed Use, LLC (Developer) have agreed to cooperate and share the costs in the investigation of, and response to, environmental conditions associated with the Town Center Project (Project) under the oversight of an appropriate regulatory agency. The Agency and the Developer have also agreed to cooperate in any efforts by either party to seek and obtain suitable liability protection, immunities and/or other assurances from the oversight agency regarding those environmental conditions pursuant to the Polanco Redevelopment Act, enacted by the State to encourage redevelopment of sites impacted by the presence of hazardous substances and to provide incentives in the form of state immunities if completed.

During the period of due diligence by the Developer, it became known that soil and groundwater contamination does exist in the Project area. The contaminants include hazardous materials released by former Downtown dry cleaning establishments, auto repair enterprises, gas stations, and other uses that use, store, or dispose of hazardous materials and wastes.

On July 17, 2007, the Agency adopted a resolution approving and authorizing an agreement with the San Francisco Bay Regional Water Quality Control Board as the oversight agency to facilitate investigation of, and response to, environmental conditions associated with the Project.

The ARDDOPA provides tiered cost sharing with the Developer; the Agency must pay 50% of the first \$2 million, 65% of the next \$1 million, 75% of the next \$1 million and 85% of cost above \$4 million. The Agency's estimate is that, by fiscal year 2010 at the completion of the Project, Agency's share of the pollution remediation outlays may reach \$9 million in total. These costs include expenses incurred for legal and environmental consulting, reimbursements to the oversight agency, and costs related to remediation implementation and post-remediation monitoring.

The Developer halted construction in early 2009 after failing to secure further funding to complete the Project. The Project was about forty percent completed at the time. Meanwhile, a dispute existed between the Agency and the Developer with respect to the amount and respective obligations related to certain environmental costs under the ARDDOPA. The amount in dispute was \$4,836,844, requested by the Developer for reimbursing costs incurred during the period from April 2008 to March 2009.

Despite the problem with this Project, a newly constructed modern Target store (a separate project, with street infrastructure to be installed by the Town Center Project Developer) was scheduled to open on the date of November 15, 2009. In order to effectuate the planned store opening, the Target site improvement work must be completed by October 8, 2009.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

6. LONG-TERM DEBT, Continued

B. Town Center Pollution Remediation Obligations, Continued

On July 17, 2009, the Agency's obligations to the Developer with respect to the aforementioned disputed amount were discharged and replaced by a new *Infrastructure Improvement Agreement*. The Agency wired \$1,107,118 immediately to reimburse the Developer for prior environmental costs; that amount was accrued to fiscal year 2009 in the fund financial statements. The Agency also committed \$3,729,726 for Site Improvement Funds, which represent the Agency's share to reimburse the Developer for installing the street infrastructure improvement for the new Target store.

During fiscal year 2009, the Agency incurred total environmental costs of \$2,376,947. The Agency had recognized pollution remediation obligations of \$8.4 million in the government-wide financial statements of the previous fiscal year. Although a great deal of work has already been accomplished to characterize the extent of the pollutants, the work is subject to the approval by the Regional Water Quality Board, and subsequent proof of effective remediation. The Agency's share of future environmental outlays is estimated to be \$6,023,053, considered to be a better estimate than any other amounts.

The estimated pollution remediation obligations may change with new information, price increase or reductions, technology, or changes in applicable laws and regulations.

The remediation project is budgeted under the Redevelopment Agency General Fund. The City General Fund may need to advance additional funds to the Agency since the Agency has committed tax increments to preexisting obligations and will need the City General Fund resources to fund the remediation project.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

7. SELF-INSURANCE AND CONTINGENT LIABILITIES

The Agency is covered under the City’s self-insurance plan and various insurance policies. The City has \$40,000,000 in excess general liability coverage, subject to \$500,000 self-insured retention (SIR) for each occurrence, through the California Joint Powers Risk Management Authority (CJPRMA), a risk-sharing pool. The City's excess workers' compensation coverage is provided through the California State Association of Counties Excess Insurance Authority (CSAC-EIA), with statutory limits subject to a \$500,000 self-insured retention. Employer's liability limit is \$5,000,000. The excess workers' compensation coverage is structured in layers as described below:

- \$500,000 - \$1,000,000. Coverage provided by CSAC-EIA (30% quota share) and American Safety Casualty Insurance Company (70% quota share)
- \$1,000,001 - \$5,000,000. Coverage provided by CSAC-EIA.
- \$5,000,001 - \$50,000,000. Coverage provided by ACE American Insurance Company
- \$50,000,001 - Statutory. Coverage provided by National Union Fire Insurance Co. of Pittsburgh, PA (AIG)

8. INTERFUND TRANSFERS

A transfer is a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds and another fund is responsible for the actual disbursement. Examples include transfer of funds from the general fund or a special revenue fund to a debt service fund to support principal and interest payments and transfer to meet the State mandated set-aside of 20% of property tax increment for low and moderate income housing. Listed below are interfund transfers for the year ended June 30, 2009:

		Transfers In		
		Governmental Funds		
Transfers Out	Governmental Funds	Major Funds		
		Special Revenue	Debt Service	Totals
	Major Funds:			
	General Fund	\$ 1,667,960	\$ 1,108,973	\$ 2,776,933
	Totals	<u>\$ 1,667,960</u>	<u>\$ 1,108,973</u>	<u>\$ 2,776,933</u>

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

9. CLASSIFICATION OF NET ASSETS

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted– 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. Additionally, this category presents restrictions placed on the categories of Capital Projects, Debt Service, and Specific Projects and Programs as established by the Agency Board.

Unrestricted– This category represents the net assets of the Agency, which are not restricted for any project or other purpose.

Fund Financial Statements

In the Fund Financial Statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Agency Board and Management and can be increased, reduced or eliminated by similar actions.

In Governmental Funds, fund reservations are presented as a component of fund balance as follows:

	Low and Moderate Income Housing Special Revenue	Debt Service	Total
Low and Moderate Income Housing	\$ 10,667,213	\$ -	\$ 10,667,213
Debt Service	-	1,929,618	1,929,618
Total	<u>\$ 10,667,213</u>	<u>\$ 1,929,618</u>	<u>\$ 12,596,831</u>

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

9. CLASSIFICATION OF NET ASSETS, Continued

Fund Financial Statements, Continued

Fund reservations are described as follows:

Reserved for Low and Moderate Income Housing represents the portion of the Redevelopment Agency's property tax increment revenues which are required by State law to be spent on housing for low and moderate income households.

Reserved for Debt Service represents the portion of fund balance that is legally restricted as per the bond covenants.

In Governmental Funds, fund designations are presented as a component of unreserved fund balance.

At June 30, 2009, the Capital Projects Fund had designated \$670,922 for capital projects to reflect management's plans to reappropriate current financial resources for ongoing capital projects.

10. DEFICIT NET ASSETS AND FUND EQUITY

Government-Wide Financial Statements

The governmental activities in the government-wide financial statements had deficit unrestricted net assets of \$(63,229,017). These deficit unrestricted net assets are due to liabilities incurred by these activities from advances made by the City. These advances were used to either acquire or improve capital assets located within the redevelopment project area. The deficit net assets will be eliminated as repayments are made to the City from tax increment revenues.

Fund Financial Statements

The following funds had deficit fund balances as of June 30, 2009:

General Fund	\$ (6,652,726)
Debt Service Fund	(62,059,980)

The deficit fund balance in the Agency's General Fund has been caused by the State mandated 20% of tax increment revenues set aside for low and moderate income housing. Because the Agency General Fund did not have sufficient funds to make the required transfer to the Low and Moderate Income Housing Special Revenue Fund, a liability was recorded in the Agency General Fund causing a deficit fund equity. The deficit is expected to be funded by collection of property taxes. Under current projections repayment will not start until after the tax increment cap has been reached.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

10. DEFICIT NET ASSETS AND FUND EQUITY, Continued

The recording of long-term advances from the City to the Agency has caused the deficit fund equity in the Agency's Debt Service Fund. The deficit is expected to be funded by operating transfers from the Agency's General Fund by increasing tax increment revenues.

11. PLEDGED REVENUES

Tax Increment Revenues Pledged

Tax increment revenues of \$8,264,077, net of administrative fees, for this year were reported in the Redevelopment Agency General Fund. All future tax increment revenues are pledged for purposes as stated below.

Under California law, the Redevelopment Agency has the power to utilize tax increment financing to borrow funds for land acquisition and public infrastructure improvements in the redevelopment project area. In 1977 the Redevelopment Agency issued \$16,800,000 of tax allocation bonds for the above purposes. Those bonds were twice refinanced. The current outstanding issue, Central Core Redevelopment Project Tax Allocation Refunding Bonds, Series 2003, has remaining principal and interest of \$8,448,110. The annual debt service, ranging from \$606,536 in fiscal year 2010 to \$598,163 in the final fiscal year 2023, is fully covered by current tax increment.

Also in 1977, the Agency sold lease revenue bonds totaling \$22,300,000 to construct a parking structure in the project area. Those bonds were twice refinanced. The current outstanding issue, Parking Facility Certificates of Participation, 1998 Series A, has remaining principal and interest of \$17,043,322. The annual debt service, ranging from \$1,210,892 in fiscal year 2009 to \$1,281,250 in the final fiscal year 2023, is fully covered by advances from the City General Fund in the form of base rental payments. Under the 1977 First Amended Repayment Contract, the Agency is to repay the City General Fund for these advances (the "1977 Loan") after paying for debt service of the Tax Allocation Bonds. Since 1986, the City General Fund has also provided additional loans (the "1986 Loan") to the Agency's for certain administrative costs and project expenditures. The Agency has not been able to produce sufficient tax increment revenues to significantly reduce the balance of City General Fund advances.

In 1986, the State Legislature imposed a new statutory obligation on the Agency to set aside an amount equal to 20% of the gross tax increment revenues generated each year in the project area. Due to preexisting debt obligations, the Agency has to adopt, on a yearly basis, a Housing Fund Deficit Reduction Plan, to defer payments into the Agency's Low and Moderate Income Housing Fund until future years after the final maturity of pre-existing obligations giving rise to such deficit. State law allows the Agency to continue collecting tax increment after the redevelopment project time and tax increment limits are reached so that the housing deficit can be eliminated.

Notes to Basic Financial Statements, Continued
Fiscal Year Ended June 30, 2009

11. PLEDGED REVENUES, Continued

Since the inception of the Redevelopment Project, the State has enacted several laws that placed revenue restrictions on redevelopment agencies. These include capping the time period for collection of tax increment for the redevelopment project area. For Sunnyvale's project area, the termination date was extended to November 2028 in fiscal year 2006 per SB1096 for compensation of the Agency's payments made to the County Supplemental Educational Revenue Augmentation Fund (ERAF) in fiscal year 2005 and fiscal year 2006.

More important was the establishment of revenue limits for redevelopment agencies. The revenue limit/increment cap for the Sunnyvale Redevelopment Agency as originally established was \$118 million. In fiscal year 2006 the Agency amended its Redevelopment Plan to increase the tax increment cap to \$600 million.

It should be noted that when tax increment received by the Agency reaches the original \$118 million cap, certain pass through payments to other taxing agencies will be required. At June 30, 2009, cumulative tax increment received, adjusted by approximately \$1 million for which valuation is currently under appeal, amounted to \$75,883,003.

12. SUBSEQUENT EVENTS

Downtown Sunnyvale Mixed Use LLC (the Developer of the Town Center Project) stopped all construction work in February 2009 when additional financing for the Town Center Project could not be secured to complete the Project. Since July 2009, liens totaling more than \$17 million have been filed against the Developer by the general contractor and subcontractors for missed payments on work completed. In August 2009 Devcon Construction, the general contractor, filed a multimillion-dollar lawsuit against various parties including the Developer, the Agency, and the lender Wachovia Bank (part of Wells Fargo Bank), seeking foreclosure of the property.

The retailer Target and the Developer are parties to a separate Site Development Agreement dated October 28, 2008. A newly constructed modern Target store, which is a separate project from the rest of the Town Center Project, will open on November 15, 2009. The streets and sidewalks leading to the new store are part of about \$8 million worth of infrastructure included in the Town Center Project. On July 19, 2009, the City, the Agency, the Developer, and Target reached an Infrastructure Improvement Agreement so that the required infrastructure could be installed in time for the new store opening. Concurrently, the Agency settled a dispute with the Developer with respect to certain environmental costs incurred by the Developer in the period from April 2008 to March 2009. Refer to Note 6.B on Town Center Pollution Remediation Obligations for more details.

Notes to Basic Financial Statements, Concluded
Fiscal Year Ended June 30, 2009

12. SUBSEQUENT EVENTS, Continued

The lender Wachovia/Wells Fargo Bank began foreclosure proceedings on the Project in September 2009 after the Developer's default on a \$108 million loan in June 2009. The foreclosure process is expected to take at least 120 days. In an October 5 court action, the Santa Clara County Superior Court appointed Jerry Hunt and Quattro Realty Group as the receiver of the Project. The receiver's responsibilities include devising a plan to protect and preserve the value of the Project site. During this time, Wachovia/Wells Fargo Bank has the power to authorize funds for improvements needed to secure the site.

The State of California adopted ABX426 in July 2009 which directs a portion of the incremental property taxes received by redevelopment agencies be paid to the County Supplemental Educational Revenue Augmentation Fund (ERAF) in fiscal years 2010 and 2011. The State Department of Finance will determine each agency's ERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. Based on the calculations in ABX426, the Agency's payments are estimated to be \$2,024,110 in fiscal year 2010 and \$416,322 in fiscal year 2011. Although the Agency can use any legally available funds to make the ERAF payments, its cash balance at year-end has been committed to future infrastructure projects. Since the Agency must use tax increment to meet pre-existing debt obligations, new City General Fund advances to the Agency will be incurred to make these ERAF payments.

Required Supplementary Information

Required Supplementary Information
Fiscal Year Ended June 30, 2009

BUDGETARY POLICY AND CONTROL

Budgetary Comparison Schedule - General Fund
Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary Fund Balance, July 1, 2008	\$ (9,338,749)	\$ (9,338,749)	\$ (9,338,749)	\$ -
Resources (Inflows):				
Property Taxes	6,395,478	6,949,996	8,264,077	1,314,081
Total Resources	<u>6,395,478</u>	<u>6,949,996</u>	<u>8,264,077</u>	<u>1,314,081</u>
Charges to Appropriations (Outflows)				
Planning and Management	236,317	236,317	175,969	60,348
Community Development	195,357	195,357	248,205	(52,848)
Environmental Management	3,900,000	3,900,000	2,376,947	1,523,053
Transfers Out to Other Agency Funds	3,645,439	3,645,439	2,776,933	868,506
Total Charges to Appropriations	<u>7,977,113</u>	<u>7,977,113</u>	<u>5,578,054</u>	<u>2,399,059</u>
Excess of Revenues Over (Under) Charges to Appropriations	<u>(1,581,635)</u>	<u>(1,027,117)</u>	<u>2,686,023</u>	<u>3,713,140</u>
Budgetary Fund Balance, June 30, 2009	<u>\$ (10,920,384)</u>	<u>\$ (10,365,866)</u>	<u>\$ (6,652,726)</u>	<u>\$ 3,713,140</u>

Budgetary Comparison Schedule – Low and Moderate Income Housing Special Revenue Fund
Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary Fund Balance, July 1, 2008	\$ 8,999,253	\$ 8,999,253	\$ 8,999,253	\$ -
Resources (Inflows):				
Transfers In	1,279,096	1,389,999	1,667,960	277,961
Total Resources	<u>1,279,096</u>	<u>1,389,999</u>	<u>1,667,960</u>	<u>277,961</u>
Budgetary Fund Balance, June 30, 2009	<u>\$ 10,278,349</u>	<u>\$ 10,389,252</u>	<u>\$ 10,667,213</u>	<u>\$ 277,961</u>

Required Supplementary Information, Continued
Fiscal Year Ended June 30, 2009

BUDGETARY POLICY AND CONTROL, Continued

Budgetary Comparison Schedule
Note to Required Supplementary Information

Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>	<u>Low and Moderate Income Housing Fund</u>
Sources/Inflow of Resources:		
Actual amounts (budgetary basis) of "total resources" from the budgetary comparison schedule	\$ 8,264,077	\$ 1,667,960
Differences - Budget to GAAP		
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	-	(1,667,960)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 8,264,077</u>	<u>\$ -</u>
Uses/Outflows of Resources		
Actual amounts (budgetary basis) of "total charges to appropriations" from the budgetary comparison schedule	\$ 5,578,054	\$ -
Differences - Budget to GAAP		
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(2,776,933)	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,801,121</u>	<u>\$ -</u>

Budgetary Information

The Agency's budget is adopted at the same time and as part of the City's budget. The City's approach to budget preparation is a central part of the City's Planning and Management System (PAMS). Key elements of the PAMS framework are:

- Long-range strategic planning (the General Plan Elements and Sub-Elements),
- Long-term financial planning (the Ten-Year Resource Allocation Plan, which includes projections over a 20-year time frame),
- Short-term allocation of resources (the two-year action budget),
- The Council Study Issues process,
- Performance "contracts" for Management, and
- Annual performance reporting and evaluation.

Required Supplementary Information, Continued
Fiscal Year Ended June 30, 2009

BUDGETARY POLICY AND CONTROL, Continued

Budgetary Information, Continued

The City in establishing the budgetary data reflected in its financial statements follows the procedures listed below:

- During December of each year, a public hearing (not legally required) is held by the City Council to obtain budgetary comments from the public early in the budget process.
- During May of each year, the City Manager submits to the City Council, a recommended budget for the fiscal year commencing July 1. The City Charter requires that the City Council receive the City Manager's budget no later than May 25.
- The City Manager's budget includes budgets for equipment, operating costs, debt service costs, and capital and special projects for the ensuing year.
- During May of each year the City Council holds a workshop on the budget. The workshop is open to the public.
- During June of each year the City Council holds a public hearing, legally required by the City Charter, where the public may submit written or oral comments regarding the entire budget or portions thereof.
- Prior to June 30 of each year, the budget as modified by the City Council, is legally enacted by adoption of a budget resolution. At June 30, 2009, the legal level of control was placed by the City Council at the departmental and fund level, and at the program level above the specified reappropriation thresholds. Appropriations lapse at year-end to the extent they have not been expended.
- The City Manager is authorized to transfer budgeted amounts within departments. Any revisions that affect a fund's reserve account must be approved by the City Council.
- Budgets are legally adopted for all governmental funds.

Formal budgets are employed as a management control device for all funds in which a budget has been adopted. They serve as the primary means of spending control for the general fund, special revenue funds, debt service funds and capital project funds.

- Budgeted amounts reported are those as originally adopted June 10, 2008 plus all amendments approved during the year by the City Council. Individual amendments were not material in relation to the original amounts budgeted. The City's policy is to reappropriate uncompleted capital projects into the next fiscal year.

Required Supplementary Information, Concluded
Fiscal Year Ended June 30, 2009

BUDGETARY POLICY AND CONTROL, Continued

Budgetary Highlights

The Agency General Fund budgeted tax increment revenues were revised from \$6,395,478 to \$6,949,996 due to redevelopment activity in the project area. There were no other budget modifications.

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