

CITY OF OAKLAND, CALIFORNIA



REDEVELOPMENT AGENCY
A BLENDED COMPONENT UNIT OF
THE CITY OF OAKLAND
FOR THE YEAR ENDED
JUNE 30, 2011

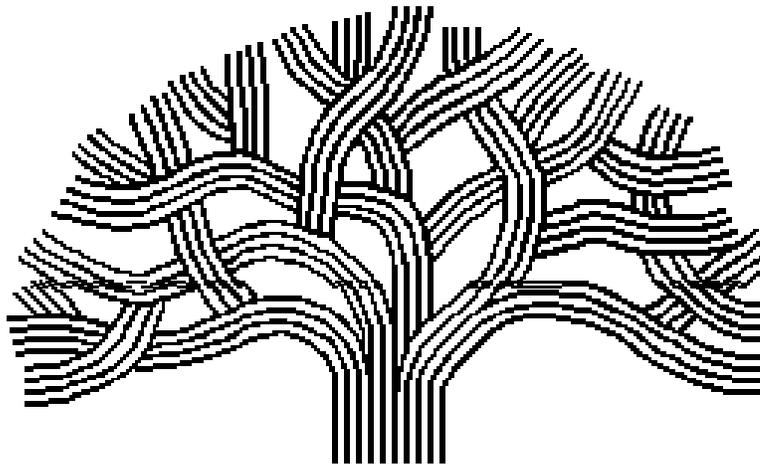
REDEVELOPMENT AGENCY

of the

CITY OF OAKLAND

CALIFORNIA

(A BLENDED COMPONENT UNIT OF THE CITY OF OAKLAND)



**Basic Financial Statements
and
Supplemental Information**

Fiscal Year Ended June 30, 2011

Prepared by Finance and Management Agency

Joseph T. Yew, Jr, Director

Osborn K. Solitei, Controller

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
FINANCIAL REPORT

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REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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Independent Auditor's Report

Honorable Mayor and Members of the Council
of the Redevelopment Agency
City of Oakland, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (Agency), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2011, 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 financial 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, each major fund, and the aggregate remaining fund information of the Agency as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, effective July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 12 to the financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements and the schedule of excess surplus determination are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States, the Agency's financial statements as of and for the years ended June 30, 2007 and 2010, which are not presented with the accompanying financial statements. In our reports dated December 6, 2007 and November 23, 2010, we expressed unqualified opinions on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency for the years ended June 30, 2007 and 2010, respectively. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. We did not audit the financial statements of the Agency for the years ended June 30, 2008 and 2009. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for those financial statements, is based on the reports of the other auditors. The accompanying schedule of excess surplus determination information related to the years ended June 30, 2007, 2008, 2009, and 2010 financial statements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the years ended June 30, 2007, 2008, 2009, and 2010 financial statements. The information has been subjected to the auditing procedures applied by us and other auditors in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the schedule of excess surplus determination for the years ended June 30, 2007, 2008, 2009, and 2010, is fairly stated in all material respects in relation to the financial statements from which they have been derived.

Macias Gini & C Counsel LLP
Oakland, California
November 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

This section of the Redevelopment Agency of the City of Oakland ("Agency") Annual Financial Report presents a narrative overview and analysis of the financial activities of the Agency for the year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the additional information contained in the Agency's financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The Agency's total assets exceeded its total liabilities by \$246.1 million compared to \$219.0 million for the previous fiscal year. This represents a net increase of \$27.1 million or 12.4 percent compared to previous year. The net change was driven primarily by a lower state mandated Supplemental Education Revenue Augmentation Fund (SERAF) payment.
- For the year ended June 30, 2011, the Agency's governmental fund balances were \$563.6 million compared to \$551.9 million in the previous fiscal year, an increase of 2.1 percent or \$12.7 million. The increases in fund balance are primarily attributable to issuance of Tax Allocation Bonds and Subordinated Housing Set-Aside bonds. The \$563.6 million fund balance is distributed by redevelopment project area as follows: 21.9 percent or \$123.5 million for the Central District; 16.2 percent or \$91.4 million for the Coliseum; 13.8 percent or \$78.0 million for Central City East; 24.9 percent or \$140.2 million for Low and Moderate Housing; 14.9 percent or \$84.2 million for the Oakland Army Base; 1.7 percent or \$9.3 million for Debt Service Funds; and 6.5 percent or \$36.9 million for Nonmajor Governmental Funds.
- As of June 30, 2011, the Agency has a total of \$530.9 million in long-term obligations outstanding compared to \$512.5 million in prior fiscal year, an increase of 3.6 percent or \$18.4 million. The increase is primarily to the issuance of new Tax Allocation bonds and Subordinated Housing Set-Aside Revenue Bonds. Long-term liability includes \$525.5 million in bonds, \$5.3 million remediation obligations and \$0.1 million advances from the primary government.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the Agency's basic financial statements. The Agency's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, using the accrual basis of accounting, in a manner similar to the financial statements for a private-sector business.

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, increases or decreases in net assets may serve as a useful indicator of whether or not 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 on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes.

The government-wide financial statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include urban redevelopment and housing development. The Agency does not engage in any business-type activities.

The government-wide financial statements include the operations of the various redevelopment areas and low and moderate housing program.

Fund Financial Statements

The fund financial statements are designed to report information about groupings 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 compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The Agency's basic operations are reported in governmental funds. However, unlike the government-wide financial statements, governmental fund financial statements follow the modified accrual basis of accounting and focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

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 Agency's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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 eleven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the Central District Fund, Coliseum Fund, Central City East Fund, Low and Moderate Housing Fund, Oakland Army Base, and Debt Service Fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation as non-major governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements immediately following the notes to the basic financial statements in this report.

Notes to the basic financial statements

The 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 basic financial statements can be found on pages 19-43 of this report.

Other information

In addition to the basic financial statements and the accompanying notes, the combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the footnotes.

Government-wide Financial Statements Analysis

The Agency's financial statements are presented under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis (MD&A) – for State and Local Governments*. All of the Agency's activities are governmental; therefore, business-type activities are not reported.

Analysis of Net Assets

Net assets may serve over time as a useful indicator of the Agency's financial position. The Agency's assets exceeded liabilities by \$246.1 million at the close of the fiscal year ended June 30, 2011.

As of the end of the fiscal year, the Agency had restricted net assets of \$563.1 million. The restricted net assets include \$77.3 million restricted for debt service, \$72.2 million restricted for low and moderate housing, and the remaining balance of \$414.0 million represents resources that are subject to external restrictions. The Agency's invested in capital assets is \$6.4 million and its deficit in unrestricted net assets of \$323.9 million is attributed to the issuance of bonds and other indebtedness to fund urban redevelopment and housing projects that are not capitalized.

**Statement of Net Assets
Governmental Activities**

(In thousands)

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Assets:		
Current and other assets	\$ 616,782	\$ 596,475
Property held for resale	179,240	163,919
Capital assets	6,448	6,600
Total assets	<u>802,470</u>	<u>766,994</u>
Liabilities:		
Long-term liabilities	530,921	512,527
Other liabilities	25,474	35,460
Total liabilities	<u>556,395</u>	<u>547,987</u>
Net assets:		
Investments in capital assets, net of related debt	6,448	6,600
Restricted for:		
Debt service	77,339	4,467
Low and moderate housing	72,196	99,264
Urban redevelopment projects and housing	414,032	447,575
Unrestricted	(323,940)	(338,899)
Total net assets	<u>\$ 246,075</u>	<u>\$ 219,007</u>

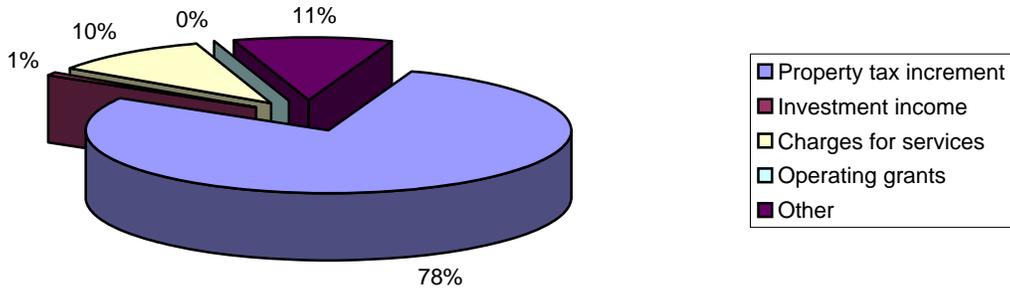
Governmental activities. The Agency's net assets increased by \$27.1 million or 12.4 percent in fiscal year ended June 30, 2011. Key elements of this increase are as follows:

**Changes in Net Assets
Governmental Activities**

(In thousands)

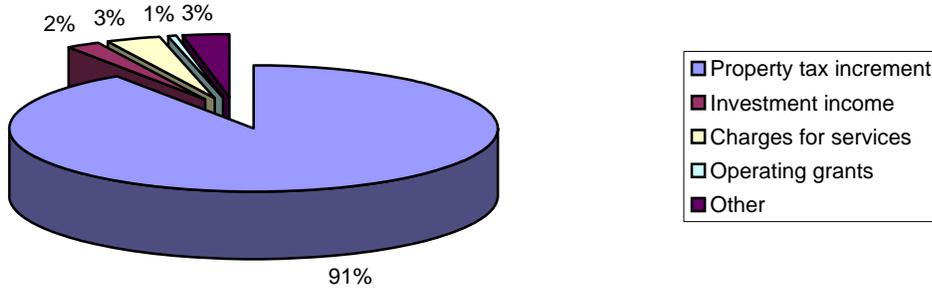
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 14,741	\$ 4,314
Operating grants and reimbursements	75	750
General revenues:		
Property tax increment	109,673	112,186
Investment income	1,242	3,074
Other	14,952	3,740
Total program and general revenues	<u>140,683</u>	<u>124,064</u>
Expenses:		
Urban redevelopment	56,958	63,672
Housing development	5,871	7,623
Supplemental Education Revenue Augmentation Fund Payment	8,465	41,114
AB 1290 Statutory Pass-Through Payments	14,143	18,072
Interest on long-term debt	28,178	27,984
Total expenses	<u>113,615</u>	<u>158,465</u>
Increase in net assets	27,068	(34,401)
Net assets, beginning of year	219,007	253,408
Net assets, end of year	<u>\$ 246,075</u>	<u>\$ 219,007</u>

**Redevelopment Agency of the City of Oakland
Revenue for FY 2010-11**



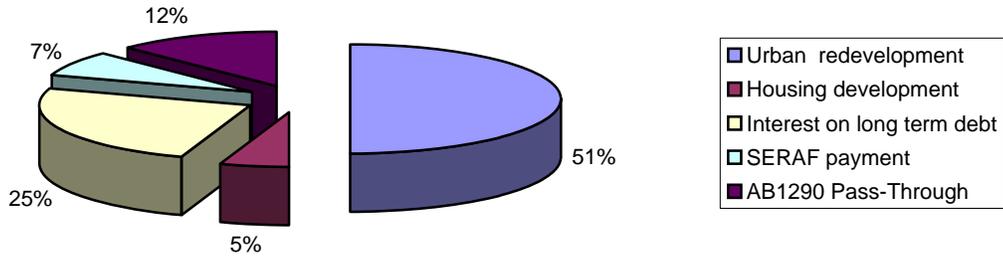
Total Revenues \$140,683

**Redevelopment Agency of the City of Oakland
Revenue for FY 2009-10**



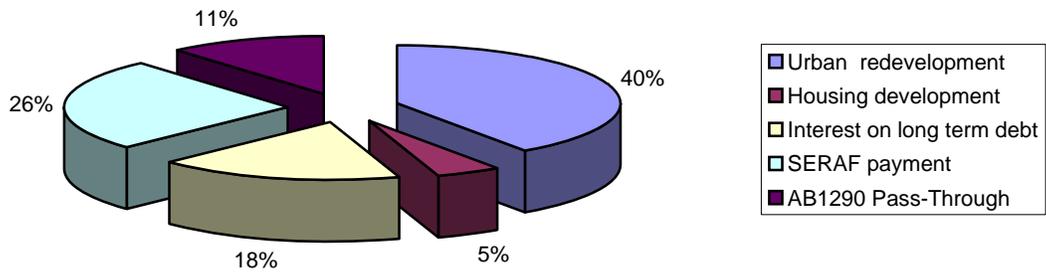
Total Revenues \$124,064

**Redevelopment Agency of the City of Oakland
Expense for FY 2010-11**



Total Expenses \$113,615

**Redevelopment Agency of the City of Oakland
Expense for FY 2009-10**



Total Expenses \$158,465

Analysis of Changes in Net Assets

The revenues in governmental activities for the Agency exceeded expenses by \$27.1 million for the year ended June 30, 2011. This represents an increase of 178.7 percent or \$61.5 million compared to the prior year's change in net assets of negative \$34.4 million.

During fiscal year 2010-2011, the Agency's revenues increased by \$16.6 million or 13.4 percent compared to the previous fiscal year. The increase in total revenue is primarily due to an increase of \$10.4 million in charges for services primarily from interest income on notes and loans, rental income from Oakland Army Base and rental from garages, and \$11.2 million increase in other revenue, which reflects the writing-off of the remaining balance on the 1966 Oak Center repayment contract totaling \$13.3 million from its long-term obligations authorized by City council offsetting decreases of \$2.5 million in tax increment revenue and \$1.8 million in investment income.

Conversely, government-wide expenses decreased by \$44.8 million or 28.3 percent. The decrease is primarily attributable to the \$32.6 million decrease in state mandated Supplemental Education Revenue Augmentation Fund Payment (SERAF) compared to FY2010, a \$3.9 million reduction in AB1290 payments and a \$6.7 and \$1.7 million reduction in urban redevelopment and housing development expending respectively.

Financial Analysis of the Agency's Fund Balances

As of June 30, 2011, the Agency's governmental funds reported combined ending fund balances of \$563.6 million, an increase of 2.1 percent or \$11.6 million compared to the prior fiscal year. The increase in fund balance is primarily attributable to the issuance of Tax Allocation and Subordinated Housing Set-Aside Revenue Bonds.

During fiscal year 2010-2011, the Agency's revenues decreased by \$2.7 million or 2.1 percent compared to the previous fiscal year. The decrease is mainly driven by a \$4.7 million or 4.3 percent decrease in tax increment revenue primarily due to lower assessment value on properties and a \$1.9 million or 162.5 percent decrease in investment income due to low interest rate environment offset by a \$4.1 million or 33.0 percent increase in rents and reimbursement income.

The Agency's expenditures also decreased by \$26.5 million or 15.9 percent. The decrease is driven primarily by lower state mandated SERAF payment and a \$3.9 million reduction in spending in urban redevelopment project area. Conversely, housing development spending increased by \$12.2 million or 40.6 percent mainly due to increase in lending activities.

In fiscal year 2010-2011, the Agency issued \$7.39 million Tax Allocation Bonds, Series 2010-T and \$46.98 million Subordinated Housing Set-Aside Revenue Bonds, Series 2011A-T which is reflected in the increase in other financing category.

City of Oakland
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
(In thousands)

	June 30, 2011	June 30, 2010
Revenues:		
Property tax increment	\$ 109,673	\$ 114,411
Investment income	1,242	3,074
Rents and reimbursements	12,517	8,385
Other	2,992	3,268
Total revenues	<u>126,424</u>	<u>129,138</u>
Expenditures:		
Urban redevelopment	66,974	70,885
Housing development	29,984	17,798
Supplemental Education Revenue Augmentation Fund Payment	8,465	41,114
AB 1290 Statutory Pass-Through Payment	14,143	18,072
Payment on advances	79	656
Retirement of long-term debt	19,365	16,865
Interest on long-term debt	27,272	28,252
Bond issuance cost	828	-
Total expenses	<u>167,110</u>	<u>193,642</u>
Other Financing Sources (Uses)		
Tax Allocation and Housing Set Aside bonds issued	54,370	-
Discount on bonds issuance	(2,052)	-
Total other financing sources	<u>52,318</u>	<u>-</u>
Change in fund balance	11,632	(64,504)
Beginning fund balance	551,935	616,439
Fund Balance at End of the Year	<u>\$ 563,567</u>	<u>\$ 551,935</u>

Budgetary Data

Meaningful Agency budgetary data are not presented in the financial statements for capital projects and debt service funds because budgetary allocations are fiscal year specific while Agency project implementation may involve several fiscal years to complete.

Capital Assets and Debt Administration

Capital Assets

The Agency has capital assets of \$8.1 million, before depreciation, which includes the Henry J. Robinson Multi-Service Center facility that provides service to the disadvantaged persons living within or near the Central District Redevelopment Project Area as major transitional housing, emergency shelter, and drop-in programs for the homeless population in Oakland; and the Fox Theater property which is leased to Fox Oakland Theater, Inc. (“FOT”) through a 60 year long-term lease. Fixed assets for the fiscal year ended June 30, 2011 are reported as \$6.5 million, net of accumulated depreciation.

Long-term Debt

At June 30, 2011, the Agency had total outstanding long-term debt of \$523.9 million, an increase of \$35.0 million or 7.2 percent from the prior fiscal year. The increase represents the issuance of new bonds and repayment of debts.

Bond Ratings

The Agency's bond ratings at June 30, 2011 are as follows (in thousands):

	<u>Moody's</u>	<u>Standard & Poors</u>	<u>Fitch JBCA</u>	<u>Balance Outstanding</u>
Tax allocation	Baa1/Baa2/A1	A+/A/A-	N/A	\$ 395,110
Housing set-aside revenue bonds	A2	A	A+	128,735
General obligation bonds	N/A	N/A	N/A	60
TOTAL				<u>\$ 523,905</u>

Long-term liabilities at the end of June 30, 2011 and June 30, 2010 are comprised of the following (in thousands):

	<u>FY 2011</u>	<u>FY 2010</u>
Bonds Payable:		
Tax allocation bonds payable	\$ 395,110	\$ 404,275
Housing set-aside revenue bonds	128,735	84,510
General obligation bonds	60	115
Total Bonds Payable	<u>523,905</u>	<u>488,900</u>
Other Long-Term Liabilities:		
Deferred amounts, net	1,567	4,322
Remediation costs	5,300	5,807
Advances from City of Oakland	149	13,498
Total Other Long-Term Liabilities	<u>7,016</u>	<u>23,627</u>
Total Long-Term Obligations	<u>\$ 530,921</u>	<u>\$ 512,527</u>

Other Potentially Significant Matters

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Oakland intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

On July 26, 2011, City Ordinance No. 13084 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$39.4 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$10 million will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation. Further information regarding Assembly Bill X1 26 and 27 is contained in Note 12 of the basic financial statements

Requests for Information

This financial report is designed to provide a general overview of the Redevelopment Agency of the City of Oakland's finances for all those with an interest in 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 Finance and Management Agency, Controller's Office, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612-2093.

BASIC FINANCIAL STATEMENTS

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

June 30, 2011

(In thousands)

	Governmental Activities
ASSETS	
Cash and investments	\$ 201,679
Receivable (net of allowance for uncollectible of \$226)	
Accrued interest receivable	549
Accounts receivable	449
Grants receivable	2,178
Due from the City of Oakland	12
Advances to the City of Oakland	13,024
Restricted cash and investments	196,781
Notes receivable (net of allowance for uncollectibles of \$47,018)	190,106
Property held for resale	179,240
Other assets	3,688
Deferred charges - bond issuance costs	8,316
Capital assets:	
Land	3,377
Facilities and improvements, net of depreciation	3,071
TOTAL ASSETS	<u>802,470</u>
LIABILITIES	
Accounts payable and accrued liabilities	3,709
Accrued interest payable	10,309
Due to the City of Oakland	2,179
Due to other governments	8,067
Deposits and other liabilities	1,210
Non-current liabilities:	
Due within one year	23,139
Due in more than one year	507,782
TOTAL LIABILITIES	<u>556,395</u>
NET ASSETS (Deficit)	
Invested in capital assets	6,448
Restricted for:	
Debt service	77,339
Low and moderate housing	72,196
Urban redevelopment projects	414,032
Unrestricted net assets (deficit)	<u>(323,940)</u>
TOTAL NET ASSETS	<u>\$ 246,075</u>

See accompanying notes to the financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Activities

For the year ended June 30, 2011

(In thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Urban redevelopment	\$ 56,958	\$ 10,090	\$ 75	\$ (46,793)
Housing development	5,871	4,651	-	(1,220)
Supplemental Education Revenue				
Augmentation Fund Payment	8,465	-	-	(8,465)
AB 1290 Statutory Pass-Through Payments	14,143	-	-	(14,143)
Interest on long-term debt	28,178	-	-	(28,178)
Total governmental activities	<u>\$ 113,615</u>	<u>\$ 14,741</u>	<u>\$ 75</u>	<u>(98,799)</u>
General Revenues:				
Property tax increment				109,673
Investment income				1,242
Other				<u>14,952</u>
Total general revenues				<u>125,867</u>
Change in net assets				27,068
Net assets at beginning of year				<u>219,007</u>
Net assets at end of year				<u>\$ 246,075</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Balance Sheet
Governmental Funds
June 30, 2011
(In thousands)

	Capital Projects						Nonmajor Governmental Funds	Total Governmental Funds
	Central District	Coliseum	Central City East	Low and Moderate Housing	Oakland Army Base	Debt Service		
ASSETS								
Cash and investments	\$ 31,168	\$ 25,544	\$ 15,646	\$ 66,105	\$ 37,050	\$ 232	\$ 25,934	\$ 201,679
Accrued interest receivable	120	69	40	162	91	2	65	549
Accounts receivable (net of allowance for uncollectibles of \$226)	161	-	-	-	-	-	288	449
Grants receivable	-	-	-	-	2,178	-	-	2,178
Due from the City of Oakland	-	-	-	-	-	-	12	12
Advances to the City of Oakland	10,982	-	-	1,608	-	-	434	13,024
Restricted cash and investments	33,068	24,274	52,510	68,012	1,115	9,093	8,709	196,781
Notes receivable (net of allowance for uncollectibles of \$47,018)	52,807	1,914	-	132,463	357	-	2,565	190,106
Property held for resale	61,845	45,004	11,027	8,013	48,940	-	4,411	179,240
Other assets	-	23	-	-	-	-	-	23
TOTAL ASSETS	\$ 190,151	\$ 96,828	\$ 79,223	\$ 276,363	\$ 89,731	\$ 9,327	\$ 42,418	\$ 784,041
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable and accrued liabilities	\$ 482	\$ 607	\$ 176	\$ 1,253	\$ 564	\$ -	\$ 627	\$ 3,709
Due to the City of Oakland	106	2	12	825	522	-	712	2,179
Due to other governments	2,014	2,917	984	-	1,000	-	1,152	8,067
Deposits and other liabilities	297	-	-	4	865	-	44	1,210
Deferred revenue	63,788	1,914	-	134,073	2,535	-	2,999	205,309
TOTAL LIABILITIES	66,687	5,440	1,172	136,155	5,486	-	5,534	220,474
FUND BALANCES								
Restricted	33,068	24,274	52,510	68,012	50,055	9,327	8,709	245,955
Committed	61,845	45,004	11,027	8,013	-	-	4,411	130,300
Assigned	28,551	22,110	14,514	64,183	34,190	-	23,764	187,312
TOTAL FUND BALANCES	123,464	91,388	78,051	140,208	84,245	9,327	36,884	563,567
TOTAL LIABILITIES AND FUND BALANCES	\$ 190,151	\$ 96,828	\$ 79,223	\$ 276,363	\$ 89,731	\$ 9,327	\$ 42,418	\$ 784,041

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets for Governmental Activities

June 30, 2011

(In thousands)

Fund balance - total governmental funds \$ 563,567

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. 6,448

Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets. 8,316

Prepaid leases are expended in the governmental funds when paid and are capitalized and amortized over the life of the lease for governmental activities. 3,665

Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due. (10,309)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds. 205,309

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:

Type	Amount	
Tax allocation bonds	\$ (395,110)	
Housing set-aside revenue bonds	(128,735)	
General obligation bonds	(60)	
Issuance premiums	(7,704)	
Issuance discounts	2,659	
Refunding loss	3,478	
Remediation cost	(5,300)	
Advances from the City of Oakland	(149)	
Subtotal		(530,921)

Net assets of governmental activities \$ 246,075

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011
(In thousands)

	Capital Projects						Nonmajor	Total
	Central		Central City	Low and	Oakland	Debt Service	Governmental	Governmental
	District	Coliseum	East	Moderate	Army Base		Funds	Funds
REVENUES								
Tax increment	\$ 52,009	\$ 24,839	\$ 10,364	\$ 6	\$ 9,766	\$ -	\$ 12,689	\$ 109,673
Interest on cash and investments	270	87	56	296	166	162	108	1,145
Interest on notes receivable	-	65	-	-	-	-	32	97
Rents and reimbursements	3,512	667	-	2,427	2,198	-	3,713	12,517
Federal and state grants and subventions	1,237	-	-	-	-	74	-	1,311
Other	1,007	103	66	444	-	-	61	1,681
TOTAL REVENUES	58,035	25,761	10,486	3,173	12,130	236	16,603	126,424
EXPENDITURES								
Current:								
Urban redevelopment	27,283	10,158	6,222	-	4,908	379	18,024	66,974
Housing development	-	-	-	29,984	-	-	-	29,984
Supplemental Education Revenue								
Augmentation Fund Payment	4,530	1,667	468	-	611	-	1,189	8,465
AB 1290 Statutory Pass-Through Payment	4,151	4,755	1,718	-	1,617	-	1,902	14,143
Debt Service:								
Payment on advances	-	-	-	-	-	79	-	79
Retirement of long-term debt	-	-	-	-	-	19,365	-	19,365
Interest	-	-	-	-	-	27,272	-	27,272
Bond issuance cost	-	-	-	635	-	-	193	828
TOTAL EXPENDITURES	35,964	16,580	8,408	30,619	7,136	47,095	21,308	167,110
Excess (deficiency) of revenues over expenditures	22,071	9,181	2,078	(27,446)	4,994	(46,859)	(4,705)	(40,686)
OTHER FINANCING SOURCES (USES)								
Issuance of debt	-	-	-	46,980	-	-	7,390	54,370
Discount on issuance of bonds	-	-	-	(1,830)	-	-	(222)	(2,052)
Transfers in	350	-	-	35,606	-	51,886	737	88,579
Transfers out	(38,386)	(22,586)	(7,469)	(12,366)	(2,316)	(167)	(5,289)	(88,579)
TOTAL OTHER FINANCING SOURCES (USES)	(38,036)	(22,586)	(7,469)	68,390	(2,316)	51,719	2,616	52,318
Change in fund balances	(15,965)	(13,405)	(5,391)	40,944	2,678	4,860	(2,089)	11,632
Fund balances at beginning of year	139,429	104,793	83,442	99,264	81,567	4,467	38,973	551,935
FUND BALANCES AT END OF YEAR	\$ 123,464	\$ 91,388	\$ 78,051	\$ 140,208	\$ 84,245	\$ 9,327	\$ 36,884	\$ 563,567

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011
(In thousands)

Net change in fund balances - total governmental funds	\$	11,632
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Amounts reported for governmental activities in the statement of activities are different because:

Capital assets cost is allocated over their estimated useful lives and reported as depreciation expenses in the current period.		(152)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, loans made to developers and others are treated as urban redevelopment and housing expenditures at the time the loans are made and are reported as revenues when the loans are collected in the funds. This represents the change in the deferred amounts during the current period.

Change in deferred revenue	\$	8,865	
New notes and loans		24,232	33,097

Prepaid leases are expended in the governmental funds when paid and are capitalized and amortized over the life of the lease for governmental activities.		1,665
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. The governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.

Principal of bonds issued	\$	(54,370)	
Discounts on bonds issued		2,052	
Bond issuance costs		828	
Amortization of bond issuance costs		(577)	
Retirement of long-term debt		19,365	
Forgiveness and payment of advances		13,349	
Amortization of premiums and discounts		979	
Amortization of refunding loss		(276)	
Net changes in remediation cost		507	(18,143)

Changes in accrued interest on bonds payable		(1,031)
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Change in net assets of governmental activities	\$	27,068
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See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

(1) ACTIVITIES OF THE REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

The Redevelopment Agency (Agency), a blended component unit of the City of Oakland (City), was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. The Agency is included as a blended component unit in the City's basic financial statements because the Agency's governing body is the same as the City Council. Its principal activities are the acquisition of real property for the purpose of removing or preventing blight, providing for the construction of improvements thereon, and the rehabilitation and restoration of existing properties. In addition, the Agency finances numerous low and moderate-income housing projects throughout the City.

The principal sources of funding for the Agency's activities have been:

- Bond issues, notes, and other financing sources;
- Advances, loans, and grants-in-aid from the City;
- Property tax revenue attributable to increases in the assessed valuations in the associated project areas; and
- Rental income derived from parking and rental of Agency owned properties.

Generally, funding from bond issues, notes, loans, and City advances are eventually repayable from incremental property tax revenue. The Agency has entered into repayment agreements with the City or is obligated to do so under the terms of other funding agreements. The amount of incremental property tax revenue received is dependent upon the local property tax assessments and rates, which are outside the control of the Agency. Accordingly, the length of time that will be necessary to repay the City is not readily determinable.

The Agency currently has the following project areas: Central District (which is segmented into several action areas including Chinatown, City Center, Uptown and City Hall Plaza); Coliseum; Central City East; Acorn; Broadway/MacArthur/San Pablo; Oakland Army Base; West Oakland; and Other Project Areas (Oak Center; Stanford/Adeline; and Oak Knoll).

The Central District Redevelopment Project area, which generates the greatest tax revenue for the Agency, provides for the development and rehabilitation of commercial and residential structures for approximately 200 blocks of Oakland's downtown area. At 6,764 acres, the Coliseum Redevelopment Project area is physically the largest adopted project area and provides for the development and rehabilitation of significant industrial, commercial, and residential areas in Oakland.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report all the activities of the Agency. The effect of interfund activity has been removed from these statements. The activities of the Agency are governmental in nature, which normally are supported by taxes and intergovernmental transfers.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include rents, grants, contributions, and charges for use of property owned. Taxes and other items properly not included as program revenues are reported instead as *general revenues*.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants are recognized as revenue when all eligibility requirements have been met.

The Agency's governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both 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. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. The Agency uses the *purchases method* to account for expenditures, and accordingly, no prepaid items are reported.

Property taxes and interest associated with the current fiscal period, using the modified accrual basis of accounting as described above, are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. The Agency considers property tax revenues to be available for the year levied if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting, except for debt service expenditures, which are recorded only when payment is due.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

The Agency reports the following major governmental funds:

Capital Project Funds:

Central District Fund – The Central District Fund accounts for the financial resources and the costs of acquisition, construction, improvement and management of commercial and residential facilities in the Central District Project area.

Coliseum Fund – The Coliseum Fund accounts for the financial resources and the costs of acquisition, construction and improvement of commercial, industrial, residential and airport related facilities in the Coliseum Project area.

Central City East Fund – The Central City East Fund accounts for the financial resources and the costs of acquisition, construction, improvement and management of commercial and residential facilities in the Central City East Project area.

Low and Moderate Housing Fund – The Low and Moderate Housing Fund accounts for 20% and 5% set-aside from all tax increments received, as mandated by State law and the Oakland Redevelopment Agency board, respectively. The fund also accounts for the proceeds from the Subordinated Housing Set-Aside Revenue Bonds, Series 2011-T and 2006A-T, and Subordinated Housing Set-Aside Revenue Refunding Bonds, Series 2006A. These funds are used to increase, improve and preserve the supply of housing within the City of Oakland available at affordable housing cost to persons or families of low and moderate income.

Oakland Army Base Fund – The Oakland Army Base Fund accounts for the financial resources and the costs of the redevelopment and reuse of the closed military facilities into commercial and industrial facilities in the former Oakland Army Base.

Debt Service Fund:

The Debt Service Fund – accounts for the accumulation of resources and the payment of Tax Allocation bonds, Subordinated Housing Set-Aside bonds, and General Obligation bonds' principal, interest and related costs.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Cash and Investments

The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2011, and reflects the values as if the Agency were to liquidate the securities on that date. Money market investments with maturities of one year or less have been stated at amortized cost.

The Agency follows the practice of pooling cash of all operating funds for investment. Income on pooled assets is allocated to the individual fund based on the fund's average daily balance in relation to total pooled assets.

Proceeds from debt and other funds, which are restricted for the payment of debt or for use in approved projects and held by fiscal agents by agreement, are classified as restricted assets. Also, rental revenues received from the University of California Office of the President (UCOP), Ice Rink, and City Center Garage West, which are restricted for the operation of each of the facilities, are classified as restricted.

Property Held for Resale

Property held for resale is acquired as part of the Agency's redevelopment program. These properties are both residential and commercial. Costs of administering Agency projects are charged to capital outlay expenditures as incurred. A primary function of the redevelopment process is to prepare land for specific private development.

For financial statement presentation, property held for resale is stated at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of each property parcel based on its current intended use.

During the period it is held by the Agency, property held for resale may generate rental or operating income. This income is recognized as it is earned in the Agency's statement of activities and generally is recognized in the Agency's governmental funds in the same period depending on when the income becomes available on a modified accrual basis of accounting. The Agency does not depreciate property held for resale, as it is the intention of the Agency to only hold the property for a period of time until it can be resold for development.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Capital Assets

Capital assets, which include land and facilities and improvements are reported in the governmental activities column in the government-wide financial statements. Capital assets, as defined by the Agency, are assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the Agency governmental funds and as assets in the government-wide financial statements to the extent the Agency's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Depreciation of capital assets such as facilities and improvements is provided on the straight-line basis over useful life of 5 – 40 years.

Due to Other Governments

Due to other governments are mainly comprised of AB1290 Statutory Pass-Through payments mandated by state legislature to taxing agencies. The pass-through legislation requires redevelopment agencies to share or pass-through a portion of the property tax increment to affected local taxing entities, including schools.

Environmental Remediation Costs

Expenditures for environmental remediation of real properties acquired by purchase or donation are added to the recorded amounts of property held for resale when incurred. All estimated environmental remediation costs that would result in the recorded amount of property held for resale exceeding estimated net realizable values are accrued as expenses when such amounts become known.

Adoption of New pronouncement

In fiscal year 2011, the Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. It establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used. Specifically, GASB Statement No. 54 distinguishes fund balances between amounts that are considered nonspendable and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balances in classifications based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2011, fund balances for governmental funds are made up of the followings:

The Agency presented its fund balances in the following categories:

- *Restricted Fund Balance*: includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. It also includes a legally enforceable requirement that the resources can only be used for specific purposes enumerated in the law.
- *Committed Fund Balance*: includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.
- *Assigned Fund Balance*: comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (1) the City's Council or (b) a body (for example: a Finance and Management Committee) or official to which the City's Council has delegated the authority to assign amounts to be used for specific purposes. For example, the City's encumbrances, project carry-forwards, and continuing appropriation are considered assigned fund balances.

Under various agreements with the United States Department of the Army (Army), the use of substantially all assets of approximately 366 acres of the former Oakland Army Base and related lease income is restricted for the operation, maintenance, and economic development of real properties, facilities, and improvements from June 16, 1999 to August 7, 2010 with a two year extension. At June 30, 2011, the Oakland Army Base capital projects fund reported fund balance of \$84.2 million, which included \$48.9 million restricted to property held for resale.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Fund balances for all the major and nonmajor governmental funds as of June 30, 2011, were distributed as follows:

	Central District	Coliseum	Central City East	Low and Moderate Housing	Oakland Army Base	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for:								
Capital projects	\$ 33,068	\$ 24,274	\$ 52,510	\$ -	\$ 1,115	\$ -	\$ 8,709	\$ 119,676
Housing projects	-	-	-	68,012	-	-	-	68,012
Property held for resale	-	-	-	-	48,940	-	-	48,940
Debt service	-	-	-	-	-	9,327	-	9,327
subtotal	<u>33,068</u>	<u>24,274</u>	<u>52,510</u>	<u>68,012</u>	<u>50,055</u>	<u>9,327</u>	<u>8,709</u>	<u>245,955</u>
Committed for:								
Property held for resale	<u>61,845</u>	<u>45,004</u>	<u>11,027</u>	<u>8,013</u>	<u>-</u>	<u>-</u>	<u>4,411</u>	<u>130,300</u>
Assigned for:								
Capital projects	28,551	22,110	14,514	-	32,190	-	23,764	121,129
Housing projects	-	-	-	64,183	-	-	-	64,183
Remediation	-	-	-	-	2,000	-	-	2,000
subtotal	<u>28,551</u>	<u>22,110</u>	<u>14,514</u>	<u>64,183</u>	<u>34,190</u>	<u>-</u>	<u>23,764</u>	<u>187,312</u>
Total	<u>\$ 123,464</u>	<u>\$ 91,388</u>	<u>\$ 78,051</u>	<u>\$ 140,208</u>	<u>\$ 84,245</u>	<u>\$ 9,327</u>	<u>\$ 36,884</u>	<u>\$ 563,567</u>

Tax Increment Revenue

Incremental property tax revenues represent taxes collected on the redevelopment areas from the excess of taxes levied and collected over that amount which was levied and collected in the base year (the year of project inception) property tax assessment. The County of Alameda is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the Agency. Incremental property taxes are assessed and levied as of January 1, and result in a lien on real property. Incremental property taxes are then due in two equal installments; the first on November 1 and the second on February 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively.

Budgetary Data

The Agency operates on a project basis and each of the capital project funds is for individual redevelopment areas consisting of several individual projects. All of the Agency's budgets are approved by the Agency's governing board. Unexpended budget appropriations are carried forward to the next year.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Deferred Revenue

Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met in fund statements. The Agency typically records deferred revenue in the governmental fund financial statements related to notes receivable arising from developers financing arrangement and long-term receivables.

Long-term Obligations

In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities. Bond premium, discount, and deferred refunding losses, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium, discount, and deferred refunding losses. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt service issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

(3) CASH AND INVESTMENTS

The Agency maintains a common cash and investment pool for use by all funds. Each fund's portion of this pool is reported in the governmental funds balance sheet as unrestricted cash and investments.

The Agency's cash and investments consist of the following at June 30, 2011 (in thousands):

	<u>Fair Value</u>
Cash and investments (unrestricted)	\$ 201,679
Restricted cash and investments	<u>196,781</u>
Total cash and investments	<u>\$ 398,460</u>

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 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.

The Agency maintains all of its unrestricted investments in a cash and investment pool. As of June 30, 2011, the Agency's cash and investment pool totaled \$201.7 million. Income earned or losses arising from investments in the Agency's cash and investment pool are allocated on a monthly basis to the appropriate funds based on the average daily cash balance of such funds.

As of June 30, 2011 the Agency's investment in LAIF was \$52.4 million (\$49.8 million in pooled cash and investments and \$2.6 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately \$24 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$66.5 billion. Of that amount, 94.99% is invested in non-derivative financial products and 5.01% in structured notes and asset-backed securities. 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, is determined on an amortized cost basis that is different than the fair value of the Agency's position in the pool.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Custodial Credit Risk:

At June 30, 2011, the carrying amount of the Agency's deposits was \$3.12 million. Deposits include checking accounts, interest earning savings accounts, and non-negotiable certificates of deposit. Of the bank balance, \$0.51 million was FDIC insured and \$2.61 million was collateralized with securities held by the pledging financial institution in the Agency's name, in accordance with Section 53652 of the California Government Code.

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 nationally recognized statistical rating organizations. The Agency's investment policy has mitigated credit risk by limiting investments to the safest types of securities. Additionally, the Agency prequalifies financial institutions, diversifies its portfolio, and has established monitoring procedures. The following tables show the Agency's credit risk as rated by Moody's for the Pooled and Restricted portfolios as of June 30, 2011 (in thousands):

Pooled Cash and Investments

Ratings as of June 30, 2011

	<u>Fair Value</u>	<u>AAA/Aaa</u>	<u>A-1/P1</u>	<u>Not Rated</u>
U.S. Govt. Agency Securities	\$ 42,121	\$ 42,121	\$ -	\$ -
U.S. Govt. Agency Securities Disc.	55,983	55,983	-	-
Money Market Funds	26,700	26,700	-	-
LAIF	49,762	-	-	49,762
Negotiable CDs	8,003	-	8,003	-
Commerical Paper - Discount	15,993	-	15,993	-
Subtotal	198,562	\$ 124,804	\$ 23,996	\$ 49,762
Deposits	3,117			
Total Cash and Investments	\$ 201,679			

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Restricted Cash and Investments

Ratings as of June 30, 2011

	<u>Fair Value</u>	<u>AAA/Aaa</u>	<u>A1/P1</u>	<u>Not Rated</u>
U.S.Govt. Agency Securities Disc.	\$ 4,600	\$ 4,600	-	\$ -
Money Market Funds	185,531	185,531	-	-
LAIF	2,642	-	-	2,642
Negotiable CD's	4,001	-	4,001	-
Subtotal	196,774	\$ 190,131	\$ 4,001	\$ 2,642
Deposits	7			
Total	\$ 196,781			

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 policy mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in single issuers. However, there is no limitation for investments issued by federal agencies or LAIF. The Agency has U.S. Government Agency Securities with Federal National Mortgage Association for \$64.6 million or 16.33% of the total Agency portfolio respectively. The following table shows the diversification of the Agency's portfolio (in thousands):

Pooled Cash and Investments

Restricted Investments

	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Govt. Agency Securities	\$ 42,121	21.21%
U.S. Govt. Agency Securities Disc.	55,983	28.19%
Money Market Funds	26,700	13.45%
LAIF	49,762	25.06%
Negotiable CDs	8,003	4.03%
Commerical Paper (Discount)	15,993	8.06%
Total	\$ 198,562	100%

	<u>Fair Value</u>	<u>% of Portfolio</u>
U.S. Govt. Agency Securities Disc.	\$ 4,600	2.34%
Money Market Funds	185,531	94.29%
LAIF	2,642	1.34%
Negotiable CDs	4,001	2.03%
Total	\$ 196,774	100%

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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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 average days to maturity of the Agency's pooled portfolio is 197 days. The Agency's investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification.

The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2011, the Agency had the following investments and original maturities (in thousands):

Pooled Cash and Investments

	Fair Value	Interest Rates	Maturities		
			12 Months or Less	1-3 Years	3-5 Years
U.S. Govt. Agency Securities	\$ 42,121	0.18% - 2.24%	\$ 14,160	\$ 24,935	\$ 3,026
U.S. Govt. Agency Securities Disc.	55,983	0.02% - 0.13%	55,983	-	-
Money Market Funds	26,700	0.07%	26,700	-	-
LAIF	49,762	0.45%	49,762	-	-
Negotiable CDs	8,003	0.15% - 0.24%	8,003	-	-
Commerical Paper (discount)	15,993	0.24% - 0.29%	15,993	-	-
Total	<u>\$ 198,562</u>		<u>\$ 170,601</u>	<u>\$ 24,935</u>	<u>\$ 3,026</u>

Restricted Investments

	Fair Value	Interest Rates	Maturities
			12 Months or Less
U.S. Govt. Agency Securities Disc.	\$ 4,600	0.00% - 0.24%	\$ 4,600
Money Market Funds	185,531	0.01% - 0.4%	185,531
LAIF	2,642	0.45%	2,642
Negotiable CD's	4,001	0.51%	4,001
Total	<u>\$ 196,774</u>		<u>\$ 196,774</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
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Restricted Investments in Capital Project and 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 capital projects and debt service funds. As of June 30, 2011, the amounts held by the trustees aggregated to \$196.8 million of which \$187.8 million is available to be used for restricted projects. All restricted investments held by trustees as of June 30, 2011 were invested in U.S. government agency securities discount note, money market mutual funds and LAIF, and were in compliance with the bond indentures.

Total Agency cash and investments as of June 30, 2011, are as follow (in thousands):

Fund	Equity in Pooled Cash and Investment	Restricted Cash and Investment With Fiscal Agent	Total Governmental Funds
Central District	\$ 31,168	\$ 33,068	\$ 64,236
Coliseum	25,544	24,274	49,818
Central City East	15,646	52,510	68,156
Low and moderate housing	66,105	68,012	134,117
Oakland Army Base	37,050	1,115	38,165
Debt Service	232	9,093	9,325
Nonmajor governmental funds	25,934	8,709	34,643
TOTAL	\$ 201,679	\$ 196,781	\$ 398,460

(4) NOTES RECEIVABLE

Notes receivable consisted of advances to developers of various Agency housing and redevelopment projects. These advances are evidenced by promissory notes. A summary of notes receivable at June 30, 2011 is as follows (in thousands):

	Central District	Coliseum	Low and Moderate Housing	Oakland Army Base	Nonmajor Governmental Funds	Total Governmental Funds
Housing development project	\$ -	\$ -	\$ 166,184	\$ -	\$ 868	\$ 167,052
Development loans	64,813	1,914	-	357	1,575	68,659
Small business loans	128	-	-	-	1,285	1,413
Gross notes receivable	64,941	1,914	166,184	357	3,728	237,124
Less: Allowance for uncollectible accounts	(12,134)	-	(33,721)	-	(1,163)	(47,018)
Total Notes receivable, net	\$ 52,807	\$ 1,914	\$ 132,463	\$ 357	\$ 2,565	\$ 190,106

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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In FY 2010-11, the agency's notes and loans receivable increased substantially in the Central District and Low and Moderate Housing project areas for a total of \$34.1 million. The increases are mainly attributed to the \$29.0 million increase in Low and Moderate Housing projects and a \$5.0 million loan to Alta City Walk, LLC within the Central District Project Area.

(5) PROPERTY HELD FOR RESALE

A summary of changes in property held for resale follows (in thousands):

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Property held for resale	\$ <u>163,919</u>	\$ <u>15,321</u>	\$ <u>-</u>	\$ <u>179,240</u>

The increases in Property Held for Resale represent the acquisition of the Fruitvale Bart Parking Lot from Bay Area Rapid Transit District for \$6.0 million, properties located at 66th avenue from Cruise America Inc. for a total of \$5.8 million and properties totaling to \$2.5 million for the Coliseum Transit Village project within the Coliseum Project Area. The Agency also purchased properties located at Foothill Boulevard for \$1.0 million for its Central City East Project Area. The Agency purchased two properties from the City of Oakland at 615 High Street and 695 Hegenberger Road with a carrying value of a dollar each.

(6) CAPITAL ASSETS

Capital assets activity of the Agency for the year ended June 30, 2011, is as follows (in thousands):

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>July 1, 2010</u>			<u>June 30, 2011</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ <u>3,377</u>	\$ <u>-</u>	\$ <u>-</u>	<u>3,377</u>
Capital assets, being depreciated:				
Facilities and improvements	4,740	-	-	4,740
Less accumulated depreciation	<u>(1,517)</u>	<u>(152)</u>	<u>-</u>	<u>(1,669)</u>
Total capital assets, being depreciated, net	<u>3,223</u>	<u>(152)</u>	<u>-</u>	<u>3,071</u>
Governmental activities capital assets, net	<u>\$ 6,600</u>	<u>\$ (152)</u>	<u>\$ -</u>	<u>\$ 6,448</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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The Agency has \$6.4 million capital assets, net of depreciation, as of fiscal year ended June 30, 2011. The decrease represents an annual depreciated rate of \$152 thousand for The Henry J. Robinson Multi-Service Center Facility.

(7) INTERGOVERNMENTAL RECEIVABLES, PAYABLES, AND INTERFUND TRANSFERS

“Advances to” the City of Oakland balances have primarily been recorded as it relates to pass through loans transactions made by the Agency primarily for projects such as first-time homebuyer programs and redevelopment programs. The loan repayments made from those programs will be repaid to the Agency’s funds which originally funded the program. “Due to” and “Due from” the City of Oakland balances are mainly comprised of reimbursements due to and due from the City for cost related to Agency’s redevelopment projects and parking garages managed by City. The composition of the amount due from the City as of June 30, 2011 is as follows (in thousands):

Advance to the City of Oakland (in thousands):

Receivable Project Areas	Descriptions	Amount
Central District	Pass through loans to the City	\$ 10,982
Low and Moderate Housing	Pass through loans to the City	1,608
Nonmajor governmental funds	Pass through loans to the City	434
Total advance to the City		\$ 13,024

Due from The City of Oakland (in thousands):

Payable Project Areas	Descriptions	Amount
Nonmajor governmental funds	Parking garage revenue	<u>\$ 12</u>

Due to the City of Oakland (in thousands):

Payable Project Areas	Descriptions	Amount
Central District	Reimbursements for project cost	\$ 106
Coliseum	Reimbursements for project cost	2
Central City East	Reimbursements for project cost	12
Low and Moderate Housing	Reimbursements for project cost	825
Oakland Army Base	Reimbursements for project cost	522
Nonmajor governmental funds	Reimbursements for project cost and parking garage expenses	712
Total due to the City		\$ 2,179

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
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Interfund Transfers (in thousands):

	Transfers In				Total Governmental Fund
	Central District	Low and Moderate Housing	Debt Service	Nonmajor Governmental Funds	
Transfers out:					
Central District	\$ -	\$ 12,135	\$ 25,839	\$ 412	\$ 38,386
Coliseum	-	15,801	6,785	-	22,586
Central City East	-	2,423	5,046	-	7,469
Low and Moderate Housing	350	-	12,016	-	12,366
Oakland Army Base	-	2,316	-	-	2,316
Debt Service	-	-	-	167	167
Nonmajor Governmental Funds	-	2,931	2,200	158	5,289
TOTAL	\$ 350	\$ 35,606	\$ 51,886	\$ 737	\$ 88,579

The Central District, Coliseum, Central City East, Low and Moderate Housing, and Nonmajor Governmental Funds transferred \$51.9 million into the Debt Service Fund for payment of City advances, principal and interest on tax allocation and housing set-aside revenue bonds, and for set-aside required debt service reserve.

The \$35.6 million transfer into the Low and Moderate Housing Fund, as reflected above, represent a \$21.9 million or 20% tax increment allocation in accordance with sections 33334.2 and 33334.3 of the California Community Redevelopment Law plus an additional \$5.5 million or 5% as mandated by City Council Resolution minus \$2.8 million from the additional 5% voluntary transfer authorized by City Council Resolution solely for the purpose of making the state required Supplemental Educational Revenue Augmentation Funds (SERAF) payment, a \$1.0 million adjustment for the prior year transfers and a \$10 million transfer from Coliseum tax allocation bonds into the Low and Moderate Housing Fund for the housing development within the Coliseum Project Area.

The transfer of \$0.74 million into Nonmajor Governmental Funds and \$0.35 million into Central District Funds represents fund transfers based on FY2009-11 adopted budget.

(8) LONG-TERM DEBT

Current Year Long-Term Debt Financings

**Broadway/MacArthur/San Pablo Redevelopment Project
Second Lien Tax Allocation Bonds, Series 2010-T,
Federally Taxable Recovery Zone Economic**

On November 2, 2010, the Redevelopment Agency of the City of Oakland (the “Agency”) issued \$7,390,000 of Broadway/MacArthur/San Pablo Redevelopment Project Second Lien Tax Allocation Bonds, Series 2010-T Federally Taxable Recovery Zone Economic Development Bonds (the “Series 2010-T Bonds”). The Bonds were issued to finance certain redevelopment activities within or to the benefit of the project area. The Bonds are taxable and treated as “recovery zone economic development bonds,” a category of “Build America Bonds,” under the American Recovery and Reinvestment Act of 2009 and the Agency receives direct payment from the United States Treasury Department equal to forty-five percent (45%) of the interest payable on each interest payment date. The final maturity date is September 1, 2040; the interest rates of these bonds range from 7.20% to 7.40%.

The Series 2010-T Bonds are limited obligations of the Agency payable solely from and secured solely by a pledge of second lien tax revenues, consisting primarily of tax increment derived from property, in the Broadway/MacArthur/San Pablo Project Area. The Agency expects to receive \$6.2 million or 45% interest subsidy from the federal government as part of the bond issue.

Subordinated Housing Set-Aside Revenue Bonds, Series 2011A-T

On March 3, 2011, the Agency issued \$46,980,000 of Subordinated Housing Set Aside Revenue Bonds Series 2011A-T (the “Series 2011A-T Bonds”). The Bonds were issued to finance low and moderate income housing activities within the Agency’s project areas. The Series 2011A-T Bonds are federally taxable with interest rates ranging from 3.25% to 9.25% and a final maturity of September 1, 2041.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
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Changes in Long-Term Obligations

The changes in long-term obligations for the year ended June 30, 2011, are as follows (in thousands):

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2011</u>	<u>Due within One Year</u>
Bonds Payable:					
Tax allocation bonds	\$ 404,275	\$ 7,390	\$ (16,555)	\$ 395,110	\$ 17,445
Housing set-aside revenue bonds	84,510	46,980	(2,755)	128,735	2,860
General obligation bond	115	-	(55)	60	60
Less deferred amounts:					
Issuance premiums	8,774	-	(1,070)	7,704	1,029
Issuance discount	(698)	(2,052)	91	(2,659)	(136)
Refunding loss	(3,754)	-	276	(3,478)	(268)
Total bonds payable	<u>493,222</u>	<u>52,318</u>	<u>(20,068)</u>	<u>525,472</u>	<u>20,990</u>
Remediation costs	5,807	-	(507)	5,300	2,000
Advances from City of Oakland	13,498	-	(13,349)	149	149
TOTAL	<u><u>\$ 512,527</u></u>	<u><u>\$ 52,318</u></u>	<u><u>\$ (33,924)</u></u>	<u><u>\$ 530,921</u></u>	<u><u>\$ 23,139</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

The following is a summary of long-term obligations as of June 30, 2011 (in thousands):

Type of Obligation	Final Maturity Year	Interest Rates	Amount
Tax Allocation Bonds:			
Central District Senior Tax Allocation Refunding Series 1992	2014	2.5 % - 6.0%	\$ 18,900
Central District Subordinated Tax Allocation Refunding Series 2003	2020	3.0% - 5.50%	92,810
Central District Subordinated Tax Allocation Refunding Series 2005	2023	5.00%	31,970
Central District Subordinated Tax Allocation Refunding Series 2006T	2022	5.252 - 5.411%	23,060
Central District Subordinated Tax Allocation Refunding Series 2009T	2021	5.3% - 8.5%	38,070
Central City East Tax Allocation Refunding Series 2006A-TE	2037	5.00%	13,780
Central City East Tax Allocation Refunding Series 2006A-T	2034	5.263% - 5.537%	57,460
Coliseum Area Tax Allocation Refunding Series 2006B-TE	2037	4.00% - 5.00%	26,800
Coliseum Area Tax Allocation Refunding Series 2006B-T	2036	5.263% - 5.537%	68,740
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2006C-TE	2037	5.00%	4,945
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2006C-T	2032	5.283% - 5.587%	11,185
Broadway/MacArthur/San Pablo Tax Allocation Bonds Series 2010-T	2040	7.200 - 7.400%	7,390
Total Tax Allocation Bonds			<u>395,110</u>
General Obligation Bond - Tribune Tower	2012	5.643%	<u>60</u>
Subordinated Housing Set-Aside Bonds:			
Revenue Series 2006A	2019	5.00%	2,195
Revenue Series 2006A-T	2037	5.030% - 5.927%	79,560
Revenue Series 2011T	2042	3.25% - 9.25%	46,980
Total Subordinated Housing Set-Aside Bonds			<u>128,735</u>
SUB TOTAL			<u>523,905</u>
Deferred Amounts:			
Unamortized bond premium (discount), net			5,045
Unamortized bond refunding loss, net			<u>(3,478)</u>
TOTAL BONDS PAYABLE			<u>\$ 525,472</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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Revenues Pledged for the Repayment of Debt Service

Tax Allocation Bonds

The Tax Allocation Bonds (TAB), which are comprised of Series 1992, Series 2003, Series 2005, Series 2006T, Series 2009T, Series 2006A TE/T, Series 2006B TE/T, Series 2006C TE/T, and Series 2010T are all secured primarily by a pledge of tax increment revenues, consisting of a portion of all taxes levied upon all taxable properties within each of the redevelopment project areas, and are equally and ratably secured on a parity with each TAB series. The total projected tax increment revenue through the period of the bonds is approximately \$3,041,759,743. These revenues have been pledged until the year 2040, the final maturity date of the bonds. Debt service payments for these TABs is payable semi-annually on March 1 and September 1. The total principal and interest remaining on these TABs is \$639,155,455 which is 21.0 percent of the total projected tax increment revenues. The pledged tax increment revenue recognized during the year ended June 30, 2011 was \$74,067,000 of which \$39,066,114 was used to pay debt service.

Housing Bonds

The Housing Set-Aside TAB, which is comprised of Series 2006A, Series 2006A-T and Series 2011T are equally and ratably secured by the pledge and lien of the 20% tax increment revenue set-aside and voluntary 5 percent for the low and moderate income housing fund. The total projected 20 percent set-aside and 5 percent voluntary revenue through the period of the bonds is approximately \$801,163,498 and \$200,290,875, respectively. These revenues have been pledged until the year 2037, the final maturity date of the bonds. Debt service payments for these TABs are payable semi-annually on February 1 and August 1. The total principal and interest remaining on these Housing TABs is \$263,256,251, which is 26.3 percent of the total projected set-aside and voluntary tax increment revenues. The pledged 20 percent set-aside and 5 percent voluntary tax increment revenue recognized during the year ended June 30, 2011 was \$35,606,000, of which \$7,501,417 was used to pay debt service.

Advances from City to the Redevelopment Agency

The City has made various advances to the Agency for redevelopment projects. As of June 30, 2011 the total outstanding balance was \$149 thousand, comprised of the following (in thousands):

<u>Project Description</u>	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2011</u>	<u>Due within One Year</u>
Oak Center	\$ 13,270	\$ -	\$ (13,270)	\$ -	\$ -
Stanford/Adeline	70	-	(70)	-	-
West Oakland	158	-	(9)	149	149
TOTAL	<u>\$ 13,498</u>	<u>\$ -</u>	<u>\$ (13,349)</u>	<u>\$ 149</u>	<u>\$ 149</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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On July 20, 2010, the City Council approved a resolution forgiving the Agency on its remaining balance of \$13.27 million under the 1966 Oak Center repayment contract that requested the City construct improvements within the Oak Center Project Area.

Payments to the City on West Oakland advances are contingent upon the availability of funds from the Projects.

Outstanding Defeased Bonds

For financial reporting purposes, the Agency's advanced-refunded debt is considered defeased and therefore removed as a liability from the Agency's government-wide financial statements. Cumulatively, the defeased bonds had an outstanding debt balance of \$34.3 million at June 30, 2011.

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures. The Agency believes it is in compliance with all significant limitations and restrictions.

Annual Future Payments

The following table presents the Agency's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2011 (in thousands).

Year ending June 30:	Governmental Activities	
	Principal	Interest
2012	\$ 20,365	\$ 30,363
2013	22,545	29,313
2014	24,870	28,053
2015	19,865	26,651
2016	27,140	25,334
2017 - 2021	163,300	99,311
2022 - 2026	77,825	59,811
2027 - 2031	54,080	43,688
2032 - 2036	69,505	26,672
2037 - 2041	39,035	9,126
2042 - 2042	5,375	248
TOTAL	\$ 523,905	\$ 378,570

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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Conduit Debt

The following long-term debt has been issued by the Agency on behalf of named agents of the Agency. The bonds do not constitute an indebtedness of the Agency. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds are not payable from any revenues or assets of the Agency, and neither the full faith and credit nor the taxing authority of the Agency, State, or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded. The City has recorded the Oakland Museum as an asset and the debt on its government-wide statement of net assets.

The conduit debt issued and outstanding at June 30, 2011 (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2011
City of Oakland Refunding Certificates of Participation (Oakland Museum) 2002 Series A	\$ 16,295	04/01/12	\$ 3,895
Redevelopment Agency of the City of Oakland, Multifamily Housing Revenue Bonds (Uptown Apartment Project), 2005 Series A	160,000	10/01/50	160,000
TOTAL			\$ 163,895

(9) TRANSACTIONS WITH THE CITY OF OAKLAND

The Agency and the City are closely related but are separate legal entities. The City Council members serve as the governing board for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City for both the services of employees and the use of City facilities. For the year ended June 30, 2011, the Agency reimbursed the City \$35.3 million for these expenditures.

In addition, the City provides advances and loans for the Agency debt service payments and other redevelopment projects. The Agency has entered into repayment agreements to reimburse the City for all amounts advanced and loaned to the Agency. In accordance with these agreements, the Agency reimbursed the City \$87.8 thousand for the fiscal year ended June 30, 2011; \$78.8 thousand in loan principal and \$9.0 thousand in interest expense.

During fiscal year 2010-2011, the City Council authorized the Agency to write-off the remaining balance of \$13.27 million under the 1966 Oak Center repayment contract that requested the City construct improvements within the Oak Center Project Area.

(10) TRANSACTIONS WITH THE FOX OAKLAND THEATER, INC. (“FOT”) DEVELOPMENT

FOT is an Internal Revenue Code section 501(C)(3) organization set up by and for the benefit of the Agency and the City to renovate the Fox Theater. The Agency transferred the Fox Theater property to FOT in August 2006 through a long-term lease and a Disposition and Development Agreement (“DDA”) which included a \$25,500,000 loan. The Fox Theater property was held by the Agency as property held for resale. During 2008, the property was transferred to FOT as a long-term capital lease which was valued at \$6,500,000 in the lease and DDA. All FOT board members are City employees and FOT has no staff. FOT set up a for profit entity, Fox Theater Manager, Inc (“FT Manager”), and then two LLCs managed by FT Manager, Fox Theater Landlord LLC, and Fox Theater Master Tenant LLC. These new entities were used to syndicate Historic and New Markets Tax Credits. The Fox Theater property was transferred to the LLCs in December 2006, but the loan remains with FOT and is secured by a pledge and assignment of borrowers ninety nine and nine-tenths percent (99.9%) interests in the Community Development Entities (CDEs) loans entered into between FOT and Fox Oakland Investment Fund (FOIF). In FY 2009-10 the Agency loaned an additional of \$2.0 million to Fox Oakland Theater Inc and \$1.4 million to Fox Theater Master Tenant LLC to complete the project. The \$1.4 million Fox Theater Master Tenant LLC loan has a 15 year term.

The outstanding principal balance of the FOT loan shall accrue interest at the rate of 2.5 percent, commencing on the date of disbursement and compounded annually, which will only be payable to the extent of borrower’s net cash flow from operations.

The loan terminates at the end of ten years unless the borrower defaults on the agreement in which case the lender declares an acceleration of the maturity.

(11) COMMITMENTS AND CONTINGENCIES

Oakland Redevelopment Agency

As of June 30, 2011, the Agency entered into contractual commitments of approximately \$54.2 million for materials and services relating to various projects. These commitments and future costs will be funded by future tax increment revenue and other sources.

At June 30, 2011, the Agency committed to funding \$75.7 million in loans. These commitments were made to facilitate the construction of low and moderate income housing within the City of Oakland.

On March 1, 2006, the Agency entered into the Jack London Gateway, Enhanced Enterprise Community Section 108 loan and grant agreement with City of Oakland as a guarantor of the promissory note. Under this agreement, the Agency committed to pay a portion of the note equal

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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to \$160 thousand per year for a ten year period. As of June 30, 2011, the remaining balance is \$1.2 million.

The Agency is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Wood Street Affordable Housing Project Environmental Remediation

The Wood Street Affordable Housing Project analytical results show concentrations of arsenic, lead, total petroleum hydrocarbons such as diesel and polycyclic aromatic hydrocarbons in site soils and or ground water sample. As of June 30, 2011, environmental remediation clean up activities have not been completed yet. The Agency has set-aside \$300 thousand in escrow to cover the remaining environmental obligations.

Oakland Army Base Environmental Remediation

Land originally conveyed to Oakland Base Reuse Authority (OBRA) from the Army, portions of which were subsequently conveyed to the Agency and the Port of Oakland, may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA then, and subsequently the Agency and the Port, are responsible for the first \$13.0 million of environmental remediation costs, including environmental remediation insurance. OBRA received a federal grant of \$13.0 million to pay for the above-mentioned environmental remediation costs including the \$3.5 million insurance premium. As of June 30, 2011, the Agency has spent approximately \$13 million on this project, of which \$10.9 million has been received from the US Department of the Army. The Agency is working with the US Department of Army on collecting the remaining balance of \$2.1 million.

The next \$11.0 million of environmental remediation costs are to be shared equally by the Agency and the Port. As a result, the Agency reports its share of \$5.0 million remediation obligation on Oakland Army Base project. The next \$9.0 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to \$30 million in environmental remediation-related costs. The Agency and the Port have agreed to share equally in any environmental remediation-related costs above \$21.0 million that are not covered by insurance. The Agency believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values.

(12) SUBSEQUENT EVENTS

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Oakland intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City if shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Notes to Basic Financial Statements
June 30, 2011

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the Federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On July 26, 2011, City Ordinance No. 13084 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$39.4 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$10 million will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the State. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

**COMBINING FINANCIAL
STATEMENTS and
COMPLIANCE SECTION**

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011
(In thousands)

	<u>Acorn</u>	<u>Broadway MacArthur San Pablo</u>	<u>West Oakland</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS						
Cash and investments	\$ 1,672	\$ 6,100	\$ 8,568	\$ 8,940	\$ 654	\$ 25,934
Accrued interest receivable	4	16	22	22	1	65
Accounts receivable, net	-	-	-	288	-	288
Due from the City of Oakland	-	-	-	12	-	12
Advances to the City of Oakland	-	-	-	-	434	434
Restricted cash and investments	-	8,709	-	-	-	8,709
Notes receivable, net	533	6	100	1,909	17	2,565
Property held for resale	-	-	-	4,411	-	4,411
TOTAL ASSETS	<u>\$ 2,209</u>	<u>\$ 14,831</u>	<u>\$ 8,690</u>	<u>\$ 15,582</u>	<u>\$ 1,106</u>	<u>\$ 42,418</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ 167	\$ 84	\$ 375	\$ 1	\$ 627
Due to the City of Oakland	-	3	148	273	288	712
Due to other governments	-	506	501	145	-	1,152
Deposits and other liabilities	12	25	-	1	6	44
Deferred revenue	533	6	100	1,909	451	2,999
TOTAL LIABILITIES	<u>545</u>	<u>707</u>	<u>833</u>	<u>2,703</u>	<u>746</u>	<u>5,534</u>
FUND BALANCES						
Restricted	-	8,709	-	-	-	8,709
Committed	-	-	-	4,411	-	4,411
Assigned	1,664	5,415	7,857	8,468	360	23,764
TOTAL FUND BALANCES	<u>1,664</u>	<u>14,124</u>	<u>7,857</u>	<u>12,879</u>	<u>360</u>	<u>36,884</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,209</u>	<u>\$ 14,831</u>	<u>\$ 8,690</u>	<u>\$ 15,582</u>	<u>\$ 1,106</u>	<u>\$ 42,418</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2011
(In thousands)

	<u>Acorn</u>	<u>Broadway MacArthur San Pablo</u>	<u>West Oakland</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES						
Tax increment	\$ 1,299	\$ 5,039	\$ 5,009	\$ 1,342	\$ -	\$ 12,689
Interest on cash and investments	5	24	37	42	-	108
Interest on notes receivable	-	-	-	32	-	32
Rents and reimbursements	6	-	-	3,638	69	3,713
Other	-	58	-	3	-	61
TOTAL REVENUES	<u>1,310</u>	<u>5,121</u>	<u>5,046</u>	<u>5,057</u>	<u>69</u>	<u>16,603</u>
EXPENDITURES						
Current:						
Urban redevelopment	1,445	10,199	2,605	3,737	38	18,024
Supplemental Education Revenue						
Augmentation Fund Payment	187	413	461	128	-	1,189
AB 1290 Statutory Pass-Through Payment	-	835	830	237	-	1,902
Debt Service:						
Bond issuance cost	-	193	-	-	-	193
TOTAL EXPENDITURES	<u>1,632</u>	<u>11,640</u>	<u>3,896</u>	<u>4,102</u>	<u>38</u>	<u>21,308</u>
Excess (deficiency) of revenues over expenditures	(322)	(6,519)	1,150	955	31	(4,705)
OTHER FINANCING SOURCES (USES)						
Issuance of debt	-	7,390	-	-	-	7,390
Discount on issuance of bonds	-	(222)	-	-	-	(222)
Transfers in	157	-	-	580	-	737
Transfers out	(628)	(3,097)	(1,169)	(95)	(300)	(5,289)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(471)</u>	<u>4,071</u>	<u>(1,169)</u>	<u>485</u>	<u>(300)</u>	<u>2,616</u>
Change in fund balances	(793)	(2,448)	(19)	1,440	(269)	(2,089)
Fund balances at beginning of year	2,457	16,572	7,876	11,439	629	38,973
FUND BALANCES AT END OF YEAR	<u>\$ 1,664</u>	<u>\$ 14,124</u>	<u>\$ 7,857</u>	<u>\$ 12,879</u>	<u>\$ 360</u>	<u>\$ 36,884</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF EXCESS SURPLUS DETERMINATION

July 1, 2010	Statements Fiscal Year Ending: 2009 - 2010
Beginning Balance (Prior Fiscal Year Ending Fund Balances):	\$ 99,263,850
Adjustments for Unavailable Resources:	
Assets (balance sheet amounts not available in current year):	
Land Held (for future project/lease/resale)	(8,012,504)
Net Resources Available:	91,251,346
Adjustments for Allowances per Health & Safety Code 33334.12(g):	
Encumbrances (legal agreements and contracts)	(305,908)
Unspent Debt Proceeds (secured by housing fund tax receipts)	(30,195,129)
Adjusted Available Resources (Unencumbered Fund Balance):	60,750,309
Comparison per Health & Safety Code 33334.12(g)(1) greater of (A) or (B):	
(A) 1 million	\$ 1,000,000
(B) Sum of Prior Four Fiscal Years Tax Deposits:	113,420,284
1. 2009 - 2010 \$ 22,659,183	
2. 2008 - 2009 32,884,431	
3. 2007 - 2008 30,473,467	
4. 2006 - 2007 27,403,203	
Excess Surplus as of July 2010	None

Note: This schedule is prepared in accordance with Health & Safety Code 33333.10(h)(3). This Schedule is prepared using the modified accrual basis of accounting described in Note 1 to the basic financial statements of the Redevelopment Agency of the City of Oakland (Agency). The schedule includes financial data from all the Low and Moderate income Housing Fund of the Agency.

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

Honorable Mayor and Members of the Council
of the Redevelopment Agency
City of Oakland, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (Agency), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 30, 2011. Our report includes an explanatory paragraph indicating that the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and an emphasis of a matter regarding an uncertainty related to recently passed State legislation. 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

Management of the Agency is responsible for establishing and maintaining effective 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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. 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 management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Connell LLP

Oakland, California

November 30, 2011

**Independent Auditor's Report on Compliance of
California Redevelopment Agencies and on
Internal Control over Compliance**

Honorable Mayor and Members of the Council
of the Redevelopment Agency
City of Oakland, California

Compliance

We have audited the Redevelopment Agency of the City of Oakland's (Agency) compliance with the requirements specified in the State of California's *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, applicable to the Agency's statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State of California's *Guidelines for Compliance Audits of California Redevelopment Agencies* (Guidelines), issued by the State Controller's Office, as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies* dated August 2011, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Agency's compliance with the state laws and regulations applicable to Financial Disclosure and Reporting; Affordable Housing; Five-Year Implementation Plans; Redevelopment Plans; Public Notification; and Conflict of Interest identified in the Guidelines.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements of the Agency for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance and with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion

on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Agency Commissioners, management and others within the Agency, the Controller of the City and County of San Francisco, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & Cunnell LLP

Oakland, California
November 30, 2011

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Status of Prior Year Findings
June 30, 2011

Finding 2010-01 – Authorization for use of the Agency’s Voluntary Five Percent Contribution

On October 6, 2009, the Agency Board of Directors adopted Resolution No. 09-90 in response to Assembly Bill (AB) 26 4x passed by the State legislature. Among other things, Resolution No. 09-90 authorized the Agency to pay a portion of the Supplemental Educational Revenue Augmentation Fund (SERAF) due by May 10, 2010 with the Agency’s voluntary five percent contributions authorized under Resolution No. 01-85. The amount of voluntary five percent contributions to be used to fund the SERAF payment was very specific, \$2,492,321 for years prior to fiscal year 2009/10, \$6,034,900 for fiscal year 2009/10, and \$2,607,710 for fiscal year 2010/11.

During the year ended June 30, 2010, the Agency experienced a drop in tax increment, as assessed values decreased from the prior year and were less than estimated in the budget, which produced a voluntary five percent contribution to the Agency’s Low and Moderate Income Housing Fund in the amount of \$5,664,814. While the Agency transferred out of the Low and Moderate Income Housing Fund the full amount of voluntary five percent contributions authorized under Resolution No. 09-90, there is a shortfall of \$370,086 between the amount authorized for fiscal year 2009/10 (\$6,034,900) and the amount actually contributed for fiscal year 2009/10 (\$5,664,814).

Therefore, it is unclear as to whether the \$370,086 shortfall is considered to be taken from the voluntary five percent contributions made in prior years, or whether it is considered to be taken from the 20% set-aside mandated by the Health and Safety Code. While AB 26 4x allows the use of 20% set-aside as a source for making the SERAF payment, it also requires the repayment of said funds within 5 years otherwise severe consequences are imposed over redevelopment operations. In order to prevent any misunderstanding or uncertainty over the source of funds used within the Low and Moderate Income Housing Fund, we recommend the Agency amend Resolution No. 09-90 to update the authorized amounts of voluntary five percent contributions to be used towards making the SERAF payment.

Management’s response:

Management acknowledges the finding and the Agency will return to the Agency Board of Directors with a resolution to amend Resolution No. 09-90. The adopted FY 2009-10 budget for the Agency provided for the entire voluntary 5% contribution to the low-moderate income housing set aside fund to be suspended and used instead for the SERAF payment. The actual tax increment received in FY 2009-10 were less than the budgeted amount, and therefore, the actual amount available for SERAF was less than the projected amount.

The "shortfall" will be made up by increasing the portion of the 5% voluntary contribution suspended in FY 2008-09. The Agency will anticipate transferring a portion of the funds carried forward from FY 2008-09 to FY 2009-10, in order to make clear that the source of funds was in fact FY 2008-09 revenues from the 5% voluntary contribution.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Status of Prior Year Findings
June 30, 2011

Status of Finding 2010-01:

Corrected. On June 7, 2011, the Agency adopted Resolution No. 2011-46, which amends Resolution No. 2009-90 and 2001-85. The amendment effectively reduces the portion of the 5% voluntary contribution coming from FY 2009-10 to \$5,664,814 and increases the portion of the 5% voluntary contribution coming from years prior to FY 2009-10 to \$2,862,407.

Finding 2010-02 – Under funding of the Agency’s Involuntary Twenty percent and Five percent Set-Aside contributions

During the year ended June 30, 2010, the Agency reduced its gross tax increment by the administrative fees, in the amount of \$856,602, charged by the County of Alameda (the County) when calculating the 20% low- and moderate-income housing set-aside mandated by the State Health and Safety Code. In accordance with California Redevelopment Law, not less than 20% of the gross tax increment allocated to the agency is to be deposited in the Housing Fund prior to any deduction for administrative fees, pass-through payments to taxing entities, negotiated fiscal agreements and waivers, or other transfers from the balance of the tax increment allocated to the agency, as clarified by the State Attorney General in its opinion, 76 Ops. Cal. Atty. Gen. 137 (1993). Therefore, the amount deposited into the Agency’s Housing Fund was less than required by California Redevelopment Law.

We recommend that the Agency recalculate the 20% low-moderate income housing set-aside using the gross tax increment allocated by the County and correct the amount of set-aside deposited into the Agency’s Housing Fund. We also recommend the Agency review past deposits into the Housing Fund to determine whether past amounts of low and moderate income housing set-aside comply with the California Redevelopment Law and whether the Agency needs to take action to correct any past deficiencies.

Management Response:

Management acknowledges the finding and the correction was made accordingly for FY 2009-10. The Agency will also review past deposits into the Housing Fund to determine whether past amounts set-aside comply with the California Redevelopment Law and whether the Agency needs to take action to correct any past deficiencies.

Status of Finding 2010-02:

Corrected. On April 21, 2011, the Agency transferred \$1,001,576 to the Housing Fund, which represents a correction of the deposits made for the low- and moderate-income housing set-aside over the previous 10 years, dating back to FY1999-2000. The amount transferred includes the City’s voluntary 5% contribution to the low- and moderate-income housing set aside fund.