PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 4, 2015

NEW ISSUE—BOOK-ENTRY

RATINGS: S&P: "AA-"
See "CONCLUDING INFORMATION - Rating"

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, the interest on the 2015 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest on the 2015 Bonds is exempt from California personal income taxes. See "TAX MATTERS."

$130,000,000*

SUCCESSOR AGENCY TO THE FORMER MILPITAS REDEVELOPMENT AGENCY 2015 TAX ALLOCATION REFUNDING BONDS (REDEVELOPMENT PROJECT AREA NO. 1)

Dated: Delivery Date **Due: September 1, as shown on the inside front cover**

Purpose of the 2015 Bonds. The above captioned bonds (the "2015 Bonds") are being issued by the Successor Agency to the Former Milpitas Redevelopment Agency (the "Successor Agency"), as successor to the Milpitas Redevelopment Agency (the "Former Agency") to (i) refund certain outstanding bonds issued by the Former Agency payable from tax increment revenue generated in the Former Agency's Redevelopment Project Area No. 1 (the "Project Area"), (ii) establish a debt service reserve account for the 2015 Bonds and (iii) pay the costs of issuing the 2015 Bonds.

Book-Entry. The 2015 Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") in the denomination of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the 2015 Bonds.

Payments. Annual principal of, premium if any, and semiannual interest on the 2015 Bonds due March 1 and September 1 of each year, commencing September 1, 2015, will be payable by U.S. Bank National Association, as Trustee (the "Trustee"), to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the 2015 Bonds. See "THE 2015 BONDS."

Redemption. The 2015 Bonds are subject to optional redemption prior to maturity. See "THE 2015 BONDS – Redemption."

Security for the 2015 Bonds. The 2015 Bonds are payable from and secured by a pledge of (i) Tax Revenues (as described herein) allocable to the Successor Agency under the Dissolution Act (described herein) to be derived from the Project Area, (ii) moneys in certain funds and accounts established under the Indenture of Trust, dated as of March 1, 2015 (the "Indenture"), by and between the Successor Agency and the Trustee and (iii) moneys deposited in the Redevelopment Property Tax Trust Fund established pursuant to the Dissolution Act, as further described in this Official Statement. See "SECURITY FOR THE 2015 BONDS."

The Successor Agency will establish a reserve account for the 2015 Bonds, which may be in the form of a debt service reserve surety bond. See "SECURITY FOR THE 2015 BONDS – Debt Service Reserve Account."

Insurance Policy or Reserve Account Surety Bond. The Successor Agency has applied for a municipal bond insurance policy and a debt service reserve account surety bond and will decide whether to purchase any such municipal bond insurance policy or debt service reserve account surety bond in connection with the pricing of the 2015 Bonds.

Limited Obligations. The 2015 Bonds are special obligations of the Successor Agency and are secured by an irrevocable pledge of, and are payable as to principal, interest and premium, if any, from Tax Revenues and other funds described in this Official Statement. The 2015 Bonds, interest and premium, if any, thereon are not a debt of the City of Milpitas (the "City"), the County of Santa Clara (the "County"), the State of California (the "State") or any of their political subdivisions except the Successor Agency, and none of the City, the County, the State nor any of their political subdivisions except the Successor Agency is liable thereon. The 2015 Bonds, interest thereon and premium, if any, are not payable out of any funds or properties other than those set forth in the Indenture. Neither the members of the Successor Agency, the Oversight Board of the Successor Agency, the County Board of Supervisors nor any persons executing the 2015 Bonds are liable personally on the 2015 Bonds.

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the 2015 Bonds. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Attention is hereby directed to certain risk factors more fully described in this Official Statement. See "RISK FACTORS."

The 2015 Bonds are offered, when, as and if issued, subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, Bond Counsel to the Successor Agency. Jones Hall, A Professional Law Corporation, is also serving as Disclosure Counsel to the Successor Agency. In addition, certain legal matters will be passed upon for the Successor Agency by the City Attorney of the City, as Successor Agency general counsel. Certain legal matters will be passed on for the Underwriters by Quint & Thimmig LLP, Underwriters' Counsel. It is anticipated that the 2015 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about March 18, 2015.

Morgan Stanley STIFEL PiperJaffray®

The date of this Official Statement is February 4, 2015.

* Preliminary; subject to change.

MATURITY SCHEDULE

$130,000,000*
SUCCESSOR AGENCY TO THE FORMER MILPITAS REDEVELOPMENT AGENCY
2015 TAX ALLOCATION REFUNDING BONDS
(REDEVELOPMENT PROJECT AREA NO. 1)

Maturity Date (September 1)	Principal Amount*	Interest Rate	Yield	Price	CUSIP† (Base _____)
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					

*Preliminary; subject to change.

† Copyright 2015, CUSIP Global Services, and a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the Successor Agency nor the Underwriters assume any responsibility for the accuracy of the CUSIP data.

SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
MILPITAS, CALIFORNIA

CITY COUNCIL/SUCCESSOR AGENCY BOARD

Mayor Jose Esteves, *Mayor*
Carmen Montano, *Vice-Mayor*
Debbie Indihar Giordano, *Council Member*
Garry Barbadillo, *Council Member*
Marsha Grilli, *Council Member*

CITY/SUCCESSOR AGENCY STAFF

Thomas C. Williams, *City Manager*
Emma C. Karlen, *Assistant City Manager/Director of Financial Services*
Steven McHarris, *Planning and Neighborhood Services Director*
Steven Machida, *Acting Public Works Director/City Engineer*
Mary Lavelle, *City Clerk*
Michael J. Ogaz, *City Attorney*

SPECIAL SERVICES

Financial Advisor
Fieldman, Rolapp & Associates, Inc.
Irvine, California

Bond and Disclosure Counsel
Jones Hall, A Professional Law Corporation
San Francisco, California

Fiscal Consultant
Fraser & Associates
Roseville, California

Trustee
U.S. Bank National Association
San Francisco, California

Verification Agent
Grant Thornton LLP
Minneapolis, Minnesota

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GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the 2015 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2015 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Successor Agency or the Project Area since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2015 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2015 Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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

Document References and Summaries. All references to and summaries of the Indenture or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Stabilization of and Changes to Offering Prices. The Underwriters may overallot or take other steps that stabilize or maintain the market price of the 2015 Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriters may discontinue such market stabilization at any time. The Underwriters may offer and sell the 2015 Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriters.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the 2015 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE SUCCESSOR AGENCY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Website. The City maintains an Internet website, but the information on the website is not incorporated in this Official Statement.

OFFICIAL STATEMENT

$130,000,000*
SUCCESSOR AGENCY TO THE FORMER MILPITAS REDEVELOPMENT AGENCY
2015 TAX ALLOCATION REFUNDING BONDS
(REDEVELOPMENT PROJECT AREA NO. 1)

This Official Statement, including the cover page, is provided to furnish information in connection with the sale by the Successor Agency to the Former Milpitas Redevelopment Agency (the "**Successor Agency**") of the captioned bonds (the "**2015 Bonds**").

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description and guide to, and is qualified by, the more complete and detailed information contained in the entire Official Statement including the cover page and the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2015 Bonds to potential investors is made only by means of the entire Official Statement.

Authority and Use of Proceeds

The Successor Agency is issuing the 2015 Bonds pursuant to authority granted by Part 1 (commencing with Section 33000) and Part 1.85 of Division 24 (commencing with Section 34170) of the California Health and Safety Code (the "**Law**"), Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "**Refunding Law**"), and an Indenture of Trust dated as of March 1, 2015 (the "**Indenture**") by and between the Successor Agency and U.S. Bank National Association, as trustee (the "**Trustee**"). See "THE 2015 BONDS – Authority for Issuance."

The Successor Agency is issuing the 2015 Bonds in order to defease and redeem the outstanding Milpitas Redevelopment Agency Redevelopment Project Area No. 1 2003 Tax Allocation Bonds (the "**Prior Bonds**") issued by the Milpitas Redevelopment Agency (the "**Former Agency**"). The proceeds of the Prior Bonds were used to finance or refinance redevelopment activities in the Project Area (as defined below).

Proceeds of the 2015 Bonds will also be used to establish a debt service reserve account and pay the costs of issuing the 2015 Bonds.

The City and the Successor Agency

The City and the County. The City of Milpitas (the "**City**") is located in the County of Santa Clara (the "**County**"). The City covers approximately 13.5 square miles and is located 45

* Preliminary; subject to change.

miles south of San Francisco, and is adjacent to the City of San Jose in the northern part of the County. The City's estimated population at January 1, 2014 was approximately 70,100. The City was incorporated in 1954 as a general law city. It is administered by a Council-Manager form of government. There are four City Council members who are elected at-large for staggered four –year terms, and the Mayor is selected every two years in a separate citywide election. For certain information regarding the City, see "APPENDIX G - CITY OF MILPITAS AND SANTA CLARA COUNTY GENERAL INFORMATION." The 2015 Bonds are not an obligation of the City or the County.

Former Agency. The Successor Agency is the successor entity to the Former Agency, which was dissolved under the Dissolution Act (described below). The Former Agency was a redevelopment agency with all of the powers vested in such entities under the Community Redevelopment Law (the "**Redevelopment Law**"). The City Council of the City (the "**City Council**") was the legislative body of the Former Agency and is the governing board of the Successor Agency.

Dissolution Act. On June 29, 2011, Assembly Bill No. 26 ("**AB 1X 26**") was enacted together with a companion bill, Assembly Bill No. 27 ("**AB 1X 2**7"). The provisions of AB 1X 26 provided for the dissolution of all redevelopment agencies statewide as of February 1, 2012. The provisions of AB 1X 27 permitted redevelopment agencies to avoid such dissolution by the payment of certain amounts. A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al., v. Matosantos, et al.,* 53 Cal. 4th 231 (Cal. Dec. 29, 2011), challenging the constitutionality of AB 1X 26 and AB 1X 27. The California Supreme Court largely upheld AB 1X 26, invalidated AB 1X 27, and held that AB 1X 26 may be severed from AB 1X 27 and enforced independently. As a result of AB 1X 26 and the decision of the California Supreme Court in the California Redevelopment Association case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

The primary provisions enacted by AB 1X 26 relating to the dissolution and wind down of former redevelopment agency affairs are found in Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 ("**AB 1484**"), enacted as Chapter 26, Statutes of 2012. The provisions of Part 1.85 are referred to in this Official Statement as the "**Dissolution Act.**"

Successor Agency. Pursuant to Section 34173 of the Dissolution Act, the City acts as the Successor Agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Successor Agency is a separate public and legal entity from the City, that the two entities shall not merge, and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City.

The Redevelopment Plan and the Project Area

Redevelopment Plan. The City Council established Project Area No. 1 (the "**Original Area**") and approved the Preliminary Plan for Project Area No. 1 (the "**Original Redevelopment Plan**") pursuant to Ordinance No. 192, adopted on September 21, 1976. Since its adoption, the Original Redevelopment Plan has been amended several times, including, in 2003, when it was amended and restated by the Amended and Restated Redevelopment Plan for the Milpitas

Redevelopment Project Area No. 1 (the "**Amended and Restated Redevelopment Plan**") approved by the City Council on June 17, 2003 pursuant to Ordinance No. 192.14. The Amended and Restated Redevelopment Plan has been amended several times since its adoption and, as so amended, is referred to in this Official Statement as, the "**Redevelopment Plan**").

In 1993, the City Council established the Former Agency's second redevelopment project area, the Great Mall Redevelopment Project (the "**Great Mall Project Area**") and approved the Redevelopment Plan for the Great Mall Redevelopment Project (as amended from time to time, the "**Great Mall Redevelopment Plan**") pursuant to Ordinance No. 192.8, adopted on November 3, 1993. The Great Mall Redevelopment Plan does not provide for the use of tax increment revenues to finance redevelopment activities within the Great Mall Project Area and therefore does not generate any tax increment revenues.

In 2006, the Amended and Restated Redevelopment Plan was amended to merge the Project Area with the Great Mall Project Area to permit tax increment revenues from the Project Area to be used for redevelopment activities in the Great Mall Project Area. The Project Area and the Great Mall Project Area retained separate redevelopment plans after the merger. As discussed more fully in the sections of this Official Statement entitled, "SECURITY FOR THE 2015 BONDS," because the Great Mall Project Area does not generate tax increment revenue, the discussion in this Official Statement regarding the Former Agency's project areas and related redevelopment plans is limited to the Project Area.

See "THE PROJECT AREA - The Redevelopment Plan" for further information about the Redevelopment Plan.

Project Area. The Original Area of the Project Area is composed of approximately 577 acres of land. In 1979, the Original Area was amended to add approximately 483 acres (the "**First Amendment Area**"). In 1982, the Original Area was further amended to add approximately 479 acres (the "**Second Amendment Area**"). In 2003, the Original Area was further amended to add approximately 691 acres (the "**Midtown Area**" and together with the Original Area, the First Amendment Area and the Second Amendment Area, the "**Project Area**") thereby resulting in a total of approximately 2,230 acres within the Project Area. The Project Area includes low density and medium density residential, industrial, commercial and public land uses and encompasses the City's downtown core. The Project Area also includes 245 acres out of 437 acres within the City designated for medium to high-density development pursuant to the City's Transit Area Specific Plan. The City's Transit Area Specific Plan was adopted in June 2008 in anticipation of the extension of the Bay Area Rapid Transit ("**BART**") system to the City and in an effort to attract major retailers to the City and to provide additional housing and amenities such as parks, retail stores and restaurants to the City's residents. Development is anticipated to occur in areas adjacent to a future Milpitas BART train station and two Santa Clara Valley Transportation Authority ("**VTA**") light rail stations.

Tax Allocation Financing

Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues, and the Santa Clara County Auditor-Controller (the "**County Auditor-Controller**") apportioned tax increment revenue to all redevelopment agencies in two roughly equal payments in December and April of each fiscal year. An additional payment was made in August to allocate any revenues that had not previously been paid. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopted the redevelopment plan became the base year valuation. Assuming the taxable valuation never dropped below the base year level, the taxing agencies receiving property taxes thereafter received only that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion of property taxes produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of redevelopment agency obligations.

Authority to Issue Refunding Bonds

Section 34177.5(a)(1) authorizes the issuance of refunding bonds to provide savings to the successor agency, provided that (i) the total interest cost to maturity on the refunding bonds or other indebtedness plus the principal amount of the refunding bonds or other indebtedness does not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded, and (ii) the principal amount of the refunding bonds or other indebtedness does not exceed the amount required to defease the refunded bonds or other indebtedness, to establish customary debt service reserves, and to pay related costs of issuance. See "SECURITY FOR THE 2015 BONDS."

The Dissolution Act authorizes each successor agency to issue refunding bonds secured by a pledge of, and lien on, the revenues that were pledged to the bond or other indebtedness being refunded as well as moneys deposited from time to time in the Redevelopment Property Tax Trust Fund (defined below) established by the county auditor-controller for the successor agency by the Dissolution Act.

Successor agencies have no power to levy property taxes and must rely on the allocation of taxes as described above. See "RISK FACTORS."

Security for the 2015 Bonds

The 2015 Bonds are payable only from Tax Revenues, moneys in certain funds and accounts held by the Trustee under the Indenture and any other moneys deposited from time to time in the Redevelopment Property Tax Trust Fund (as defined below) pursuant to the pledge and lien created with respect to the 2015 Bonds by Section 34177.5(g) of the Law, as described in this Official Statement. See "Limited Obligation" below.

The Dissolution Act requires the County Auditor-Controller to annually determine the amount of property taxes that would have been allocated to the Former Agency from the Project Area had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller (the "**Redevelopment Property Tax Trust Fund**") pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same lien priority and legal effect as if such bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provisions of the Redevelopment Law that existed prior to that date, and will be included in the Successor

Agency's Recognized Obligation Payment Schedule (see "SECURITY FOR THE 2015 BONDS – Recognized Obligation Payment Schedules").

The Dissolution Act further provides that property tax revenues pledged to any bonds authorized under the Dissolution Act, such as the 2015 Bonds, are taxes allocated to the successor agency pursuant to the provisions of the Redevelopment Law and the State Constitution.

Under the Dissolution Act, property tax revenues are allocated to the Successor Agency on a semi-annual basis (on January 2 and June 1) based on a Recognized Obligation Payment Schedule submitted by the Successor Agency to an oversight board established for the Successor Agency (the "**Oversight Board**") and the State Department of Finance (the "**DOF**"). The County Auditor-Controller distributes funds from the Redevelopment Property Tax Trust Fund for each six-month period in the order specified in the Dissolution Act. See "SECURITY FOR THE 2015 BONDS – Recognized Obligation Payment Schedules."

In accordance with the Dissolution Act, the term "**Tax Revenues**" is defined under the Indenture as all taxes that were eligible for allocation to the Former Agency with respect to the Project Area and are allocated to the Successor Agency pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and that are deposited in the Redevelopment Property Tax Trust Fund for transfer to the Successor Agency for deposit into the Redevelopment Obligation Retirement Fund, excluding therefrom all amounts required to be paid to taxing entities pursuant to Sections 33607.5 and 33607.7 of the Redevelopment Law unless such payments are subordinated to payments on the 2015 Bonds or any additional Bonds pursuant to Section 33607.5(e) of the Redevelopment Law and 34177.5(c) of the Dissolution Act. The Dissolution Act further authorizes the Successor Agency to issue refunding bonds secured by the pledge and lien created with respect to the 2015 Bonds by Section 34177.5(g) of the Law on moneys deposited from time to time in the Redevelopment Property Tax Trust Fund and the 2015 Bonds are secured by such moneys. The Successor Agency's statutory pass-through obligations are discussed in "SECURITY FOR THE 2015 BONDS."

Limited Obligation

The 2015 Bonds are special obligations of the Successor Agency and are secured by, and are payable from the moneys described in the Indenture. The 2015 Bonds, interest and premium, if any, are not a debt of the City, the County, the State or any of their political subdivisions except the Successor Agency, and none of the City, the County, the State nor any of their political subdivisions (except the Successor Agency) are liable thereon. The 2015 Bonds, interest thereon and premium, if any, are not payable out of any funds or properties other than those set forth in the Indenture. No member, officer, agent, or employee of the Successor Agency, the Oversight Board, the County Board of Supervisors or any person executing the 2015 Bonds is liable personally on the 2015 Bonds by reason of their issuance.

Debt Service Reserve Account

The Successor Agency will establish a debt service reserve account (the "**Reserve Account**") in an amount equal to the "**Reserve Requirement**" (as defined below). The Reserve Requirement may also be met with the deposit of a "**Qualified Reserve Account Credit Instrument**" (as defined below) in the form of a reserve account surety bond or policy. See "SECURITY FOR THE 2015 BONDS – Debt Service Reserve Account."

Application for Bond Insurance and Reserve Account Surety Bond

The Successor Agency has made application for bond insurance for the 2015 Bonds and for a reserve account surety bond. Should the Successor Agency select a bond insurer and/or reserve account surety provider, then the Successor Agency will release such information prior to the offering of the 2015 Bonds, and the Official Statement, including the summary of legal documents included in Appendix A, will be revised to reflect the terms of the commitment to issue such policies.

Professionals Involved in the Offering

Fieldman, Rolapp & Associates, Inc., Irvine, California, served as financial advisor to the Successor Agency and advised the Successor Agency with respect to the financial structure of the refinancing and as to other financial aspects of the transaction. *Payment of the fees and expenses of the financial advisor is contingent upon the sale and delivery of the 2015 Bonds.*

Fraser & Associates, Roseville, California, has acted as fiscal consultant to the Successor Agency (the "**Fiscal Consultant**") and advised the Successor Agency as to the taxable values and Tax Revenues projected to be available to pay debt service on the 2015 Bonds as referenced in this Official Statement. The report prepared by the Fiscal Consultant is referred to as the "**Fiscal Consultant's Report**" and is attached as Appendix H.

All proceedings in connection with the issuance of the 2015 Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the Successor Agency. Jones Hall is also acting as Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by Quint & Thimmig LLP. In addition, certain legal matters will be passed upon for the Agency by the City Attorney of the City. *Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriters' Counsel is contingent upon the sale and delivery of the 2015 Bonds.*

Further Information

Brief descriptions of the Redevelopment Law, the Dissolution Act, the Refunding Law, the 2015 Bonds, the Indenture, the Successor Agency, the Former Agency, the Project Area and the City are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references in this Official Statement to the Redevelopment Law, the Dissolution Act, the Refunding Law, the 2015 Bonds, the Indenture, the Constitution and the laws of the State as well as the proceedings of the Former Agency, the Successor Agency, the County and the City are qualified in their entirety by reference to such documents and laws. References in this Official Statement to the 2015 Bonds are qualified in their entirety by the form included in the Indenture and by the provisions of the Indenture. Capitalized terms used in this Official Statement and not otherwise defined shall have the meanings given to such terms as set forth in the Indenture.

During the period of the initial offering of the 2015 Bonds, copies of the draft forms of all documents are available from the Underwriters or from the City Clerk, City of Milpitas, 455 East Calaveras Boulevard, Milpitas, California 95035.

REFUNDING PLAN

The 2015 Bonds are being issued to refund the outstanding Prior Bonds of the Former Agency. The Prior Bonds were originally issued in the principal amount of $200,000,000 and remain outstanding in the amount of $145,990,000. The proceeds of the Prior Bonds were used to finance or refinance redevelopment activities in the Project Area.

Redemption of the Prior Bonds

Pursuant to the Irrevocable Refunding Instructions (the "**Refunding Instructions**"), by and between the Successor Agency and U.S. Bank National Association, as trustee of the Prior Bonds (in such capacity, the "**Escrow Bank**"), the Successor Agency will deliver a portion of the proceeds of the 2015 Bonds, along with other available amounts, to the Escrow Bank for deposit in an escrow account established under the Refunding Instructions (the "**Refunding Fund**").

The Escrow Bank will hold such amounts uninvested. From the moneys on deposit in the Refunding Fund, the Escrow Bank will pay, on or about the date the 2015 Bonds are issued, the outstanding principal amount of the Prior Bonds and the accrued interest on the Prior Bonds to the redemption date.

*The amounts held by the Escrow Bank in the Refunding Fund are pledged solely to the amounts due and payable by the Successor Agency under the Indenture of Trust dated as of November 1, 2003, between the Former Agency and U.S. Bank National Association, as trustee for the Prior Bonds (the "**Prior Indenture**"). The funds deposited in the Refunding Fund will not be available for the payment of debt service with respect to the 2015 Bonds.*

The Prior Bonds were issued, in part, to refund bonds issued by the Former Agency in 1997 and 2000. In connection with the issuance of the Prior Bonds, escrows were established that defeased the bonds issued in 1997 and 2000 to their maturity dates. Due to the interest rates on the State and Local Government securities on deposit in those escrows, a transferred proceeds penalty in the amount of approximately One Million Six Hundred Thousand Dollars payable to the Internal Revenue Service will be imposed on the Successor Agency as a consequence of the refunding of the Prior Bonds. Such transferred proceeds penalty will be paid from the proceeds of the 2015 Bonds.

Verification of Mathematical Accuracy

The sufficiency of the deposits in the Refunding Fund for those purposes will be verified by Grant Thornton LLP, Minneapolis, Minnesota (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY." Assuming the accuracy of the Verification Agent's computations, as a result of the deposit and application of funds as provided in the Refunding Fund, the Successor Agency's obligations under the Prior Indenture will be discharged.

The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds are summarized below.

	Amount
Sources:	
Principal Amount of 2015 Bonds	
Plus: Prior Bonds - Available Funds	
Less: Underwriters' Discount	
Plus: Net Original Issue Premium/*Less*: Original Issue Discount	
Total Sources	
Uses:	
Redemption of Prior Bonds	
Excess Transferred Proceeds Penalty [1]	
Costs of Issuance Fund [2]	
Total Uses	

(1) Represents a penalty payable to the Internal Revenue Service as a consequence of refunding the Prior Bonds.
(2) Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Financial Advisor, Fiscal Consultant, Trustee, premium for bond insurance and a reserve account surety bond or policy, City, Successor Agency administrative staff, Successor Agency Counsel, printing expenses, rating fee, and other costs related to the issuance of the 2015 Bonds.

Debt Service Schedule

The following table shows the annual debt service schedule for the 2015 Bonds, assuming no optional redemption of the 2015 Bonds.

Bond Year Ending September 1	Principal	Interest	Total Debt Service
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
Total			

THE 2015 BONDS

Authority for Issuance

The issuance of the 2015 Bonds and the execution and delivery of the Indenture were authorized by the Successor Agency pursuant to Resolution No. SA 6 adopted on December 2, 2014 (the "**Resolution**"), and approved by the Oversight Board pursuant to Resolution No. 50 adopted on December 2, 2014 (the "**Oversight Board Resolution**").

Pursuant to the Dissolution Act, written notice of the Oversight Board Resolution was provided to the DOF. On January 13, 2015, the DOF provided a letter to the Successor Agency stating that based on the DOF's review and application of the law, the Oversight Board Resolution approving the 2015 Bonds is approved by the DOF. See "APPENDIX F – STATE DEPARTMENT OF FINANCE APPROVAL LETTER."

Section 34177.5(f) of the Dissolution Act provides that when, as here, a successor agency issues refunding bonds with the approval of the oversight board and the DOF, the oversight board may not unilaterally approve any amendments to or early termination of the bonds, and the scheduled payments on the bonds shall be listed in the Recognized Obligation Payment Schedule and are not subject to further review and approval by the DOF or the California State Controller.

Description of the 2015 Bonds

The 2015 Bonds will be issued and delivered in fully-registered form without coupons in the denomination of $5,000 or any integral multiple thereof for each maturity, initially in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"), New York, New York, as registered owner of all 2015 Bonds. The initially executed and delivered 2015 Bonds will be dated the date of delivery (the "**Closing Date**") and mature on September 1 in the years and in the amounts shown on the inside cover page of this Official Statement.

Interest on the 2015 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months at the rates shown on the inside cover page of this Official Statement, payable semiannually on March 1 and September 1 in each year, commencing on September 1, 2015, by check mailed to the registered owners thereof or upon the request of the Owners of $1,000,000 or more in principal amount of 2015 Bonds, by wire transfer to an account in the United States which shall be designated in written instructions by such Owner to the Trustee on or before the Record Date preceding the Interest Payment Date. "Record Date" as defined in the Indenture means, with respect to any Interest Payment Date, the close of business on the fifteenth (15th) calendar day of the month preceding such Interest Payment Date, whether or not such fifteenth (15th) calendar day is a Business Day.

One fully-registered bond will be issued for each maturity of the 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX C – BOOK-ENTRY ONLY SYSTEM."

Redemption

***Optional Redemption*.** The Bonds maturing on or before September 1, 20__, are not subject to optional redemption prior to maturity. The Bonds maturing on and after September 1, 20_, are subject to redemption, at the option of the Successor Agency on any date on or after

September 1, 20__, as a whole or in part, by such maturities as shall be determined by the Successor Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Notice of Redemption. The Trustee on behalf of and at the expense of the Successor Agency shall mail (by first class mail, postage prepaid) notice of any redemption at least 30 but not more than 60 days prior to the redemption date, to (i) the Owners of any 2015 Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to the Information Services; but such mailing will not be a condition precedent to a redemption and neither failure to receive such a notice nor any defect therein will affect the validity of the proceedings for the redemption of such 2015 Bonds or the cessation of the accrual of interest on the 2015 Bonds to be redeemed.

The redemption notice shall state the redemption date and the redemption price, shall state that such redemption is conditioned upon the timely delivery of the redemption price by the Successor Agency to the Trustee for deposit in the Redemption Account, shall designate the CUSIP number of the 2015 Bonds to be redeemed, state the individual number of each 2015 Bond to be redeemed or state that all 2015 Bonds between two stated numbers (both inclusive) or all of the 2015 Bonds Outstanding are to be redeemed, and will require that such 2015 Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on the 2015 Bonds to be redeemed will not accrue from and after the redemption date.

The Successor Agency has the right to rescind any notice of the optional redemption of 2015 Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2015 Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The Successor Agency and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Upon the payment of the redemption price of 2015 Bonds being redeemed, each check or other transfer of funds issued for such purpose will, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the 2015 Bonds being redeemed with the proceeds of such check or other transfer.

Partial Redemption of 2015 Bonds. In the event only a portion of any 2015 Bond is called for redemption, then upon surrender of such Bond the Successor Agency will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Successor Agency, a new 2015 Bond or 2015 Bonds of the same interest rate and maturity, of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the 2015 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the 2015 Bonds so called for redemption have been duly deposited with the Trustee, the 2015 Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest will accrue thereon from and after the redemption date specified in such notice.

Manner of Redemption. Whenever any 2015 Bonds or portions thereof are to be selected for redemption by lot, the Trustee will make the selection, in such manner as the Trustee deems appropriate.

Parity Debt for Refunding Purposes Only

Parity Debt. The Indenture defines "**Parity Debt**" as any loan, bonds, notes, advances or indebtedness payable from Tax Revenues on a parity with the 2015 Bonds as authorized by the Indenture. The Indenture authorizes the Successor Agency to issue Parity Debt that is payable from Tax Revenues on a parity basis with the 2015 Bonds, subject to the following conditions precedent:

(i) in the case of Parity Debt issued as additional Bonds under a Supplemental Indenture, the amount on deposit in the Reserve Account (and any subaccounts therein) will be increased to the Reserve Requirement taking into account the additional Bonds to be issued;

(ii) in the case of Parity Debt not issued as additional Bonds under a Supplemental Indenture, the Parity Debt Instrument must state whether there will be a reserve account established with respect to such Parity Debt, and shall also set forth the amount, if any, to be deposited in such reserve account as well as the reserve requirement with respect to such Parity Debt; and

(iii) principal with respect to such Parity Debt will be required to be paid on September 1 in any year in which such principal is payable.

The Indenture authorizes the issuance of Parity Debt only for refunding purposes provided that annual debt service on such Parity Debt is lower than annual debt service on the obligations being refunded during every year such obligations would otherwise be outstanding and the final maturity of any such Parity Debt does not exceed the final maturity of the obligations being refunded, as required by the Dissolution Act.

The Indenture does not allow the Successor Agency to issue obligations on a senior basis to the 2015 Bonds.

Subordinate Debt. The Indenture permits the Successor Agency to issue or incur loans, advances or indebtedness, which are either: (a) payable from, but not secured by a pledge of or lien upon, the Tax Revenues, including revenue bonds and other debts and obligations scheduled for payment pursuant to Section 34183(a)(2) of the Redevelopment Law; or (b) secured by a pledge of or lien upon the Tax Revenues which is subordinate to the pledge of and lien upon the Tax Revenues hereunder for the security of the 2015 Bonds.

THE DISSOLUTION ACT

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Former Agency not been dissolved pursuant to the operation of AB 1X 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act.

The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the Former Agency, with the same lien priority and legal effect as if the bonds had been issued prior to the effective date of AB 1X 26, in full conformity with the applicable provisions of the Redevelopment Law that existed prior to that date, and will be included in the Successor Agency's Recognized Obligation Payment Schedule (see "SECURITY FOR THE 2015 BONDS – Recognized Obligation Payment Schedules").

The Dissolution Act further provides that bonds authorized by the Dissolution Act to be issued by the Successor Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that property tax revenues pledged to any bonds authorized to be issued by the Successor Agency under the Dissolution Act, including the 2015 Bonds, are taxes allocated to the Successor Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution.

Pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution and as provided in the Redevelopment Plan for the project area, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State, any city, county, city and county, district, or other public corporation (herein sometimes collectively called "**taxing agencies**") after the effective date of the ordinance approving the applicable Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the applicable Redevelopment Plan that added territory to the Project Area, as applicable, are to be divided as follows:

> (a) To Taxing Agencies: That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the applicable Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the applicable Redevelopment Plan that added territory to the Project Area, as applicable (each, a "**base year valuation**"), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and
>
> (b) To the Former Agency/Successor Agency: Except for that portion of the taxes in excess of the amount identified in (a) above which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of, and the

interest on, any bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion shall be allocated to, and when collected shall be paid into, the fund of that taxing agency, that portion of the levied taxes each year in excess of such amount, annually allocated within limitations established by the applicable Redevelopment Plan, following the date of issuance of the 2015 Bonds, when collected will be paid into a special fund of the Successor Agency. Section 34172 of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the Redevelopment Property Tax Trust Fund shall be deemed to be a special fund of the Successor Agency to pay the debt service on indebtedness incurred by the Former Agency or the Successor Agency to finance or refinance the redevelopment projects of the Former Agency.

That portion of the levied taxes described in paragraph (b) above, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller, constitute the amounts required under the Dissolution Act to be deposited by the County Auditor-Controller into the Redevelopment Property Tax Trust Fund. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989 date from paragraph (b) above.

SECURITY FOR THE 2015 BONDS

The County Auditor-Controller will deposit property tax revenues into the Redevelopment Property Tax Trust Fund pursuant to the requirements of the Dissolution Act, including *inter alia* Health and Safety Code sections 34183 and 34170.5(b). The 2015 Bonds are payable from and secured by Tax Revenues, moneys in certain funds and accounts held by the Trustee under the Indenture and any other moneys deposited with respect to the Project Area from time to time in the Redevelopment Property Tax Trust Fund pursuant to the pledge and lien created with respect to the 2015 Bonds by Section 34177.5(g) of the Law, as described in this Official Statement.

Pledge Under the Indenture

Except as described in "- Redevelopment Obligation Retirement Fund" below and as required to compensate or indemnify the Trustee, the 2015 Bonds and any Parity Debt are equally secured by a pledge of, security interest in and lien on all of the Tax Revenues including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, and the Redemption Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. The 2015 Bonds and all Parity Debt are additionally secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Reserve Account. The 2015 Bonds are also equally secured by the pledge and lien created with respect to the 2015 Bonds by Section 34177.5(g) of the Law on moneys deposited from time to time in the Redevelopment Property Tax Trust Fund. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency are pledged to, or otherwise liable for, the payment of principal of or interest on the 2015 Bonds.

In consideration of the acceptance of the 2015 Bonds by purchasers of the 2015 Bonds, the Indenture will be deemed to be and will constitute a contract between the Successor Agency and the Owners from time to time of the 2015 Bonds, and the covenants and agreements set forth in the Indenture to be performed on behalf of the Successor Agency are for the equal and proportionate benefit, security and protection of all Owners of the 2015 Bonds without preference, priority or distinction as to security or otherwise of any of the 2015 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

Tax Revenues

Definition. "**Tax Revenues**" is defined in the Indenture to mean all taxes that were eligible for allocation to the Former Agency with respect to the Project Area and are allocated to the Successor Agency pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and that are deposited in the Redevelopment Property Tax Trust Fund for transfer to the Successor Agency for deposit into the Redevelopment Obligation Retirement Fund, excluding therefrom all amounts required to be paid to taxing entities pursuant to Sections 33607.5 and 33607.7 of the Law unless such payments are subordinated to payments on the 2015 Bonds or any additional Bonds pursuant to Section 33607.5(e) of the Law and 34177.5(c) of the Dissolution Act.

Housing Set-Aside. Before it was amended by the Dissolution Act, the Redevelopment Law required the Redevelopment Agency to set aside not less than 20% of all tax increment generated in the Project Area into a low and moderate income housing fund to be used for the purpose of increasing, improving and/or preserving the supply of low and moderate income housing. These tax increment revenues were commonly referred to as "Housing Set-Aside."

The Dissolution Act eliminates the characterization of certain tax increment revenues as Housing Set-Aside. As a result, and because the Successor Agency has no obligations that are payable from Housing Set-Aside, the former Housing Set-Aside is available to pay debt service on the 2015 Bonds; the projection of Tax Revenues prepared by the Fiscal Consultant and set forth in the section of this Official Statement entitled "THE PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage," assumes the availability of the former Housing Set-Aside for this purpose.

Flow of Funds Under the Indenture

General. The Successor Agency previously established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Dissolution Act and agrees to hold and maintain the Redevelopment Obligation Retirement Fund as long as any of the 2015 Bonds are Outstanding.

Deposit in Redevelopment Obligation Retirement Fund; Transfer to Debt Service Fund. The Indenture provides that the Successor Agency will deposit all of the Tax Revenues received with respect to each six-month period beginning on January 1 of any calendar year and ending on June 30 of such calendar year, and each six-month period beginning on July 1 of any calendar year and ending on December 31 of such calendar year into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Successor Agency. See "Recognized Obligation Payment Schedules - Relevant Covenant of the Successor Agency" herein. All Tax Revenues received by the Successor Agency in excess of the amount required to make the deposits required under the Indenture in order to pay debt service on the 2015 Bonds and any Parity Debt and to make any other payments due under the Indenture, and except as may be provided to the contrary in the Indenture or in any Supplemental Indenture or Parity Debt Instrument, will be released from the pledge and lien hereunder and will be applied in accordance with the Law, including but not limited to the payment of debt service on any Subordinate Debt. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the 2015 Bonds and the payment in full of all other amounts payable hereunder and under any Supplemental Indentures, the Successor Agency shall not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

Deposit of Amounts by Trustee. A trust fund to be known as the Debt Service Fund, will be held in trust by the Trustee under the Indenture. Concurrently with transfers with respect to Parity Debt pursuant to Parity Debt Instruments, moneys in the Redevelopment Obligation Retirement Fund shall be transferred by the Successor Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established in the Debt Service Fund, and in the following order of priority:

> Interest Account. On or before the fourth (4th) Business Day preceding each Interest Payment Date, the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account

on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds and any Parity Debt on such Interest Payment Date. No such deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds and any Parity Debt. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the 2015 Bonds and any Parity Debt as it becomes due and payable.

Principal Account. On or before the fourth (4th) Business Day prior to the September 1 on which the principal of the 2015 Bonds becomes due and payable, and at maturity, in each year beginning September 1, 2015, the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will be equal to the amount of principal coming due and payable on the 2015 Bonds and any Parity Debt. No such deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next September 1 on all of the outstanding 2015 Bonds and any Parity Debt. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the 2015 Bonds and any Parity Debt as it becomes due and payable.

Sinking Account. No later than the fourth (4th) Business Day preceding each September 1 on which any 2015 Bonds are subject to mandatory redemption, the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds required to be redeemed on such September 1. No such deposit need be made to the Sinking Account if the amount contained therein is at least equal to the Sinking Account payments to become due on the next September 1 on all of the Outstanding Bonds and any Parity Debt. All moneys on deposit in the Sinking Account will be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Term Bonds as it becomes due and payable upon redemption or purchase pursuant to the Indenture.

Reserve Account. Within the Debt Service Fund there will be established a separate account known as the "Reserve Account" solely as security for payments payable by the Successor Agency pursuant to the Indenture and pursuant to any other Parity Debt Instrument, which will be held by the Trustee in trust for the benefit of the Owners of the Bonds and any Parity Debt. The Reserve Requirement for the 2015 Bonds may be satisfied by the delivery of a debt service reserve account surety bond on the Closing Date with respect to the 2015 Bonds. In that event, the Successor Agency would have no obligation to replace such debt service reserve account surety bond or to fund the Reserve Account with cash if, at any time that the 2015 Bonds are Outstanding, amounts are not available under the debt service reserve account surety bond.

Except as provided in the preceding paragraph and as may be provided in a Supplemental Indenture, in the event that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee will promptly notify the Successor Agency of such fact. Upon receipt of any such notice and as promptly as is permitted by the Law, the Successor Agency will transfer to the Trustee an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account.

Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to the optional redemption provisions of the Indenture, other than mandatory Sinking Account redemption of Term Bonds, the Trustee will withdraw from the Debt Service Fund any amount transferred by the Successor Agency pursuant to the Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the 2015 Bonds to be redeemed on such date, pursuant to the Indenture. All moneys in the Redemption Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the 2015 Bonds to be redeemed pursuant to an optional redemption on the date set for such redemption pursuant to the Indenture, other than mandatory Sinking Account redemption of Term Bonds. Interest due on 2015 Bonds to be redeemed on the date set for redemption will, if applicable, be paid from funds available therefor in the Interest Account.

Debt Service Reserve Account

Definition of Reserve Requirement. The Indenture defines "**Reserve Requirement**" to mean, with respect to the 2015 Bonds and any Parity Debt issued as Bonds pursuant to a Supplemental Indenture, the lesser of (i) 125% of the average Annual Debt Service with respect to the 2015 Bonds and such Parity Debt, as applicable or (ii) Maximum Annual Debt Service with respect to the 2015 Bonds and such Parity Debt, as applicable; provided, that in no event may the Successor Agency, in connection with the issuance of the 2015 Bonds or any Parity Debt in the form of Bonds pursuant to a Supplemental Indenture be obligated to deposit an amount in the Reserve Account which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit and, in the event the amount of any such deposit into the Reserve Account is so limited, the Reserve Requirement is required to, in connection with the issuance of such Parity Debt issued in the form of Bonds, be increased only by the amount of such deposit as permitted by the Code; and, provided further that the Successor Agency may meet all or a portion of the Reserve Requirement by depositing a Qualified Reserve Account Credit Instrument meeting the requirements of the Indenture.

The Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of separate issues of the 2015 Bonds and any Parity Debt in conformity with applicable provisions of the Code to the extent directed by the Successor Agency in writing to the Trustee. Additionally, the Successor Agency may, in its discretion, combine amounts on deposit in the Reserve Account and on deposit in any reserve account relating to any (but not necessarily all) Parity Debt not issued as Bonds in order to maintain a combined reserve account for the 2015 Bonds and any (but not necessarily all) Parity Debt.

Use of Moneys in the Reserve Account. All money in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making transfers pursuant to any Parity Debt Instrument under the Indenture to the Interest Account, the Principal Account and the Sinking Account in the event of any deficiency at any time in any of such accounts or for the retirement of all the 2015 Bonds then Outstanding, except that so long as the Successor Agency is not in default under the Indenture or under any Parity Debt Instrument, any amount in the Reserve Account in excess of the Reserve Requirement will be withdrawn from the Reserve Account semiannually on or before two Business Days preceding each March 1 and September

1 by the Trustee and deposited in the Interest Account or be applied pro rata in accordance with any applicable provision of a Parity Debt Instrument.

All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date will be withdrawn from the Reserve Account and will be transferred to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made from the Reserve Account or will be applied pro rata as required by any Parity Debt Instrument, as applicable.

Qualified Reserve Account Credit Instrument. "**Qualified Reserve Account Credit Instrument**" is defined in the Indenture to mean (i) a debt service reserve account surety bond to the extent any is purchased on the Closing Date and (ii) an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) S&P or Moody's have assigned a long-term credit rating to such bank or insurance company of "A" or higher; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit, insurance policy or surety bond has a stated amount at least equal to the Reserve Requirement or, if such letter of credit, insurance policy or surety bond is being provided with respect to only a portion of the Reserve Requirement, such letter of credit, insurance policy or surety bond has a stated amount at least equal to that portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture.

Limited Obligation

The 2015 Bonds are not a debt of the City, the County, the State or any of their political subdivisions except the Successor Agency, and none of the City, the County, the State or any of their political subdivisions except the Successor Agency are liable therefor. The 2015 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. No member of the Successor Agency, the Oversight Board or the Board of Supervisors of the County shall be individually or personally liable for the payment of the principal of or interest on the 2015 Bonds; but nothing contained in the Indenture relieves any such member, officer, agent or employee from the performance of any official duty provided by law.

Recognized Obligation Payment Schedules

Submission of Recognized Obligation Payment Schedule. Not less than 90 days prior to each January 2 and June 1 (or such other date specified in the Law as amended after the date of this Official Statement), the Dissolution Act requires successor agencies to prepare, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule (the "**Recognized Obligation Payment Schedule**") pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation.

Payment of Amounts Listed on the Recognized Obligation Payment Schedule. As defined in the Dissolution Act, "**enforceable obligation**" includes bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of the outstanding bonds of the former redevelopment agency or the successor agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency or the successor agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and, under certain circumstances, amounts borrowed from the successor agency's low and moderate income housing fund.

A reserve may be included on the Recognized Obligation Payment Schedule and held by the successor agency when required by a bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bonds for the next payment due in the following half of the calendar year.

Sources of Payments for Enforceable Obligations. Under the Dissolution Act, the categories of sources of payments for enforceable obligations listed on a Recognized Obligation Payment Schedule are the following: (i) the low and moderate income housing fund, (ii) bond proceeds, (iii) reserve balances, (iv) administrative cost allowance (successor agencies are entitled to receive not less than $250,000, unless that amount is reduced by the oversight board), (v) the Redevelopment Property Tax Trust Fund (but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation or otherwise required under the Dissolution Act), or (vi) other revenue sources (including rents, concessions, asset sale proceeds, interest earnings, and any other revenues derived from the redevelopment agency, as approved by the oversight board).

The Dissolution Act provides that only those payments listed in the Recognized Obligation Payment Schedule may be made by a successor agency and only from the funds specified in the Recognized Obligation Payment Schedule.

Order of Priority of Distributions from Redevelopment Property Tax Trust Fund. Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, a county auditor-controller is to distribute funds for each six-month period in the following order specified in Section 34183 of the Dissolution Act:

(i) first, subject to certain adjustments for subordinations to the extent permitted under the Dissolution Act (if any, as described below under "SECURITY FOR THE 2015 BONDS - Statutory Pass-Through Payments") and no later than each January 2 and June 1, to each local successor agency and school entity, to the extent applicable, amounts required for pass-through payments such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including negotiated pass-through agreements and statutory pass-through obligations;

(ii) second, on each January 2 and June 1, to the successor agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule;

(iii) third, on each January 2 and June 1, to the successor agency for the administrative cost allowance, as defined in the Dissolution Act; and

(iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in that fiscal year (without giving effect to any pass-through obligations that were established under the Redevelopment Law).

Relevant Covenant by the Successor Agency. The Successor Agency covenants in the Indenture that it will comply with all of the requirements of the Law. Pursuant to Section 34177 of the Dissolution Act, not less than 90 days prior to each January 2 and June 1 (or such other date specified in the Law as amended after the date of this Official Statement), the Successor Agency will submit to the Oversight Board and the DOF, a Recognized Obligation Payment Schedule.

The Successor Agency further covenants to take all actions required under the Redevelopment Law and the Dissolution Act to include in the Recognized Obligation Payment Schedule for each Semiannual Period debt service on the 2015 Bonds and any Parity Debt, so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 and June 1, as applicable, or such other date specified in the Law as amended after the date of this Official Statement, amounts required to enable the Successor Agency to payprincipal of, and interest on, the 2015 Bonds on a timely basis, as such amounts of debt service are set forth in the Recognized Obligation Payment Schedule attached as an exhibit to the Indenture, or as such Schedule may be hereafter amended. In order to ensure that amounts are available for the Trustee to pay debt service on all Outstanding Bonds on a timely basis, not fewer than 90 days prior to June 1, 2015 (or at such earlier time as may be required by the Dissolution Act), the Successor Agency shall submit an Oversight Board-approved Recognized Obligation Payment Schedule to the DOF and to the County Auditor-Controller that shall include all of the debt service due on all Outstanding Bonds on September 1, 2015 and, not fewer than 90 days prior to each January 2 and June 1 thereafter (or at such earlier time as may be required by the Dissolution Act), for so long as any 2015 Bonds are outstanding, the Successor Agency shall submit an Oversight Board-approved Recognized Obligation Payment Schedule to the DOF and to the County Auditor-Controller that shall include (i) one-half of all debt service due on all Outstanding Bonds for the Bond Year in which such January 2 and June 1 occur, and (ii) any amount required to cure any deficiency in the Reserve Account pursuant to the Indenture (including any amounts required due to a draw on the Qualified Reserve Account Credit Instrument). The Recognized Obligation Payment Schedule shall not be amended except by Supplemental Indenture entered into pursuant to the Indenture.

The Successor Agency further covenants that in the event the provisions set forth in the Dissolution Act as of the date of issuance of the 2015 Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency will take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds and, if the timing of distributions of the Redevelopment Property Tax Trust Fund is changed, the receipt of (i) not less than one half of debt service due during each Bond Year on all Outstanding Bonds prior to March 1 of such Bond Year, and (ii) the remainder of debt service due during such Bond Year on all Outstanding Bonds prior to the next succeeeding September 1.

The Successor Agency has no power to levy and collect taxes, and various factors beyond its control could affect the amount of Tax Revenues available in any six-month period to pay the principal of and interest on the 2015 Bonds. See "RISK FACTORS."

History of Submission of the Recognized Obligation Payment Schedules. The Successor Agency has procedures in place to ensure full and timely compliance with the above-described covenant. With exception of the Recognized Obligation Payment Schedules for the funding period commencing January 1, 2012 through June 30, 2012 and the funding period commencing July 1, 2012 through December 31, 2012 which were submitted to the DOF by the County Auditor-Controller, under the direction of the Financial Services Director, the Successor Agency has submitted its Recognized Obligation Payment Schedules on a timely basis, as described below.

	Funding Period	ROPS Approved by Oversight Board	Approved ROPS Submitted to DOF	Deadline to Submit ROPS to DOF	ROPS Submitted On Time?
ROPS I	1/1/12-6/30/12	4/10/12	4/18/12	4/15/12	No*
ROPS II	7/1/12-12/31/12	5/9/12	5/8/12	5/15/12	Yes*
ROPS III	1/1/13-6/30/13	8/16/12	8/31/12	9/4/12	Yes
ROPS 2013-14A	7/1/13-12/31/13	2/28/13	3/1/13	3/1/13	Yes
ROPS 2013-14B	1/1/14-6/30/14	9/13/13	9/23/13	10/1/13	Yes
ROPS 2014-15A	7/1/14-12/31/14	2/20/14	2/28/14	3/1/14	Yes
ROPS 2014-15B	1/1/15-6/30/15	9/18/14	9/25/14	10/3/14	Yes

* Submitted to the DOF by the County Auditor-Controller, not the Successor Agency.

In addition, there are strong incentives for the Successor Agency to submit Recognized Obligation Payment Schedules on time. If the Successor Agency does not submit a Recognized Obligation Payment Schedule to the Oversight Board and the DOF at least 90 days prior to each January 2 and June 1, then the Successor Agency will be subject to a $10,000 per day civil penalty for every day the schedule is late. Additionally, if the Successor Agency does not submit a Recognized Obligation Payment Schedule to the Oversight Board and the DOF at least 80-days prior to each January 2 and June 1, then the Successor Agency's administrative cost allowance may be reduced by up to 25%. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications for the 2015 Bonds, see "RISK FACTORS – Recognized Obligation Payment Schedule."

No Negotiated Pass-Through Agreements

The Former Agency did not enter into any negotiated pass-through agreements.

Statutory Pass-Through Payments

General. In certain circumstances, Sections 33607.5 and 33607.7 of the Redevelopment Law require redevelopment agencies and successor agencies to make statutory pass-through payments to taxing agencies whose territory is located within a redevelopment project area, to alleviate the financial burden or detriment caused by the redevelopment project.

Generally speaking, the County Auditor-Controller is required to deduct from the Successor Agency's Redevelopment Property Tax Trust Fund to pay to the affected taxing agencies percentages of tax increment generated in a Project Area as follows:

Tier 1: throughout the period that the Successor Agency is eligible to receive property tax revenues from a project area, 25% of revenues in excess of revenues generated in the Project Area as of the initial redevelopment plan amendment that triggered the pass-through requirement computed as though housing set-aside is still in effect; plus,

Tier 2: for the 11th year of the receipt of tax increment and thereafter, 21% of revenues in excess of revenues based on assessed values in the project area for the 10th year; plus,

Tier 3: for the 31st year of the receipt of tax increment and thereafter, 14% of revenues in excess of revenues based on assessed values in the project area for the 30th year.

Statutory Pass-Through Obligations in the Project Area. In 1993, the California Legislature enacted Assembly Bill 1290 ("**AB 1290**"), which contained several significant changes in the Redevelopment Law. Among the changes made by AB 1290 was a provision that limits the period of time for incurring and repaying loans, advances and indebtedness payable from tax increment revenues. Under AB 1290, redevelopment agencies were required to commence making pass-through payments under Section 33607.7 of the Redevelopment Law to certain taxing entities with respect to project areas formed on or before 1993, upon amendment of the related redevelopment plans to extend the time during which the redevelopment agency could incur debt, extend the last day the redevelopment agency could incur debt with respect to such project areas, to extend the life of the redevelopment plan or to increase the tax increment limit. Under AB 1290, statutory pass-through payments were required to commence in the first year following the year in which the first of the revised limits would otherwise have gone into effect. With respect to project areas formed or territory added to existing project areas after 1993, AB 1290 required redevelopment agencies to commence making pass-through payments under 33607.7 of the Redevelopment Law upon formation of such project areas.

In 1996, the Original Redevelopment Plan was amended to revise certain time and financial limits contained in Original Redevelopment Plan. The amendments to time and financial limitations in the Redevelopment Plan triggered statutory pass-through payments under Section 33607.7 of the Redevelopment Law with respect to the Original Area, the First Amendment Area and the Second Amendment Area (i.e. the subareas of the Project Area formed or added to the Project Area on or before 1993). Such payments are based on tax increment revenues above the levels that were received in fiscal year 2000-01. Because the Midtown Area was added to the Project Area in 2003, the Former Agency was required to commence making statutory pass-through payments under Section 33607.7 of the Redevelopment Law in 2003. See "APPENDIX H – FISCAL CONSULTANT'S REPORT" for further information regarding statutory pass-through obligations in the Project Areas.

No Subordination of Statutory Pass-Through Payments. Statutory pass-through payments are payable on a senior basis to debt service on bonds under the Dissolution Act, unless the pass-through payments have been subordinated. The Redevelopment Law, as amended by the Dissolution Act, allows statutory pass-through payments to be subordinated to debt service on the Successor Agency's bonds. **However, the Successor Agency did not seek or obtain the consent from any taxing entities to subordinate their right to receive statutory payments to the payment of debt service on the 2015 Bonds.**

See “APPENDIX H – FISCAL CONSULTANT’S REPORT” for information about the Former Agency’s statutory pass-through obligations and the County’s payment practices with regard to statutory pass-through payments.

Other Obligations

In 2003, the County and the Former Agency entered into a land purchase agreement (the “**Land Purchase Agreement**”) pursuant to which the Former Agency purchased approximately 35.6 acres of land adjacent to the Elmwood Rehabilitation Facility. As payment for such land, the Land Purchase Agreement required that the proceeds of any subsequent sale of approximately 33.8 acres of such land by the Former Agency be paid to the County. The Land Purchase Agreement also required the Former Agency to make payments to the County payable from tax increment revenues of the Former Agency, bond proceeds or other moneys available to the Former Agency for an estimated period of 30 years. Subsequently, 33.8 acres were sold by the Former Agency to KB Homes Southbay, Inc. for construction of single-family homes. The remaining 1.08 acres were retained by the Former Agency and used as a community park until such acres were transferred to the City in 2013. Amounts payable by the Successor Agency to the County pursuant to the Land Purchase Agreement are not secured by a lien on or pledge of Tax Revenues and therefore, the projection of Tax Revenues prepared by the Fiscal Consultant and set forth in the section of this Official Statement entitled “THE PROJECT AREA – Project Tax Revenues and Estimated Debt Service Coverage,” excludes such payments in determining Tax Revenues available to pay debt service on the 2015 Bonds.

PROPERTY TAXATION IN CALIFORNIA

Property Tax Collection Procedures

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

Generally, ad valorem taxes are collected by a county (the "**Taxing Authority**") for the benefit of the various entities (e.g., cities, schools and special districts) that share in the ad valorem tax (each a taxing entity) and successor agencies eligible to receive distributions from the respective Redevelopment Property Tax Trust Funds.

Collections. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (i) initiating a civil action against the taxpayer, (ii) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (iii) filing a certificate of delinquency for record in the county recorder's office to obtain a lien on certain property of the taxpayer, and (iv) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

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

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

Supplemental Assessments. California Revenue and Taxation Code Section 75.70 (Chapter 498 of the Statutes of 1983) provides for the reassessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment and is determined by applying the current year's tax rate to the amount of increase in a property's value and prorating the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction. Supplemental Assessments become a lien against real property. Since fiscal year 1984-85, revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes.

Prior to the enactment of this law, the assessment of such changes was permitted only as of the next tax lien date following the change, and this delayed the realization of increased property taxes from the new assessments for up to 14 months. This statute provides increased revenue to the Redevelopment Property Tax Trust Fund to the extent that Supplemental Assessments of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the January 1 lien date. To the extent such Supplemental Assessments occur within the Project Area, Tax Revenues may increase.

Property Tax Administrative Costs. In 1990, the California Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to recover charges for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions in proportion to the tax-derived revenues allocated to each, in an amount equal to the fiscal year 1989-90 property tax administration costs, as adjusted annually.

SB 1559 (Chapter 697, Statutes of 1992) explicitly includes redevelopment agencies among the jurisdictions which are subject to such charges. The portions of the reimbursement amount that are allocated to each taxing entity within the County are based on the percentage of the total assessed value in the County that each taxing entity's assessed value represents. Based on the County SB 2557 charge to the Successor Agency for fiscal year 2012-13 for the Project Area, the Fiscal Consultant estimates that the SB 2557 charge for fiscal year 2014-15 will be 1.42% of gross tax increment revenues for the Project Area.

In addition, Sections 34182(e) and 34183(a) of the Dissolution Act allow administrative costs of the County Auditor-Controller for the cost of administering the provisions of the Dissolution Act, as well as the foregoing SB 2557/SB 1559 amounts, to be deducted from property tax revenues before monies are deposited into the Redevelopment Property Tax Trust Fund.

The County's administrative charge relating to the dissolution of the Redevelopment Agency was $70,953 for the January 2, 2014 and $33,659 for the June 1, 2014 distributions from the Redevelopment Property Tax Trust Fund.

Recognized Obligation Payment Schedule. See "SECURITY FOR THE 2015 BONDS – Recognized Obligation Payment Schedules" and "RISK FACTORS – Recognized Obligation Payment Schedule."

Rate of Collections

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), which allows each entity levying property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected. The allocation to redevelopment agencies differs from the County's normal allocation to other taxing entities under the Teeter Plan. Under the Teeter Plan, taxing entities receive 100% of the secured tax levy without regard to the impact of delinquent property taxes, but unsecured taxes are allocated based on actual collections. However, under the Teeter Plan as applied to the Successor Agency, tax increment generated from both the secured and unsecured tax rolls is allocated based on 100% of the County calculated levy. The Successor Agency is therefore shielded from the impact of delinquent property taxes on both the secured and unsecured roll. The County could elect to terminate this policy and, in such event, the amount of the levy of property tax revenue that could be allocated to the Successor Agency would depend upon the actual collections of the secured taxes within the Project Area. Substantial delinquencies in the payment of property taxes could impair the timely receipt by the Successor Agency of Tax Revenues.

Unitary Property

Legislation enacted in 1986 and 1987 provided for a modification of the distribution of tax revenues derived from utility property assessed by the State Board of Equalization ("**SBE**"), other than railroads. Prior to fiscal year 1988-89, property assessed by the SBE was assessed statewide and was allocated according to the location of individual components of a utility in a tax rate area.

Assembly Bill ("**AB**") 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each taxing entity will receive the same amount as in the previous year plus an increase for inflation of up to 2%; (ii) if utility tax revenues are insufficient to provide the same amount as in the previous year, each taxing entity's share would be reduced pro rata county wide; and (iii) any increase in revenue above 2% would be allocated in the same proportion as the taxing entity's local secured taxable values are to the local secured taxable values of the county. Additionally, the lien date on State-assessed property is changed from March 1 to January 1.

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

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of a project area; therefore, the base year value of the Project Area has been reduced by the amount of utility value that existed originally in the base year.

Article XIIIA of the State Constitution

Article XIIIA limits the amount of ad valorem taxes on real property to 1% of "full cash value" of such property, as determined by the county assessor. Article XIIIA defines "full cash value" to mean "the County Assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value,' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." Furthermore, the "full cash value" of all real property may be increased to reflect the rate of inflation, as shown by the consumer price index, not to exceed 2% per year, or may be reduced.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by substantial damage, destruction or other factors, and to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other special circumstances.

Article XIIIA (i) exempts from the 1% tax limitation taxes to pay debt service on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition; (ii) requires a vote of two-thirds of the qualified electorate to impose special taxes, or certain additional ad valorem taxes; and (iii) requires the approval of two-thirds of all members of the State Legislature to change any State tax laws resulting in increased tax revenues.

The validity of Article XIIIA has been upheld by both the California Supreme Court and the United States Supreme Court.

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

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

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

Each year the SBE announces the applicable adjustment factor. Since the adoption of Proposition 13, inflation has, in most years, exceeded 2% and the announced factor has reflected the 2% cap. The changes in the California Consumer Price Index from October of one year and October of the next year are used to determine the adjustment factor for the January assessment date. Through fiscal year 2010-11 there were six occasions when the inflation factor was less than 2%. Until fiscal year 2010-11 the annual adjustment never resulted in a reduction to the base year values of individual parcels; however, the factor that was applied to real property assessed values for the January 1, 2010 assessment date was -0.237% and this resulted in a reductions to the adjusted base year value of parcels. The table below reflects the inflation adjustment factors for the current fiscal year, 10 prior fiscal years and the adjustment factor for fiscal year 2015-16.

Historical Inflation Adjustment Factors

Fiscal Year	Inflation Adj. Factor
2004-05	1.867%
2005-06	2.000
2006-07	2.000
2007-08	2.000
2008-09	2.000
2009-10	2.000
2010-11	-0.237
2011-12	0.753
2012-13	2.000
2013-14	2.000
2014-15	0.454
2015-16	1.998

Appropriations Limitation - Article XIIIB

Article XIIIB limits the annual appropriations of the State and its political subdivisions to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The "base year" for establishing such appropriations limit is the 1978/79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by a redevelopment agency of proceeds of taxes levied by or on behalf of a redevelopment agency within the meaning of Article XIIIB, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions. On the basis of these decisions, the Successor Agency has not adopted an appropriations limit.

Proposition 87

On November 8, 1988, the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the State Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on certain bonded indebtedness issued by a taxing entity (not the Redevelopment Agency or the Successor Agency) and approved by the voters of the taxing entity after January 1, 1989 will be allocated solely to the payment of such indebtedness and not to redevelopment agencies.

Appeals of Assessed Values

Pursuant to California law, a property owner may apply for a reduction of the property tax assessment for such owner's property by filing a written application, in a form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board.

In the County, a property owner desiring to reduce the assessed value of such owner's property in any one year must submit an application to the County Assessment Appeals Board (the "**Appeals Board**"). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of each application by the staff of the County Assessor's Office, the staff makes a recommendation to the Appeals Board on each application which has not been rejected for incompleteness or untimeliness or withdrawn. The Appeals Board holds a hearing and either reduces the assessment or confirms the assessment. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as "ongoing hardship"), the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. Appeals for reduction in the "base year" value of an assessment, which generally must be made within four years of the date of change in ownership or completion of new construction that determined the base year, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. Moreover, in the case of any reduction in any one year of assessed value granted for "ongoing hardship" in the then current year, and also in any cases involving stipulated appeals for prior years relating to base year and personal property assessments, the property tax revenues from which Tax Revenues are derived attributable to such properties will be reduced in the then current year. In practice, such a reduced assessment may remain in effect beyond the year in which it is granted.

See "THE PROJECT AREA - Appeals of Assessed Values; Proposition 8 Reductions" for information regarding historical and pending appeals of assessed valuations by property owners in the Project Area.

Proposition 8

Proposition 8, approved in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions under this code section may be initiated by the County Assessor or requested by the property owner.

After a roll reduction is granted under this code section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIIIA of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA.

See "THE PROJECT AREA- Appeals of Assessed Values; Proposition 8 Reductions" for information regarding recent history of Proposition 8 reductions in the Project Area.

Propositions 218 and 26

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. On November 2, 2010, California voters approved Proposition 26, the "Supermajority Vote to Pass New Taxes and Fees Act." Proposition 26 amended Article XIIIC of the California Constitution by adding an expansive definition for the term "tax," which previously was not defined under the California Constitution.

Tax Revenues securing the 2015 Bonds are derived from property taxes that are outside the scope of taxes, assessments and property-related fees and charges which are limited by Proposition 218 and Proposition 26.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting Successor Agency revenues or the Successor Agency's ability to expend revenues.

THE SUCCESSOR AGENCY

As described in "INTRODUCTION," the Dissolution Act dissolved the Former Agency as of February 1, 2012. Thereafter, pursuant to Section 34173 of the Dissolution Act, the City became the Successor Agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Successor Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City.

Successor Agency Powers

All powers of the Successor Agency are vested in its five members who are elected members of the City Council. Pursuant to the Dissolution Act, the Successor Agency is a separate public body from the City and succeeds to the organizational status of the Former Agency but without any legal authority to participate in redevelopment activities, except to complete any work related to an approved enforceable obligation. The Successor Agency is tasked with expeditiously winding down the affairs of the Former Agency, pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, substantially all Successor Agency actions are subject to approval by the Oversight Board, as well as review by the DOF.

Status of Compliance with Dissolution Act

The Dissolution Act requires a due diligence review to determine the unobligated balances of each successor agency that are available for transfer to taxing entities. The due diligence review involves separate reviews of each successor agency's low and moderate income housing fund and of all other funds and accounts. Once a successor agency completes the due diligence review and any transfers to taxing entities, the DOF will issue a finding of completion that expands the authority of each successor agency in carrying out the wind down process. A finding of completion allows a successor agency to, among other things, retain real property assets of the dissolved redevelopment agency and utilize proceeds derived from bonds issued prior to January 1, 2011.

The Successor Agency has completed the due diligence process and received its Finding of Completion on June 27, 2014.

After receiving a finding of completion, each successor agency is required to submit a Long Range Property Management Plan detailing what it intends to do with its inventory of properties. Successor agencies are not required to immediately dispose of their properties but are limited in terms of what they can do with the retained properties. Permissible uses include: sale of the property, use of the property to satisfy an enforceable obligation, retention of the property for future redevelopment, and retention of the property for governmental use. These plans must be filed by successor agencies within six months of receiving a finding of completion, and the DOF will review these plans as submitted on a rolling basis.

The DOF had not approved the Successor Agency's Long Range Property Management Plan as of the date of this Official Statement.

THE PROJECT AREA

Project Description

The Project Area consists of approximately 2,230 acres and includes low-density and medium-density residential, industrial, commercial and public land uses. As previously noted, the Project Area is composed of four subareas: the Original Area, the First Amendment Area, the Second Amendment Area, and the Midtown Area.

Original Area. The Original Area consists of approximately 577 acres of land largely developed for commercial, residential and public land uses, including City Hall, 740,000 square feet of commercial space in the Town Center, two hotels totaling 408 rooms and 78,000 square feet of commercial space in Foothill Square. The Original Area also includes a development of 65 new single-family homes adjacent to the Town Center.

First Amendment Area. The First Amendment Area consists of approximately 483 acres of land largely developed for commercial, industrial and residential use, including approximately 3.2 million square feet of industrial space in the Oak Creek Business Park, two hotels totaling 432 rooms, 683 single-family detached homes, condominiums and town homes developed by KB Homes in Fiscal Year 2009-10 and Toyota and Honda car dealerships. Several major high-tech companies also have their headquarters in the First Amendment Area, including Linear Technology, Zollner Electronics, LSI, Nanolabs and Solexel.

Second Amendment Area. The Second Amendment Area consists of approximately 479 acres of land largely developed for commercial use, including, four million square feet of building area in the Milpitas Business Park. The Milpitas Business Park includes four hotels totaling 642 rooms, two shopping centers totaling 250,000 square feet, a 700-child day care center and a Cisco campus totaling 1.1 million square feet. Several major high-tech companies have their headquarters in the Second Amendment Area as well, including SanDisk and KLA-Tencor.

Midtown Area. The Midtown Area consists of approximately 691 acres of land largely developed for commercial and residential use, including a public library, a 103-unit senior housing center and an adjacent primary care health center. A new BART station is expected to open in the Midtown Area in 2017. A majority of the land within the City's Transit Area Specific Plan supporting higher density development around the future BART station and two VTA light rail stations is located within the Midtown Area.

Land Use

The following table summarizes the current land use in the Project Area in the aggregate, by the number of parcels and by assessed secured value for fiscal year 2014-15. As shown, the majority of land within the Project Area (approximately 38.79% in terms of assessed secured valuation) is currently used for residential purposes. The assessed values shown do not include non-homeowner exemptions.

These land use categories are based on land use designations placed on individual parcels by the County Assessor's Office and may not, in every case, coincide with the actual uses found on the parcels.

TABLE 1
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Land Use by Taxable Value
Fiscal Year 2014-15

Category	No. of Parcels	Taxable Value	% of Total FY 2014-15 Assessed Value
Residential	3,986	$2,304,093,539	38.79
Commercial	195	540,577,642	9.10
Industrial	182	1,465,299,109	24.67
Vacant Land	456	275,204,067	4.63
Other	58	47,345,348	0.80
Total Secured	4,877	4,632,519,705	78.00(1)
Unsecured/State Assessed		1,306,666,402	22.00
Grand Total		**$5,939,186,107**	**100.00**

(1) Difference due to rounding.
Source: *Fraser & Associates.*

The Redevelopment Plan

The Original Redevelopment Plan was adopted and approved as the redevelopment plan for the Original Area by Ordinance No. 192, adopted by the City Council of the City on September 21, 1976. Since adoption, the Original Redevelopment Plan has been amended several times, including by the amendments described below.

First Amendment. The Original Redevelopment Plan was first amended by Ordinance No. 192.1, adopted by the City Council of the City on September 4, 1979 (the "**First Amendment**") to add the First Amendment Area to the Project Area.

Second Amendment. The Original Redevelopment Plan was amended a second time by Ordinance No. 192.2, adopted by the City Council of the City on May 4, 1982 (the "**Second Amendment**") to add the Second Amendment Area to the Project Area and, with respect to the First Amendment Area and the Second Amendment Area only, established a cumulative limit on the amount of tax increment that could be collected, limit on bonded indebtedness and time limit on incurrence of such indebtedness.

SB 690; SB 690 Amendment. In 1985, the California Legislature enacted State Bill 690 ("**SB 690**"), which amended the Redevelopment Law to require that redevelopment plans for all project areas adopted prior to October 1, 1976, such as the Original Area, be amended to, among other things, add a cumulative limit on the amount of tax increment that could be collected in such project areas. On December 9, 1986, the City Council of the City adopted Ordinance No. 192.4, which adopted various plan limits, including a cumulative limit on the amount of tax increment that could be collected in the Original Area in accordance with SB 690.

AB 1290; AB 1290 Amendments. On December 9, 1994, the City Council of the City adopted Ordinance No. 192.9, which adopted a series of plan limits related to the Original

Redevelopment Plan to comply with AB 1290. On October 15, 1996, the City Council of the City adopted Ordinance No. 192.11, pursuant to which the limit on the number of dollars of tax increment that could be allocated to the Former Agency was increased thereby triggering the Former Agency's obligation to make statutory pass-through payments in accordance with 33606.7 of the Redevelopment Law with respect to tax increment revenues from the Original Area, the First Amendment Area and the Second Amendment Area pursuant to AB 1290. See "SECURITY FOR THE 2015 BONDS - Statutory Pass-Through Payments" above for further discussion regarding the Successor Agency's statutory pass-through payment obligations.

Amendment and Restatement. The Original Redevelopment Plan was amended and restated by Ordinance No. 192.14 adopted by the City Council of the City on June 17, 2003, approving the Amended and Restated Redevelopment Plan, adding the Midtown Area to the Project Area, establishing certain plan limits with respect to the Midtown Area and amending and restating the plan limits then existing with respect to the Original Area, the First Amendment Area and the Second Amendment Area.

SB 1045; SB 1096; SB 1045 and SB 1096 Amendments. Pursuant to Senate Bill 104 ("**SB 1045**") in connection with the adoption of statutes requiring an Educational Revenue Augmentation Fund ("**ERAF**") shift for fiscal year 2003-04, the State Legislature authorized a number of redevelopment plan changes.

Pursuant to SB 1045, the Amended and Restated Redevelopment Plan was amended pursuant to Ordinance No. 192.15, adopted by the City Council of the City on October 7, 2003, to extend (i) the time limit of the effectiveness of the Amended and Restated Redevelopment Plan with respect to the Original Area, the First Amendment Area and the Second Amendment Area to September 21, 2017, September 4, 2020 and May 4, 2023, respectively, and with respect to the Midtown Area to June 17, 2034, and (ii) the time limit to repay indebtedness and receive tax increment from the Original Area, the First Amendment Area and the Second Amendment Area to September 21, 2027, September 4, 2030 and May 4, 2033, respectively, and with respect to the Midtown Area to June 17, 2049.

Pursuant to SB 1045, the Amended and Restated Redevelopment Plan was amended pursuant to Ordinance No. 192.16, adopted by the City Council of the City on September 19, 2006, to extend (i) the time limit of the effectiveness of the Amended and Restated Redevelopment Plan with respect to the Original Area, the First Amendment Area and the Second Amendment Area to September 21, 2019, September 4, 2022 and May 4, 2025, respectively, and (ii) the time limit to repay indebtedness and receive tax increment from the Original Area, the First Amendment Area and the Second Amendment Area to September 21, 2029, September 4, 2032 and May 4, 2035, respectively.

Merger Amendment. The Amended and Restated Redevelopment Plan was amended pursuant to Ordinance No. 192.19 adopted by the City Council of the City on November 29, 2006, pursuant to which the Project Area was merged with Great Mall Project Area to permit tax increment revenues from the Project Area to be used for redevelopment activities in the Great Mall Project Area. The Project Area and the Great Mall Project Area retained separate redevelopment plans after the merger. The Great Mall Project Area does not generate tax increment revenues and no monies from the Great Mall Project Area are pledged to secure the payment of debt service on the 2015 Bonds.

Redevelopment Plan Limits. Since the Project Area is comprised of various subareas created by amendments to the Redevelopment Plan described above, various limits apply to the Project Area subareas. As amended, the Redevelopment Plan includes the following limits:

Limitation	Original Area	First Amendment Area	Second Amendment Area	Midtown Area
Final Date to Incur Debt:	January 1, 2014	January 1, 2014	January 1, 2014	June 17, 2023
Plan Life:	September 21, 2019	September 4, 2022	May 4, 2025	June 17, 2034
Final Date to Collect Tax Increment and Repay Debt:	September 21, 2029	September 4, 2032	May 4, 2035	June 17, 2049
Cumulative Limit on Tax Increment*:	$2.4 billion (combined)			

*Limit applicable to all of the Project Area on a cumulative basis.

Impact of Cumulative Tax Increment Limit. The Fiscal Consultant reports that it is estimated that the Project Area has generated approximately $707.7 million in tax increment since formation. In addition, based on the Fiscal Consultant's projection of property tax revenue to be generated by the Project Area (which assumes 1.998% annual real property growth in fiscal year 2015-16 and 2% annual real property growth in each fiscal year thereafter as well as certain other assumptions regarding new development within the Project Area and reductions in assessed value related to pending assessment appeals as more particularly described in the Fiscal Consultant's Report), the Successor Agency believes it is unlikely that the cumulative limit on tax increment will be exceeded prior to September 1, 2032 (the final maturity date of the 2015 Bonds). According to the Fiscal Consultant, in order for the $2.4 billion limit to be reached, assessed values within the Project Area would have to increase an average of 7% each year commencing fiscal year 2015-16, which is higher than the average growth rate of 6.41% over the past ten years. The Successor Agency is unable to predict when or if the cumulative limit on tax increment will ever be exceeded. Should growth of taxable values exceed projections, the Project Area will reach the cumulative limit on tax increment earlier. Once such limit is reached, it is possible that the Successor Agency will not receive additional tax increment revenue from the Project Area. However, as indicated above, based on the Fiscal Consultant's projections of Tax Revenues, the Successor Agency believes it is unlikely that the cumulative limit on tax increment will be exceeded prior to the maturity date of the 2015 Bonds.

Impact of the Final Date to Collect Increment/Repay Debt in the Original Area. Because of the varying plan limits discussed above, Tax Revenues will no longer be collected from the Original Area after September 21, 2029. The 2015 Bonds have been structured to take into account this revenue drop. See "THE PROJECT AREA – Projected Available Net Tax Increment and Estimated Debt Service Coverage" for further information.

See APPENDIX H - "FISCAL CONSULTANT'S REPORT" for further description of the Redevelopment Plan and related amendments.

DOF Approach to Plan Limits. The DOF has expressed the opinion that the tax increment limits within former redevelopment plans that had not been reached prior to redevelopment dissolution are inconsistent with the purpose and intent of the Dissolution Act and, therefore, should no longer apply. The DOF has indicated that it plans to introduce legislation to the California Legislature in February 2015 intended to clarify that such tax increment limits do not apply for the purpose of paying obligations of redevelopment agencies and their respective successor agencies that have been determined to be enforceable by the DOF. Until any such proposed legislation is adopted by the California Legislature, the DOF's opinion has no force of law and therefore, it is possible that the tax increment limits contained in the Redevelopment Plan will be applied by the County Auditor-Controller.

Covenant in the Indenture Related to Cumulative Tax Increment Limit. The Successor Agency covenants in the Indenture that unless the plan limits ("**Plan Limits**" as defined in the Indenture) no longer apply to the Successor Agency under the Law, the Successor Agency will annually review the total amount of Tax Revenues remaining available to be received by the Successor Agency under the Plan Limits, as well as future cumulative annual debt service. If remaining Tax Revenues allocable under the Plan Limits are less than 105% of all future debt service on the 2015 Bonds, any Parity Debt and any other obligations of the Successor Agency payable from Tax Revenues, all Tax Revenues not needed to pay current or any past due debt service on any Successor Agency obligations or to replenish the Reserve Account to the Reserve Requirement shall be deposited into a special escrow fund (which shall be held by the Trustee to be applied for the sole purpose of paying the principal of and interest on the 2015 Bonds and any Parity Debt).

Historical and Estimated Assessed Values and Tax Revenues

The table below shows the historical secured, unsecured and state-assessed values for fiscal years 2005-06 to fiscal year 2014-15 based upon the County Auditor-Controller's equalized rolls. The table below also shows the historical secured and unsecured assessed values for such fiscal years with respect to property owned by Cisco Systems, Inc. and its subsidiary Cisco Technology Inc., the top property owner in the Project Area. See "- Major Taxable Property Owners" below for further information regarding the major taxable property owners within the Project Area.

TABLE 2
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Historical Assessed Values FY 2005-06 - FY 2014-15

						Cisco-Owned Parcels	
FY	Secured Assessed Value	Unsecured Assessed Value	State-Assessed Value	Total Taxable Value	% Change	Secured Assessed Value	Unsecured Assessed Value
2005-06	$2,544,690,494	$850,099,181	$0	$3,394,789,675		$129,120,000	$89,521,196
2006-07	2,798,785,590	575,708,325	0	3,374,493,915	-1%	141,200,000	89,636,582
2007-08	3,177,309,608	572,039,432	0	3,749,349,040	11%	217,000,000	105,561,271
2008-09	3,688,307,142	689,942,742	145,062	4,378,394,946	17%	318,000,000	115,038,351
2009-10	3,775,859,557	784,570,321	145,062	4,560,574,940	4%	318,330,000	170,066,789
2010-11	3,703,194,397	746,085,665	145,062	4,449,425,124	-2%	317,575,552	218,589,931
2011-12	3,549,429,356	703,478,246	161,180	4,253,068,782	-4%	197,858,736	191,191,381
2012-13	3,604,736,835	1,138,773,917	161,180	4,743,671,932	12%	235,490,000	654,431,571
2013-14	4,038,508,838	1,178,633,709	161,180	5,217,303,727	10%	316,700,000	654,260,143
2014-15	4,632,519,705	1,306,472,986	193,416	5,939,186,107	14%	333,650,000	639,715,875

Source: County Assessor; Fraser & Associates; Urbics

As shown in the table above, assessed values within the Project Area have increased since fiscal year 2005-06. Secured assessed values with respect to real property owned by Cisco Systems, Inc. and its subsidiary Cisco Technology Inc. has remained relatively steady during such period with exception of a decrease in secured assessed values in fiscal year 2011-12 attributable to Proposition 8 reductions and subsequent increase in unsecured values in fiscal year 2012-13 through fiscal year 2013-14 attributable to the acquisition of personal property. In addition, the table above shows that since fiscal year 2005-06, a majority of the assessed value within the Project Area is attributable to property owned by taxpayers other than Cisco Systems, Inc. and its subsidiary Cisco Technology Inc. See "- Major Taxable Property Owners" below for further information regarding the major taxable property owners within the Project Area.

The table below shows estimated Tax Revenues for fiscal year 2014-15 generated within each of the subareas within the Project Area and the respective base year values for such subareas. Based on such estimates, Tax Revenues from the First Amendment Area, Second Amendment Area and the Original Area account for 97% of total estimated Tax Revenues for fiscal year 2014-15 and such subareas have very low base year values.

TABLE 3
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Estimated FY 2014-15 Tax Revenues By Subarea

	Original Area	First Amendment Area	Second Amendment Area	Midtown Area	Total
Total Taxable Value	$1,355,964,027	$1,992,712,548	$1,582,194,210	$1,008,315,322	$5,939,186,107
Base Year Value	7,841,252	6,158,196	4,743,759	780,983,632	799,726,839
Incremental Taxable Value	1,348,122,775	1,986,554,352	1,577,450,451	227,331,690	5,139,459,268
Base Year as % of Total Value	0.6%	0.3%	0.3%	77.5%	13.5%
FY 2014-15 Tax Revenues	11,761,722	15,737,739	13,007,861	1,338,569	41,845,891
% of Total Tax Revenues	28%	38%	31%	3%	100%

Source: County Assessor; Fraser & Associates

The table below shows the historical assessed valuations for fiscal years 2009-10 to 2014-15 based upon the County Auditor-Controller's equalized rolls. The table below also calculates available Tax Revenues in the Project Area for each of the past four fiscal years and an estimate for fiscal year 2014-15.

TABLE 4
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Historical and Estimated Tax Revenues FY 2009-10 - FY 2014-15

Category	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Taxable Values						
Secured	$3,775,859,557	$3,703,194,397	$3,549,429,356	$3,604,736,835	$4,038,508,838	$4,632,519,705
SBE	145,062	145,062	161,180	161,180	161,180	$193,416
Unsecured	784,570,321	746,085,665	703,478,246	1,138,773,917	1,178,633,709	$1,306,472,986
Total	4,560,574,940	4,449,425,124	4,253,068,782	4,743,671,932	5,217,303,727	$5,939,186,107
Percent Change	4%	-2%	-4%	12%	10%	14%
Base Year Value	799,726,839	799,726,839	799,726,839	799,726,839	799,726,839	799,726,839
Incremental Value	3,760,848,101	3,649,698,285	3,453,341,943	3,943,945,093	4,417,576,888	$5,139,459,268
Tax Increment(1)	$39,411,130	$38,246,152	$33,484,133	$36,321,289	$44,866,929	$51,394,593
Supplemental Taxes	1,128,783	415,610	88,297	(36,706)	564,398	0
Unitary Tax Increment	336,336	341,919	306,254	256,257	261,500	261,500
Total Tax Increment	40,876,249	39,003,680	33,878,684	36,540,840	45,692,827	51,656,093
Adjustments to Tax Revenue:						
Property Tax Administration Fees	401,383	419,169	574,505	679,621	649,360	734,106
Property Tax Refunds/Corrections						688,585
Liens on Tax Increment:						
Housing Set-Aside(2)	8,175,250	7,800,736	0	0	0	0
Statutory Pass-Through(3)	3,302,804	2,230,775	1,437,716	2,548,841	4,625,182	8,387,511
Tax Revenue	$28,996,812	$28,553,000	$31,866,463	$33,312,378	$40,418,285	$41,845,890

(1) Reflects actual receipts based on the records of the Successor Agency.
(2) Represents former Housing Set-Aside. Beginning in fiscal year 2011-12, the Housing Set-Aside is no longer required.
(3) Statutory pass-through payments with respect to the Original Area, the First Amendment Area and the Second Amendment Area were triggered in fiscal year 2001-02 pursuant to AB 1290; statutory pass-through payments with respect to the Midtown Area commenced upon its formation in 2003. Statutory pass-through payments for fiscal year 2014-15 include statutory pass-through payments of approximately $953,000 related to fiscal year 2013-14 that the County Auditor-Controller inadvertently failed to remit to the affected taxing entities in fiscal year 2013-14.
Source: County Assessor; Fraser & Associates

Total assessed values within the Project Area have increased by approximately $1.378 billion, or 30% since fiscal year 2009-10. The Fiscal Consultant reports that the growth in total assessed values since fiscal year 2009-10 is due primarily to an increase in secured assessed values in fiscal year 2012-13 through fiscal year 2014-15 of approximately $1 billion, largely driven new residential development within the Project Area (which added $316 million in assessed value to the Project Area), the restoration of assessed values of non-residential properties previously reduced pursuant to Proposition 8 (which added $308 million in assessed value to the Project Area) and the restoration of assessed values of residential properties previously reduced pursuant to Proposition 8 (which added $160 million in assessed value to the Project Area). See "APPENDIX H - FISCAL CONSULTANT'S REPORT" for further discussion regarding historical assessed values within the Project Area.

Unitary Property

As the result of the enactment of Assembly Bill 2890 (Chapter 1457, Statutes of 1986) and Assembly Bill 454 (Chapter 921, Statutes of 1987), a portion of the County-wide unitary values assigned to public utilities is allocated to the Project Area. Any substantial reduction in the values of public utility properties, either because of deregulation of a utility industry or for any other reason, will have an adverse impact on the amount of tax increment revenues. However, any such impact with respect to utility properties within the Project Area will be lessened because the impact will be spread on a County-wide basis.

The amount of unitary revenues to be allocated to the Successor Agency from the Project Area for fiscal year 2014-15 is estimated to be $261,500.

The Fiscal Consultant assumes that allocations of unitary revenues will remain constant for purposes of projecting tax increment available to pay debt service on the 2015 Bonds.

Major Taxable Property Owners

The following table lists the 10 largest taxable property owners within the Project Area in the aggregate for fiscal year 2014-15. Based on fiscal year 2014-15 locally assessed taxable valuations, the top 10 taxable property owners in the Project Area represent approximately 34.62% of the total assessed value of the Project Area and 40.01% of total incremental value.

TABLE 5
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Ten Largest Taxable Property Owners Fiscal Year 2014-15

Property Owner	No. of Parcels	FY 2014-15 Secured Value	FY 2014-15 Unsecured Value	Total Value	% of Total Assessed Value(1)	% of Incremental Value
Cisco Systems, Inc.(2)(3)	6	$333,650,000	$639,715,875	$973,365,875	16.39%	18.94%
KLA Tencor Corporation(3)	2	82,230,000	201,567,337	283,797,337	4.78	5.52
Essex Portfolio(4)	1	131,424,789	0	131,424,789	2.21	2.56
Silicon Valley California I LLC(3)	12	109,472,101	0	109,472,101	1.84	2.13
Fairfield Murphy RD LLC(4)	2	105,345,742	0	105,345,742	1.77	2.05
Headway Technologies Inc.(5)	4	0	100,079,790	100,079,790	1.69	1.95
SPUS6 Murphy Crossing	3	95,431,300	0	95,431,300	1.61	1.86
Sandisk Corporation(5)(6)	6	0	92,560,878	92,560,878	1.56	1.80
Sandbox Expansion LLC(6)	5	89,655,191	0	89,655,191	1.51	1.74
A and P Children Investments	1	75,018,422	0	75,018,422	1.26	1.46
Top 10 Total Valuation		$1,022,227,545	$1,033,923,880	$2,056,151,425	34.62%	40.01%
Total Fiscal Year 2014-15 AV: $5,939,186,107						
Total Fiscal Year 2014-15 Incremental AV: $5,139,459,268						

(1) Based on taxable value for the Project Area for fiscal year 2014-15 of $5,939,186,107 and incremental value of $5,139,459,268, respectively.
(2) Represents property owned by Cisco Systems, Inc. and Cisco Technology Inc., a subsidiary of Cisco Systems, Inc.
(3) Property owners have pending assessment appeals.
(4) Residential land use, all others are used research and development and industrial uses.
(5) Property owners are lessees of real property within the Project Area on which they maintain personal property; Property owners do not hold fee interests in real property within the Project Area and therefore, are assessed taxes only on personal property maintained on leased real property.
(6) The Successor Agency believes that Sandisk Corporation and Sandbox Expansion LLC may be related entities.
Source: County Assessor; Fraser & Associates

The top property taxpayer in the Project Area is Cisco Systems, Inc. and its subsidiary Cisco Technology Inc., which collectively own six parcels in the Project Area and personal property thereon with a total assessed value of approximately $973.4 million or 18.94% of total incremental value within the Project Area. Cisco Systems, Inc. designs, manufactures and sells internet protocol based networking and communications products and services related to the communications and information technology industry. Seven buildings are located on the parcels owned by Cisco Systems, Inc. within the Project Are which include a 700-child day care center and a Cisco campus used for office space, research and development activities totaling 1.1 million square feet.

The second largest property taxpayer in the Project Area is KLA Tencor Corporation, which owns three parcels in the Project Area and personal property thereon with a total assessed value of approximately $283.8 million or 5.52% of total incremental value within the Project Area. KLA Tencor Corporation provides management and process control solutions used in the manufacturing of semiconductors. KLA Tencor Corporation maintains its corporate headquarters on such property along with research and development and manufacturing facilities.

New Development

New development continues to occur within the Project Area, including residential and non-residential development pursuant to the City's Transit Area Specific Plan. The following table summarizes new housing developments within the Project Area that were completed, or are in the process of being completed, as of the date of this Official Statement but were not yet recognized fully on the fiscal year 2014-15 tax roll and includes estimates of future increases in assessed value within the Project Area. The projections of Tax Revenues prepared by the Fiscal Consultant and set forth in the section of this Official Statement entitled "THE PROJECT AREA – Projected Available Net Tax Increment and Estimated Debt Service Coverage" include such estimates of future increases in assessed value within the Project Area.

TABLE 6
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
New Housing Developments
(000's Omitted)

	Units	Net New Value	FY 2015-16(1)	FY 2016-17(2)
Second Amendment Area				
Coyote Creek - Housing	98	$45,152	$22,576	$22,576
Third Amendment Area				
Harmony - DR Horton	111	63,996	31,998	31,998
Taylor Morrison	186	96,205	48,103	48,103
Pace Development	82	29,915	14,958	14,958
Main & Abel Apartments	200	52,790	26,395	26,395
Grand Total	677	$288,058	$144,029	$144,029

(1) Represents estimated increases in assessed values within the Project Area in fiscal year 2015-16.
(2) Represents estimated increases in assessed values within the Project Area in fiscal year 2016-17.
Source: Fraser & Associates

See APPENDIX H - "FISCAL CONSULTANT'S REPORT" for further description of new development and the Fiscal Consultant's assumptions related thereto.

Tax Rates

Tax rates will vary from area to area within the State, as well as within a community and a redevelopment project area. The tax rate for any particular parcel is based upon the jurisdictions levying the tax rate for the area where the parcel is located. The tax rate consists of the general levy rate of $1.00 per $100 of taxable value and any over-ride tax rate. The over-ride rate is that portion of the tax rate that exceeds the general levy tax rate and is levied to pay voter approved indebtedness or contractual obligations that existed prior to the enactment of Proposition XIII.

Section 34183(a)(1) of the Dissolution Act requires the County Auditor-Controller to allocate all revenues attributable to tax rates levied to make annual repayments of the principal of and interest on any bonded indebtedness for the acquisition or improvement of real property to the taxing entity levying the tax rate. As a result, the tax increment revenues being deposited into the Redevelopment Property Tax Trust Fund include only revenues derived from the general 1% levy and includes no revenues derived from over-ride tax rates that had been included in tax increment revenues prior to the dissolution of redevelopment agencies. The Fiscal Consultant's projections of tax increment available to pay debt service on the 2015 Bonds are based only on revenue derived from the general levy tax rate.

Teeter Plan

As previously indicated, the County has adopted the Teeter Plan. See "PROPERTY TAXATION IN CALIFORNIA - Rate of Collections" for a discussion of the Teeter Plan as adopted and applied by the County.

The following tables provide data regarding collections by the County under the Teeter Plan within the Project Areas for fiscal years 2009-10 through 2013-14.

TABLE 7
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Collections By County Under Teeter Plan

Fiscal Year	Levy per County[1]	Tax Increment Collected Less Supplementals[2]	% of Levy Collected	Supplementals	Total Tax Increment Collected	% of Levy Collected
2009-10	$39,747,466	$39,747,466	100.00%	$1,128,783	$40,876,249	102.84%
2010-11	38,588,071	38,588,070	100.00	415,610	39,003,680	101.08
2011-12	36,557,004	33,790,387	92.43	88,297	33,878,684	92.67[3]
2012-13	36,277,199	36,577,546	100.83	(36,706)	36,540,840	100.73
2013-14	44,175,768	45,128,429	102.16	564,398	45,692,827	103.43
Average Receipts to Levy			99.23%			100.33%

(1) Levy reported by County Assessor.
(2) Inclusive of property tax administrative fees of County Assessor.
(3) Due to the passage of the Dissolution Act, the Successor Agency received payment for supplemental taxes through April instead of June 2012. Historically, supplemental taxes for May through June of each year account for approximately 7% of total tax increment of each fiscal year.
Source: County Assessor; Fraser & Associates

Appeals of Assessed Values; Proposition 8 Reductions

Pursuant to California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board.

After the applicant and the assessor have presented their arguments, the Appeals Board makes a final decision on the proper assessed value. The Appeals Board may rule in the assessor's favor, in the applicant's favor, or the Board may set their own opinion of the proper assessed value, which may be more or less than either the assessor's opinion or the applicant's opinion.

Any reduction in the assessment ultimately granted applies to the year for which the application is made and may also affect the values in subsequent years. Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Current year values may also be adjusted as a result of a successful appeal of prior year values. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund for overpayment.

Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Appeals may also be filed under Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property shall be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIIIA of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Significant reductions have taken place in some counties due to declining real estate values. Reductions made under this code section may be initiated by the County Assessor or requested by the property owner. After a roll reduction is granted under this section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and it may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIIIA of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. See "PROPERTY TAXATION IN CALIFORNIA" above.

History of Assessed Value Appeals; Projection of Future Impact of Pending Appeals. The Fiscal Consultant reviewed assessment appeals data from the County for fiscal years 2010-11 through 2012-13, to determine the potential impact that pending appeals may have on the projected Tax Revenues. According to the Fiscal Consultant, a total of 175 appeals were filed during such period. Of those 175 appeals, 93 appeals were resolved and 82 appeals remained outstanding as of December 2014. Of the 93 appeals that were resolved during such period, 77 appeals or 83% of resolved appeals resulted in reductions in assessed value totaling approximately $141 million; representing a total reduction in assessed value of 18%.

As of January 2015, there were appeals pending with respect to property within the Project Area with a total assessed value of approximately $1.762 billion. The Fiscal Consultant notes that, assuming an 18% reduction in assessed value (based on actual reductions of assessed value during fiscal years 2010-11 through 2012-13), the Successor Agency can expect to experience a further reduction in assessed value of approximately $313.9 million thereby resulting in a reduction in Tax Revenues of approximately $3.139 million. Any successful appeals will also result in refunds of property taxes previously paid by property owners, which in some cases could include refunds for multiple fiscal years. The projections of Tax Revenues prepared by the Fiscal Consultant and set forth in the section of this Official Statement entitled "THE PROJECT AREA – Projected Available Net Tax Increment and Estimated Debt Service Coverage" take into account reductions in assessed value related to pending appeals assuming an 18% reduction in assessed value and that such reductions would be reflected in equal amounts on the fiscal year 2015-16 and 2016-17 tax rolls. See "APPENDIX H - FISCAL CONSULTANT'S REPORT" for further information regarding pending assessment appeals.

Owners of the 2015 Bonds should assume that major property owners, including Cisco Systems, Inc., and its subsidiary Cisco Technology Inc., will continue to appeal assessed values in the future.

Proposition 8 Reductions. As discussed in "PROPERTY TAXATION IN CALIFORNIA – Proposition 8" above, Proposition 8 allows a temporary reduction in assessed value when the current market value of a property is less than the current assessed value as of the lien date.

The Fiscal Consultant reviewed data regarding Proposition 8 reductions for residential and non-residential properties in the Project Area for fiscal years 2009-10 through 2014-15. The following table summarizes reductions and increases in assessed value for residential and non-residential properties in the Project Area for fiscal years 2009-10 through 2014-15 tax rolls.

TABLE 8
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Proposition 8 Reductions and Increases

	Residential Properties	***Non-Residential Properties***	***Total***
Declines - 2009-10 through 2012-13			
Number of Parcel Declines[1]	1,385	70	1,455
Percentage of all Parcels	43%	8%	-
Total Value Decline	$163,266,450	$321,533,787	$484,800,237
Increases - 2012-13 to 2014-15			
Number of Parcel Increases	1,313	64	1,377
Percentage of all Parcels	42%	7%	-
Total Value Increase	$160,136,610	$308,053,554	$468,190,164

(1) With respect to non-residential properties, figures reflect Proposition 8 reductions from fiscal year 2009-10 through fiscal year 2011-12 only.
Source: Fraser & Associates.

As shown in the table above, the assessed values of 1,385 residential parcels (including single and multifamily parcels) in the Project Area were reduced under Proposition 8 during fiscal years 2009-10 through fiscal year 2012-13, resulting in a total reduction in assessed values of residential parcels within the Project Area of approximately $163.3 million. In addition, the assessed values of 70 non-residential parcels in the Project Area were reduced under Proposition 8 during fiscal years 2009-10 through fiscal year 2011-12, resulting in a total reduction in assessed values of non-residential parcels within the Project Area of approximately $321.5 million. The Fiscal Consultant reports that Proposition 8 reductions in assessed values of non-residential parcels within the Project Area occurred primarily during fiscal year 2011-12. The Fiscal Consultant further reports that Proposition 8 reductions were triggered because assessed values of properties within the Project Area exceeded their then current market values as was the case in many areas of the State.

The Fiscal Consultant further reports that in fiscal years 2012-13 through 2014-15, the County partially reversed prior Proposition 8 reductions for 1,313 residential parcels and 64 non-residential parcels within the Project Area, resulting in a total increase in assessed values of approximately $468.2 million.

The Fiscal Consultant also reviewed sales data for the Project Area for calendar years 2013 and 2014 to determine the likelihood of future Proposition 8 reductions. Based on its review, the Fiscal Consultant reports that sale prices of property within the Project Area exceeded assessed values by approximately 79% and 61% in calendar year 2013 and during the first nine months of 2014, respectively. The Fiscal Consultant notes that the sale prices have exceeded assessed values, in part, due to new housing development within the Project Area for which only partial value was recorded on the prior year tax rolls as the units were being constructed. The Fiscal Consultant further notes that as of the date of its report, the County had reversed most of the prior residential Proposition 8 reductions. As a result, the Fiscal Consultant has assumed that there would be no further Proposition 8 reductions in fiscal year 2015-16 or future fiscal years for purposes of projections of Tax Revenues. See "THE PROJECT AREAS – Projected Available Net Tax Increment and Estimated Debt Service Coverage."

See "APPENDIX H - FISCAL CONSULTANT'S REPORT" for further information regarding Proposition 8 reductions and increases.

Projected Tax Revenues and Estimated Debt Service Coverage

The Fiscal Consultant prepared projections of Tax Revenues for the Project Area and they are shown in the Table 9 and 10 below. The projections reflect the inflation factor of 1.998% for fiscal year 2015-16 and assume 0% inflationary assessed value growth in fiscal year 2016-17 and each fiscal year thereafter. Other assumptions made by the Fiscal Consultant in calculating the projected Tax Revenues are described in the Fiscal Consultant's Report. See "APPENDIX H – FISCAL CONSULTANT'S REPORT." Housing Set-Aside is not shown as a separate category of revenues because the former Housing Set-Aside is included in Tax Revenues. See "SECURITY FOR THE 2015 BONDS - Housing Set-Aside."

The Fiscal Consultant has also prepared projections of Tax Revenues for the Project Area that reflect the inflation factor of 1.998% for fiscal year 2015-16 and assume 2% annual real property assessed value growth beginning in fiscal year 2016-17. See "APPENDIX H – Fiscal Consultant's Report" for such projections.

TABLE 9
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Projection of Incremental Value and Tax Revenues
(000's Omitted)

Fiscal Year	Gross Tax Increment(1)	*Plus* Unitary Revenue(3)	*Less* Admin. Fees(4)	*Less* Property Tax Refunds(5)	*Less* Pass-Through Payments(6)	Tax Revenues
2014-15	$51,395	$262	$734	$689	$8,388	$41,846
2015-16	52,189(2)	262	745	3,490	7,737	40,478
2016-17	52,028	262	743	3,490	7,687	40,370
2017-18	52,028	262	743	0	7,687	43,860
2018-19	52,028	262	743	0	7,687	43,860
2019-20	52,028	262	743	0	7,687	43,860
2020-21	52,028	262	743	0	7,687	43,860
2021-22	52,028	262	743	0	7,687	43,860
2022-23	52,028	262	743	0	7,687	43,860
2023-24	52,028	262	743	0	7,687	43,860
2024-25	52,028	262	743	0	7,687	43,860
2025-26	52,028	262	743	0	7,687	43,860
2026-27	52,028	262	743	0	7,687	43,860
2027-28	52,028	262	743	0	7,687	43,860
2028-29(7)	52,028	262	743	0	7,687	43,860
2029-30	38,418	171	548	0	6,252	31,788
2030-31	38,418	171	548	0	6,252	31,788
2031-32	38,418	171	548	0	6,252	31,788
Total	**$895,199**	**$4,437**	**$12,785**	**$7,668**	**$134,808**	**$744,374**

(1) Calculated as 1% of assessed values less base year assessed value of $799,726,839.
(2) Net of estimated reductions in assessed values within the Project Area of approximately $119.2 million in each of fiscal years 2015-16 and 2016-17 as a result of pending appeals and inclusive of projected increases in assessed values attributable to new residential development of approximately $114 million in each of fiscal year 2015-16 and 2016-17 as further described on Table 4 of this Official Statement.
(3) Estimated based on actual unitary revenues for fiscal year 2013-14 and assuming no further increases.
(4) Estimated based on 1.42% of total tax increment, which is the percent such fee represented in fiscal year 2013-14.
(5) Represents estimated refunds of previously collected Tax Revenues as a result of assessment appeals pending as of the date of this Official Statement and prior successful assessment appeals that have not yet been deducted from the Redevelopment Property Tax Trust Fund.
(6) Represent statutory pass-through payments payable pursuant to AB 1290 with respect to the Original Area, the First Amendment Area and the Second Amendment Area.
(7) The Successor Agency may not collect tax increment revenues from the Original Area or repay debt with those revenues after September 1, 2029.
Source: Fraser & Associates

TABLE 10
SUCCESSOR AGENCY TO THE
FORMER MILPITAS REDEVELOPMENT AGENCY
Project Area No. 1
Estimated Debt Service Coverage
(000's Omitted)

Fiscal Year	Tax Revenues	Debt Service 2015 Bonds[(1)]*	Debt Service Coverage on 2015 Bonds*
2014-15	$41,846	$13,687[(2)]	306%
2015-16	40,478	12,087	335
2016-17	40,370	12,084	334
2017-18	43,860	12,087	363
2018-19	43,860	12,089	363
2019-20	43,860	12,084	363
2020-21	43,860	12,088	363
2021-22	43,860	12,088	363
2022-23	43,860	12,084	363
2023-24	43,860	12,086	363
2024-25	43,860	12,086	363
2025-26	43,860	12,085	363
2026-27	43,860	12,085	363
2027-28	43,860	7,797	563
2028-29	43,860	7,797	563
2029-30	31,788	7,796	408
2030-31	31,788	4,234	751
2031-32	31,788	4,232	751
Total	**$744,374**	**$186,944**	

(1) Represents bond year debt service.
(2) Includes debt service on the Prior Bonds due on March 1, 2015.
** Preliminary; subject to change.*
Source: Fraser & Associates; Stifel, Nicolaus & Company, Inc.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the 2015 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2015 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

The various legal opinions to be delivered concurrently with the issuance of the 2015 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

Recognized Obligation Payment Schedule

The Dissolution Act provides that only those payments listed in a Recognized Obligation Payment Schedule may be made by a successor agency from the funds specified in the Recognized Obligation Payment Schedule. Pursuant to Section 34177 of the Dissolution Act, not less than 90-days prior to each January 2 and June 1, the Successor Agency shall submit to the Oversight Board and the DOF, a Recognized Obligation Payment Schedule. For each semiannual period, the Dissolution Act requires each successor agency to prepare and approve, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Consequently, Tax Revenues will not be withdrawn from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller and remitted to the Successor Agency without a duly approved and effective Recognized Obligation Payment Schedule to pay debt service on the 2015 Bonds and to pay other enforceable obligations. In the event the Successor Agency were to fail to file a Recognized Obligation Payment Schedule with respect to a six-month period and, if applicable, the following half of the calendar year, the availability of Tax Revenues to the Successor Agency could be adversely affected for such period. See "SECURITY FOR THE 2015 BONDS - Recognized Obligation Payment Schedules."

If a successor agency does not submit a Recognized Obligation Payment Schedule within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations and the DOF does not provide a notice to the County Auditor-Controller to withhold funds from distribution to taxing entities, amounts in the Redevelopment Property Tax Trust Fund for such six-month period would be distributed to taxing entities as more fully described in the section of this Official Statement entitled, "SECURITY FOR THE 2015 BONDS - Recognized Obligation Payment Schedules."

For a description of the covenants made by the Successor Agency in the Indenture relating to the obligation to submit Recognized Obligation Payment Schedules on a timely basis, and the Successor Agency's history of submissions of Recognized Obligation Payment Schedules, see "SECURITY FOR THE 2015 BONDS – Recognized Obligation Payment Schedules."

AB 1484 also added provisions to the Dissolution Act implementing certain penalties in the event a successor agency does not timely submit a Recognized Obligation Payment Schedule for a six-month period. Specifically, a Recognized Obligation Payment Schedule must be submitted by the successor agency to the oversight board, to the county administrative officer, the county auditor-controller, the DOF, and the State Controller no later than 90 days before the date of the next January 2 or June 1 property tax distribution with respect to each subsequent six-month period. If a successor agency does not submit a Recognized Obligation Payment Schedule by such deadlines, the city or county that established the redevelopment agency will be subject to a civil penalty equal to $10,000 per day for every day the schedule is not submitted to the DOF. Additionally, a successor agency's administrative cost allowance is reduced by 25% if the successor agency does not submit an oversight board-approved Recognized Obligation Payment Schedule by the 80th day before the date of the next January 2 or June 1 property tax distribution, as applicable, with respect to the Recognized Obligation Payment Schedule for subsequent six-month periods.

Challenges to Dissolution Act

Several successor agencies, cities and other entities have filed judicial actions challenging the legality of various provisions of the Dissolution Act. One such challenge is an action filed on August 1, 2012, by Syncora Guarantee Inc. and Syncora Capital Assurance Inc. (collectively, "**Syncora**") against the State, the State Controller, the State Director of Finance, and the Auditor-Controller of San Bernardino County on his own behalf and as the representative of all other County Auditors in the State (Superior Court of the State of California, County of Sacramento, Case No. 34-2012-80001215). Syncora are monoline financial guaranty insurers domiciled in the State of New York, and as such, provide credit enhancement on bonds issued by state and local governments and do not sell other kinds of insurance such as life, health, or property insurance. Syncora provided bond insurance and other related insurance policies for bonds issued by former California redevelopment agencies.

The complaint alleged that the Dissolution Act, and specifically the "Redistribution Provisions" thereof (i.e., California Health and Safety Code Sections 34172(d), 34174, 34177(d), 34183(a)(4), and 34188) violate the "contract clauses" of the United States and California Constitutions (U.S. Const. art. 1, §10, cl.1; Cal. Const. art. 1, §9) because they unconstitutionally impair the contracts among the former redevelopment agencies, bondholders and Syncora. The complaint also alleged that the Redistribution Provisions violate the "Takings Clauses" of the United States and California Constitutions (U.S. Const. amend. V; Cal Const. art. 1 § 19) because they unconstitutionally take and appropriate bondholders' and Syncora's contractual right to critical security mechanisms without just compensation.

After hearing by the Sacramento County Superior Court on May 3, 2013, the Superior Court ruled that Syncora's constitutional claims based on contractual impairment were premature. The Superior Court also held that Syncora's takings claims, to the extent based on the same arguments, were also premature. Pursuant to a Judgment stipulated to by the parties, the Superior Court on October 3, 2013, entered its order dismissing the action. The Judgment, however, provides that Syncora preserves its rights to reassert its challenges to the Dissolution Act in the future. The Successor Agency does not guarantee that any reassertion of challenges by Syncora or that the final results of any of the judicial actions brought by others challenging the Dissolution Act will not result in an outcome that may have a material adverse effect on the Successor Agency's ability to timely pay debt service on the 2015 Bonds.

Change in Source of Tax Revenues

Because of the varying plan limits discussed above, Tax Revenues will no longer be collected from the Original Area after September 21, 2029. Consequently, there will be a period prior to the final maturity date of the 2015 Bonds during which the Successor Agency will be able to pay debt service on the 2015 Bonds only from property tax revenues allocated to the Successor Agency from the First Amendment Area, the Second Amendment Area and the Midtown Area. Based on the projections of Tax Revenues prepared by the Fiscal Consultant (see "THE PROJECT AREA – Projected Available Net Tax Increment and Estimated Debt Service Coverage"), the Successor Agency expects Tax Revenues from the First Amendment Area, the Second Amendment Area and the Midtown Area after September 21, 2029 will be sufficient to pay debt service on the 2015 Bonds and the 2015 Bonds have been structured to take into account this revenue drop.

Concentration of Property Ownership

Based on fiscal year 2014-15 locally assessed taxable valuations, the following property owners represent significant ownership concentrations:

Property Owner	Percent of Total Value	Percent of Incremental Value	Subarea
Cisco Technology Inc.	16.39%	18.94%	Second Amendment Area
KLA Tencor Corporation	4.78	5.52	Second Amendment Area

Each of these property owners have pending assessed value appeals with respect to their property in the Project Area. The bankruptcy, termination of operations or departure from the Project Area by one of the largest property owners from the Project Area could adversely impact the availability of Tax Revenues to pay debt service on the 2015 Bonds.

Reduction in Taxable Value

Tax increment revenue available to pay principal of and interest on the 2015 Bonds are determined by the amount of incremental taxable value in the Project Area and the current rate or rates at which property in the Project Area is taxed. The reduction of taxable values of property in the Project Area caused by economic factors beyond the Successor Agency's control, such as relocation out of the Project Area by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation, or the complete or partial destruction of such property caused by, among other eventualities, earthquake or other natural disaster, could cause a reduction in the tax increment available to pay debt service on the 2015 Bonds. Such reduction of tax increment available to pay debt service on the 2015 Bonds could have an adverse effect on the Successor Agency's ability to make timely payments of principal of and interest on the 2015 Bonds; this risk could be increased by the significant concentration of property ownership in the Project Area.

The County calculates tax increment to redevelopment project areas by applying a one percent rate to the secured and unsecured incremental taxable values. The County also allocates unitary revenue on the basis of the total unitary revenue in a project area, without reductions for base year revenues. The allocation of unitary revenue is based on revenues received in 1987-88, adjusted by the actual growth or decline in unitary revenues on a countywide basis.

As described in greater detail under the heading "PROPERTY TAXATION IN CALIFORNIA – Article XIIIA of the State Constitution," Article XIIIA provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the 2015 Bonds could reduce tax increment available to pay debt service on the 2015 Bonds.

In addition to the other limitations on, and required application under the Dissolution Act of Tax Revenues on deposit in the Redevelopment Property Tax Trust Fund, the State electorate or Legislature could adopt a constitutional or legislative property tax reduction with the effect of reducing Tax Revenues allocated to the Redevelopment Property Tax Trust Fund and available to the Successor Agency. Although the federal and State Constitutions include clauses generally prohibiting the California Legislature's impairment of contracts, there are also recognized exceptions to these prohibitions. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could reduce the tax increment available to pay debt service on the 2015 Bonds and adversely affect the source of repayment and security of the 2015 Bonds.

Risks to Real Estate Market

The Successor Agency's ability to make payments on the 2015 Bonds will be dependent upon the economic strength of the Project Area. The general economy of the Project Area will be subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Project Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. In addition, if there is a significant decline in the general economy of the Project Area, the owners of property within the Project Area may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of Tax Revenues by the Successor Agency from the Project Area. See "THE PROJECT AREA - Projected Available Net Tax Increment and Estimated Debt Service Coverage" for a description of the debt service coverage on the 2015 Bonds.

Reduction in Inflationary Rate

As described in greater detail below, Article XIIIA of the State Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIIIA limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. The Successor Agency is unable to predict if any further adjustments to the full cash value base of real property within the Project Area, whether an increase or a reduction, will be realized in the future.

Levy and Collection of Taxes

The Successor Agency has no independent power to levy or collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the tax increment available to pay debt service on the 2015 Bonds.

Although delinquencies in the payment of property taxes by the owners of land in the Project Area, and the impact of bankruptcy proceedings on the ability of taxing agencies to collect property taxes, could have an adverse effect on the Successor Agency's ability to make timely payments on the 2015 Bonds, the Successor Agency believes any such adverse impact is unlikely in light of the debt service coverage provided by net tax increment. See "THE PROJECT AREA - Projected Available Net Tax Increment and Estimated Debt Service Coverage" for a description of the debt service coverage on the 2015 Bonds.

Bankruptcy and Foreclosure

The payment of the property taxes from which Tax Revenues are derived and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the 2015 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Although such delay would increase the possibility of delinquent tax installments not being paid in full and thereby increase the likelihood of a delay or default in payment of the principal of and interest on the 2015 Bonds, the Successor Agency believes any such adverse impact is unlikely in light of the debt service coverage provided by fiscal year 2013-14 net tax increment. See "THE PROJECT AREA - Projected Available Net Tax Increment and Estimated Debt Service Coverage" for a description of the debt service coverage on the 2015 Bonds.

Estimated Revenues

In estimating that net tax increment will be sufficient to pay debt service on the 2015 Bonds, the Successor Agency and Fiscal Consultant have made certain assumptions with regard to present and future assessed valuation in the Project Area, future tax rates and percentage of taxes collected. The Successor Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and the tax rates are less than expected, the net tax increment available to pay debt service on the 2015 Bonds will be less than those projected and such reduced net tax increment may be insufficient to provide for the payment of principal of, premium (if any) and interest on the 2015 Bonds.

Hazardous Substances

An additional environmental condition that may result in the reduction in the assessed value of property would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the Project Area. In general, the owners and operators of property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the Project Area be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition.

Natural Disasters

The value of the property in the Project Area in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes, topographic conditions such as earth movements, landslides and floods and climatic conditions such as droughts. In the event that one or more of such conditions occur, such occurrence could cause damages of varying seriousness to the land and improvements and the value of property in the Project Area could be diminished in the aftermath of such events. A substantial reduction of the value of such properties could affect the ability or willingness of the property owners to pay the property taxes.

Seismic. The City, like most regions in the State of California, is located in an area of seismic activity and therefore, could be subject to potentially destructive earthquakes. The Hayward fault trends northwest through the western portion of the Milpitas foothills and the Calaveras fault trends northwest through the Calaveras Reservoir, approximately 1 1/2 miles northeast of the City. The San Andreas fault trends northwestward through the Santa Cruz Mountains approximately 13 miles southwest of the City. All of these faults are active and have produced damaging earthquakes in the historic past. Other active and potentially active faults are present in the Bay Area and may produce earthquakes that could affect the City.

The occurrence of severe seismic activity in the City could result in substantial damage to property located in the Project Area, and could lead to successful appeals for reduction of assessed values of such property. Such a reduction of assessed valuations could result in a reduction of the Tax Revenues.

Flood. Approximately one-quarter of the City is within areas designated by the Federal Emergency Management Agency ("**FEMA**") as Special Flood Hazard Areas. Special Flood Hazard Areas are areas within the 100-year flood boundary as mapped by FEMA. The Special Flood Hazard Areas within the City are generally located near the Calera, Penitencia, Berryessa, Los Coches and Tularcitos creeks. Severe flooding in the City could result in substantial damage to property located in the Project Area, and could lead to successful appeals for reduction of assessed value of such property. Such reductions could result in reductions of the Tax Revenues.

Changes in the Law

There can be no assurance that the California electorate will not at some future time adopt initiatives or that the California Legislature will not enact legislation that will amend the Dissolution Act, the Redevelopment Law or other laws or the Constitution of the State resulting in a reduction of tax increment available to pay debt service on the 2015 Bonds.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the 2015 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2015 Bonds were issued, as a result of future acts or omissions of the Successor Agency in violation of its covenants in the Indenture.

In addition, current and future legislative proposals, if enacted into law, may cause interest on the 2015 Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals.

Should such an event of taxability occur, the 2015 Bonds are not subject to special redemption and will remain outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2015 Bonds, or, if a secondary market exists, that the 2015 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then prevailing circumstances.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2015 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the 2015 Bonds. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2015 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2015 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a 2015 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2015 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2015 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2015 Bonds who purchase the 2015 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2015 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2015 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2015 Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2015 Bond (said term being the shorter of the 2015 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2015 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2015 Bond is amortized each year over the term to maturity of the 2015 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates).

Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium 2015 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from California personal income taxes.

Owners of the 2015 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2015 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2015 Bonds other than as expressly described above.

CONCLUDING INFORMATION

Underwriting

The 2015 Bonds are being purchased by a syndicate of underwriters lead by Stifel, Nicolaus & Company, Incorporated ("**Stifel**"), and consisting of Stifel, Morgan Stanley & Co. LLC and Piper Jaffray & Co. (collectively, the "**Underwriters**"). The Underwriters have agreed to purchase the 2015 Bonds at a price of $_________________ (being the principal amount of the 2015 Bonds less a net original issue discount of $__________________ and less an Underwriters' discount of $__________________). The Underwriters will purchase all of the 2015 Bonds if any are purchased. The Underwriters may offer and sell Bonds to certain dealers and others at a price lower than the offering price stated on the inside cover page of this Official Statement. The offering price may be changed from time to time by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an Underwriter of the 2015 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2015 Bonds.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the 2015 Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

Legal Opinion

The final approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will be furnished to the purchaser at the time of delivery of the 2015 Bonds.

A copy of the proposed form of Bond Counsel's final approving opinion with respect to the 2015 Bonds is attached hereto as Appendix B.

Certain legal matters will be passed on by Jones Hall, A Professional Law Corporation, as Disclosure Counsel and Quint & Thimmig LLP, as Underwriters' Counsel.

In addition, certain legal matters will be passed upon for the Successor Agency by the City Attorney of the City.

Compensation paid to Bond Counsel, Disclosure Counsel and Underwriters' Counsel is contingent upon the sale and delivery of the 2015 Bonds.

Financial Advisor

The Successor Agency has retained the Financial Advisor in connection with the authorization, issuance, sale and delivery of the 2015 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor is an independent registered municipal advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

Litigation

There is no action, suit or proceeding known to the Successor Agency to be pending and notice of which has been served upon and received by the Successor Agency, or threatened, restraining or enjoining the execution or delivery of the 2015 Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the Successor Agency taken with respect to any of the foregoing or seeking to restrain or enjoin the repayment of the 2015 Bonds or which, in any manner, questions the right of the Successor Agency to use the Tax Revenues for repayment of the 2015 Bonds or affects in any manner the right or ability of the Successor Agency to collect or pledge the Tax Revenues. See, however, "RISK FACTORS- Challenges to Dissolution Act."

Ratings

Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("**S&P**"), has assigned its rating of "AA-" to the 2015 Bonds. The rating reflects only the view of S&P as to the credit quality of the 2015 Bonds, and explanation of the significance of the ratings may be obtained from S&P.

The rating issued reflects only the view of S&P, and any explanation of the significance of such rating should be obtained from S&P. There is no assurance that such rating will be retained for any given period of time or that it will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the 2015 Bonds.

Continuing Disclosure

The Successor Agency will covenant for the benefit of owners of the 2015 Bonds to provide certain financial information and operating data relating to the Successor Agency by not later than March 31 after the end of each fiscal year of the Successor Agency (currently June 30th), commencing not later than March 31, 2015 with the report for the 2013-14 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain listed events. This Official Statement constitutes the Annual Report for the 2013-14 fiscal year. The specific nature of the information to be contained in the Annual Report or the notices of listed events is summarized in "APPENDIX D - FORM OF SUCCESSOR AGENCY CONTINUING DISCLOSURE CERTIFICATE," attached to this Official Statement. These covenants have been made in order to assist the Underwriters (as defined below) in complying with Securities Exchange Commission Rule 15c2 12(b)(5) (the "**Rule**").

The City and certain related entities, including the Former Agency, previously entered into certain disclosure undertakings under the Rule in connection with the issuance of long-term obligations. During the past five years, the City and such related entities have, in some instances, failed to comply with their undertakings. The City and Successor Agency have remedied such historical non-compliance.

In particular, certain of the City's audited financial statements and annual reports were filed after their respective annual filing deadlines as follows:

(i) audited financial statements for fiscal years 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 with respect to the City's Local Improvement District No. 18 Limited Obligation Improvement Bonds, 1996 Series A issued in 1996 were filed 1,452 days, 1,087 days, 722 days, 356 days and 76 days late, respectively;

(ii) audited financial statements for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12 with respect to the City's Local Improvement District No. 18 Limited Obligation Refunding Improvement Bonds, Reassessment and Refunding of 1998 issued in 1998 were filed 1,393 days, 1,028 days, 662 days and 297 days late, respectively;

(iii) audited financial statements for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12 with respect to the City's Local Improvement District No. 20 Limited Obligation Improvement Bonds, 1998 Series A issued in 1998 were filed 1,393 days, 1,028 days, 662 days and 297 days late, respectively;

(iv) audited financial statements for fiscal years 2008-09, 2009-10, 2010-11 and 2011-12 with respect to the City's Local Improvement District No. 18 Limited Obligation Improvement Bonds, 1998 Series A issued in 1998 were filed 1,393 days, 1,028 days, 662 days and 297 days late, respectively;

(v) audited financial statements for fiscal years 2008-09 and 2009-10 with respect to the City's Local Improvement District Nos. 9R and 12R Limited Obligation Refunding Improvement Bonds, Reassessment and Refunding of 1999 were filed 174 days and 147 days late, respectively;

(vi) annual reports for fiscal years 2008-09 and 2009-10 with respect to the City's Local Improvement District Nos. 9R and 12R Limited Obligation Refunding Improvement Bonds, Reassessment and Refunding of 1999 were filed 119 days and 120 days late, respectively; and

(vii) audited financial statements for fiscal year 2009-10 with respect to the Prior Bonds were filed 1,162 days late.

The City and its related entities did not always timely file event notices regarding changes to the underlying ratings and/or insured ratings of certain of its bonds. The City and its related entities have corrected past deficiencies and as of the date hereof, to the best of the City's knowledge, the City and its related entities have filed all required annual reports, semi-annual reports and notices of rating changes for all currently outstanding debt obligations.

The City has retained Willdan Financial Services to provide continuing disclosure services to ensure compliance with its continuing disclosure undertakings in the future. To further ensure such compliance, the City has appointed its Finance Director to coordinate the preparation of annual disclosure reports by Willdan Financial Services and the filing of such reports by the City's Finance Department and has adopted policies and procedures related thereto.

Audited Financial Statements

The City of Milpitas's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014 (the "**City CAFR**") is attached as Appendix E. The City's CAFR includes the Successor Agency's audited financial statements for the fiscal year ended June 30, 2014. The Successor Agency's audited financial statements were audited by Maze & Associates, Accountancy Corporation (the "**Auditor**"). The Auditor has not been asked to consent to the inclusion of the Successor Agency's audited financial statements in this Official Statement and has not reviewed this Official Statement.

As described in "SECURITY FOR THE 2015 BONDS - Limited Obligation," the 2015 Bonds are payable from and secured by a pledge of Tax Revenues and the 2015 Bonds are not a debt of the City. The City's CAFR is attached as Appendix E to this Official Statement only because it includes the Successor Agency's audited financial statements.

Miscellaneous

All of the preceding summaries of the Indenture, the Redevelopment Law, the Dissolution Act, other applicable legislation, the Redevelopment Plan for the Project Area, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Successor Agency for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the 2015 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by its Executive Director has been duly authorized by the Successor Agency.

SUCCESSOR AGENCY TO THE FORMER MILPITAS REDEVELOPMENT AGENCY

By: /s/ Thomas C. Williams
Executive Director

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust, dated as of March 1, 2015 (the "Indenture"), by and between the Successor Agency and U.S. Bank, National Association, as trustee (the "Trustee"), providing for the issuance of the Successor Agency to the Former Milpitas Redevelopment Agency 2015 Tax Allocation Refunding Bonds (Redevelopment Project Area No. 1) (the " 2015 Bonds"). This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Definitions

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds and Parity Debt in such Bond Year, assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds are redeemed from mandatory sinking account payments as scheduled, (b) the principal amount of the Outstanding Serial Bonds and Parity Debt payable by their terms in such Bond Year, and (c) the principal amount of the Outstanding Term Bonds scheduled to be paid or redeemed from mandatory sinking account payments in such Fiscal Year.

"Bond" or "Bonds" means the 2015 Bonds and, if the context requires, any additional Parity Debt issued pursuant to a Supplemental Indenture pursuant to the Indenture.

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Successor Agency, of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"Bond Proceeds Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Bond Year" means, any twelve-month period beginning on September 2 in any year and ending on the next succeeding September 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date, and end on September 1, 2015.

"Business Day" means a day of the year on which banks in San Francisco, California, or the city where the Principal Corporate Trust Office is located are not required or permitted to be closed and on which the New York Stock Exchange is not closed.

"City" means the City of Milpitas, California, a municipal corporation and general law city duly organized and existing under the laws of the State.

"Closing Date" means, with respect to the 2015 Bonds, the date on which the 2015 Bonds are delivered by the Trustee to the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate executed by the Successor Agency dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Successor Agency relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to City and Successor Agency administrative staff costs, printing expenses, bond insurance and surety bond premiums, transferred proceeds penalties due the United States of America, rating agency fees, filing and recording fees, initial fees and charges and first annual administrative fee of the Trustee and fees and expenses of its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Account" means the account by that name within the Bond Proceeds Fund established and held by the Trustee pursuant to the Indenture.

"County" means the County of Santa Clara, a county duly organized and existing under the Constitution and laws of the State.

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Defeasance Obligations” means (i) cash, (ii) Federal Securities and (iii) Permitted Investments listed under subsection (b) of the definition thereof excluding Permitted Investments listed under (b) (iv) and (b) (vi).

“Dissolution Act” means Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code.

"Event of Default" means any of the events described under the caption “Events of Default and Acceleration of Maturities.”

"Federal Securities" means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TGRS), or obligations the payment of principal of and interest on which are unconditionally guaranteed by the United States of America.

"Fiscal Year" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve month period selected and designated by the Successor Agency to the Trustee in writing as its official fiscal year period.

"Former Agency" means the former Milpitas Redevelopment Agency, a public body corporate and politic duly organized and existing under the Law and dissolved in accordance with the Dissolution Act.

"Independent Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice as such under the laws of the State, appointed by the Successor Agency, and who, or each of whom: (a) is in fact independent and not under domination of the Successor Agency; (b) does not have any substantial interest, direct or indirect, with the Successor Agency; and (c) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

"Interest Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Interest Payment Date" means March 1 and September 1 of each year, commencing September 1, 2015, so long as any of the Bonds remain Outstanding under the Indenture.

"Law" means the Community Redevelopment Law, constituting Part 1 of Division 24 of the California Health and Safety Code, together with the Dissolution Act, and the acts amendatory thereof and supplemental thereto.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year, including payments on any Parity Debt, as certified in writing by the Successor Agency to the Trustee.

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Successor Agency pursuant to the Indenture.

“Oversight Board” means the Oversight Board of the Successor Agency to the Former Milpitas Redevelopment Agency, duly constituted from time to time pursuant to Section 34179 of the California Health and Safety Code.

"Owner" or "Bondowner" means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered on the Registration Books.

“Parity Debt” means any loan, bonds, notes, advances or indebtedness payable from Tax Revenues on a parity with the 2015 Bonds as authorized by the provisions of the Indenture.

“Parity Debt Instrument” means any resolution, indenture of trust, loan agreement, trust agreement or other instrument authorizing the issuance of any Parity Debt, including, without limitation, a Supplemental Indenture authorized by the Indenture.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

(c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal); (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations (but only the interest component of stripped obligations) of the Resolution Funding Corporation; and (vi) consolidated system wide bonds and notes of the Farm Credit System;

(d) money market funds (including funds of the Trustee or its affiliates) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm", or "AAm", including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(e) certificates of deposit secured at all times by collateral described in (a) or (b) above, which have a maturity of one year or less, which are issued by commercial banks, including affiliates of the Trustee, savings and loan associations or mutual savings banks, and such collateral must be held by a third party, and the Trustee on behalf of the Bond Owners must have a perfected first security interest in such collateral;

(f) certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation;

(g) unsecured certificates of deposit, time deposits, money market deposits, demand deposits and bankers' acceptances of any bank (including those of the Trustee, its parent and its affiliates) the short-term obligations of which are rated on the date of purchase “A-1” or better by S&P and “P-1” by Moody’s;

(h) investment agreements, including guaranteed investment contracts, which, are general obligations of an entity whose long term debt obligations, or claims paying ability, respectively, which are rated in one of the two highest rating categories by S&P or which are collateralized so as to be rated in one of the two highest rating categories by S&P;

(i) commercial paper rated, at the time of purchase, ""A-1" or better by S&P;

(j) bonds or notes issued by any state or municipality which are rated by S&P in one of the two highest rating categories assigned by such agencies;

(k) money market funds, federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "A-1" or "A" or better by S&P;

(l) repurchase agreements for 30 days or less (or for more than 30 days if such repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date), which satisfy the following criteria:

(i) repurchase agreements must be between the Trustee and (A) a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the Securities Investors Protection Corporation and which are rated "A" or better by S&P, or (B) a bank rated "A" or better by S&P;

(ii) the written repurchase agreement contract must include the following: (A) securities acceptable for transfer, which may be direct U.S. government obligations, or federal agency obligations backed by the full faith and credit of the U.S. government; (B) the term of the repurchase agreement may be up to 30 days; (C) the collateral must be delivered to the Trustee or a third party acting as agent for the Trustee simultaneous with payment (perfection by possession of certificated securities); (D) the Trustee must have a perfected first priority security interest in the collateral; (E) the collateral must be free and clear of third-party liens and, in the case of a broker which falls under the jurisdiction of the Securities Investors Protection Corporation, are not subject to a repurchase agreement or a reverse repurchase agreement; (F) failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate the collateral; (G) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest (unless the securities used as collateral are obligations of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, in which case the collateral must be equal to 105% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest). If the value of securities held as collateral falls below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred; and

(iii) a legal opinion must be delivered to the Trustee to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds;

(m) pre-refunded municipal bonds rated "AAA" by S&P; and

(n) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code.

"Plan Limit" means the limitation contained in the Redevelopment Plan on the number of dollars of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, as such limitation is prescribed by Section 33333.2 of the Law.

"Project Area" means the project area described in the Redevelopment Plan.

"Principal Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Principal Corporate Trust Office" means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Successor Agency. Except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota or such other office or agency of the Trustee at which at any particular time, its corporate trust agency or operations shall be conducted.

"Project Area" means the project area described in the Redevelopment Plan.

"Qualified Reserve Account Credit Instrument" means (i) a debt service reserve account surety bond to the extent any is purchased on the Closing Date and (ii) an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) S&P or Moody's have assigned a long-term credit rating to such bank or insurance company of "A" or higher; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit, insurance policy or surety bond has a stated amount at least equal to the Reserve Requirement or, if such letter of credit, insurance policy or surety bond is being provided with respect to only a portion of the Reserve Requirement, such letter of credit, insurance policy or surety bond has a stated amount at least equal to that portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture.

“Recognized Obligation Payment Schedule” means the schedule by that name prepared before each six-month fiscal period in accordance with the requirements of Section 34177(l) of the California Health and Safety Code.

"Redemption Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

“Redevelopment Obligation Retirement Fund” means the fund established and held by the Successor Agency pursuant to Section 34170.5(a) of the California Health and Safety Code.

"Redevelopment Plan" means the Amended and Restated Redevelopment Plan for Milpitas Redevelopment Project Area No. 1 approved by Ordinance No. 192.14 of the City Council of the City of Milpitas adopted June 17, 2003, together with any amendments thereof thereafter duly enacted pursuant to the Law.

“Redevelopment Property Tax Trust Fund” means the fund established pursuant to Section 34170.5(b) of the California Health and Safety Code and administered by the County Auditor-Controller.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

“Refunding Law” means Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State, and the acts amendatory thereof and supplemented thereto.

"Reserve Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

“Reserve Requirement” means, with respect to the 2015 Bonds and any Parity Debt issued as Bonds pursuant to a Supplemental Indenture, the lesser of (i) 125% of the average Annual Debt Service with respect to the 2015 Bonds and such Parity Debt, as applicable or (ii) Maximum Annual Debt Service with respect to the 2015 Bonds and such Parity Debt, as applicable; provided, that in no event shall the Successor Agency, in connection with the issuance of the 2015 Bonds or any Parity Debt in the form of Bonds pursuant to a Supplemental Indenture be obligated to deposit an amount in the Reserve Account which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit and, in the event the amount of any such deposit into the Reserve Account is so limited, the Reserve Requirement shall, in connection with the issuance of such Parity Debt issued in the form of Bonds, be increased only by the amount of such deposit as permitted by the Code; and, provided further that the Successor Agency may meet all or a portion of the Reserve Requirement by depositing a Qualified Reserve Account Credit Instrument meeting the requirements of the Indenture.

"S&P" means Standard & Poor's Ratings Services and its successors.

“Semiannual Period” means (a) each six-month period beginning on January 1 of any calendar year and ending on June 30 of such calendar year, and (b) each six-month period beginning on July 1 of any calendar year and ending on December 31 of such calendar year.

"Serial Bonds" means all Bonds other than Term Bonds.

"Sinking Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"State" means the State of California.

“Subordinate Debt” means any Loan, advances or indebtedness issued or incurred by the Successor Agency, which are either: (a) payable from, but not secured by a pledge of or lien upon, the Tax Revenues, including revenue bonds and other debts and obligations scheduled for payment pursuant to Section 34183(a)(2) of the Law; or (b) secured by a pledge of or lien upon the Tax Revenues which is subordinate to the pledge of and lien upon the Tax Revenues under the Indenture for the security of the Bonds.

“Successor Agency” means the Successor Agency to the Former Milpitas Redevelopment Agency, a public entity duly organized and existing under the Law.

"Supplemental Indenture" means any resolution, agreement or other instrument that has been duly adopted or entered into by the Successor Agency, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Revenues" means all taxes that were eligible for allocation to the Former Agency with respect to the Project Area and are allocated to the Successor Agency pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and that are deposited in the Redevelopment Property Tax Trust Fund for transfer to the Successor Agency for deposit into the Redevelopment Obligation Retirement Fund, excluding therefrom all amounts required to be paid to taxing entities pursuant to Sections 33607.5 and 33607.7 of the Law unless such payments are subordinated to payments on the 2015 Bonds or any additional Bonds pursuant to Section 33607.5(e) of the Law and 34177.5(c) of the Dissolution Act.

"Term Bonds" means, collectively, (i) the 2015 Bonds maturing on September 1, 20__, (ii) the 2015 Bonds maturing on September 1, 20__ and (iii) any Parity Debt issued pursuant to a Supplemental Indenture pursuant to the Indenture and payable from amounts in the Sinking Account established under the Indenture.

"Trustee" means U.S. Bank National Association, as trustee under the Indenture, or any successor thereto appointed as trustee in accordance with the provisions of the Indenture.

"Written Request of the Successor Agency" or "Written Certificate of the Successor Agency" means a request or certificate, in writing signed by the Chair, the Executive Director or the Assistant Executive Director of the Successor Agency, or by any other officer of the Successor Agency duly authorized by the Successor Agency for that purpose.

"1997 Bonds" means the Milpitas Redevelopment Agency Redevelopment Project Area No. 1 Tax Allocation Bonds, Series 1997 in the initial principal amount of $39,345,000, issued by the Former Agency.

"2003 Bonds" means the Milpitas Redevelopment Agency Redevelopment Project Area No. 1 2003 Tax Allocation Bonds in the initial principal amount of $200,000,000, issued by the Former Agency.

"2003 Bonds Refunding Fund" means the fund by that name established in the Indenture.

"2003 Bonds Refunding Instructions" means those Irrevocable Refunding Instructions dated the date of issuance and delivery of the 2015 Bonds relating to the defeasance and refunding of the 2003 Bonds, executed by the Successor Agency and delivered to U.S. Bank National Association, as trustee of the 2003 Bonds.

"2015 Reserve Insurer" means _______.

"2015 Reserve Policy" means _______.

"2015 Bonds" means the Successor Agency to the Former Milpitas Redevelopment Agency 2015 Tax Allocation Refunding Bonds (Redevelopment Project Area No. 1).

Security of Bonds; Equal Security

Except as provided in the Indenture, the Bonds and any Parity Debt shall be equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account and the Redemption Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. The Bonds and all Parity Debt shall be additionally secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Reserve Account established by the Indenture. The Bonds shall be also equally secured by the pledge and lien created with respect to the Bonds by Section 34177.5(g) of the Law on moneys deposited from time to time in the Redevelopment Property Tax Trust Fund. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest on the Bonds.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Successor Agency and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Indenture to be performed on behalf of the Successor Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

Establishment of Funds and Accounts; Flow of Funds

*Bond Proceeds Fund; Costs of Issuance Account***.** A separate fund shall be established pursuant to the Indenture to be known as the "Bond Proceeds Fund", which shall be held by the Trustee in trust, and within such Fund there shall be established a separate Costs of Issuance Account. The moneys in the Costs of Issuance Account shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Successor Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the date which is 6 months following the Closing Date, or upon the earlier Written Request of the Successor Agency, all amounts (if any) remaining in the Costs of Issuance Account shall be withdrawn therefrom by the Trustee and transferred to the Interest Account of the Debt Service Fund, and the Trustee shall close the Costs of Issuance Account.

*Refunding Fund***.** A separate fund shall be established pursuant to the Indenture to be known as the 2003 Bonds Refunding Fund and held by the Trustee in trust for the benefit of the Successor Agency. The moneys in the 2003 Bonds Refunding Fund shall be maintained separate and apart from other moneys of the Successor Agency. The Trustee shall transfer all moneys on deposit in the 2003 Bonds Refunding Fund to U.S. Bank National Association, as trustee of the 2003 Bonds, for deposit and application under and pursuant to the 2003 Bonds Refunding Instructions. Upon making such transfer, the 2003 Bonds Refunding Fund shall be closed.

*Redevelopment Obligation Retirement Fund; Deposit of Tax Revenues***.** The Successor Agency has heretofore established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Law which the Successor Agency shall continue to hold and maintain so long as any of the Bonds are Outstanding.

The Successor Agency shall deposit all of the Tax Revenues received with respect to any Semiannual Period into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Successor Agency. All Tax Revenues received by the Successor Agency in excess of the amount required to make the deposits required under the Indenture in order to pay debt service on the Bonds and any Parity Debt and to make any other payments required thereunder, and except as may be provided to the contrary in the Indenture or in any Supplemental Indenture or Parity Debt Instrument, shall be released from the pledge and lien thereunder and shall be applied in accordance with the Law, including but not limited to the payment of debt service on any Subordinate Debt. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indentures, the Successor Agency shall not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

Deposit of Amounts by Trustee

A trust fund shall be established under the Indenture to be known as the Debt Service Fund, which shall be held by the Trustee thereunder in trust. Concurrently with transfers with respect to Parity Debt pursuant to Parity Debt Instruments, moneys in the Redevelopment Obligation Retirement Fund shall be transferred by the Successor Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established pursuant to the Indenture in the Debt Service Fund, and in the following order of priority:

(a) Interest Account. On or before the 4th Business Day preceding each Interest Payment Date, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee, for deposit in the Interest Account an amount which, when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds and any Parity Debt on such Interest Payment Date. No such deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds and any Parity Debt. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds and any Parity Debt as it shall become due and payable.

(b) Principal Account. On or before the 4th Business Day preceding each September 1 on which the principal of the Bonds becomes due and payable, and at maturity, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will be equal to the amount of principal coming due and payable on such date on the Bonds. No such deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next September 1 on all of the Outstanding Bonds and any Parity Debt. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds and any Parity Debt as it shall become due and payable.

(c) Sinking Account. No later than the 4th Business Day preceding each September 1 on which any Bond becomes subject to mandatory redemption, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds required to be redeemed on such September 1. No such deposit need be made to the Sinking Account if the amount contained therein is at least equal to the Sinking Account payments to become due on the next September 1 on all of the Outstanding Bonds and any Parity Debt. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of paying the principal of the Term Bonds as it shall become due and payable upon redemption or purchase pursuant to the Indenture.

(d) Reserve Account. Within the Debt Service Fund a separate account shall be established pursuant to the Indenture to be known as the "Reserve Account" solely as security for payments payable by the Successor Agency pursuant to the Indenture pursuant to any other Parity Debt Instrument, which shall be held by the Trustee in trust for the benefit of the Owners of the Bonds and any Parity Debt. The Reserve Requirement for the 2015 Bonds will be satisfied by the delivery of the 2015 Reserve Policy by the 2015 Reserve Insurer on the Closing Date with respect to the 2015 Bonds. The Successor Agency will have no obligation to replace the 2015 Reserve Policy or to fund the Reserve Account with cash if, at any time that the 2015 Bonds are Outstanding, amounts are not available under the 2015 Reserve Policy other than in connection with a draw on the Surety Bond.

Except as provided in the preceding paragraph and as may be provide in a Supplemental Indenture, in the event that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Successor Agency of such fact. Upon receipt of any such notice and as promptly as is permitted by the Law, the Successor Agency shall transfer to the Trustee an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account.

The amount on deposit in the Reserve Account shall be maintained at the Reserve Requirement at all times prior to the payment of the Bonds and any Parity Debt in full. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Successor Agency shall be obligated to continue making transfers as Tax Revenues become available until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers pursuant to any Parity Debt Instrument and under the Indenture to the Interest Account, the Principal Account and the Sinking Account, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Successor Agency is not in default under the Indenture or under any Parity Debt Instrument, any amount in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account semiannually on or before 2 Business Days preceding each March and September 1 by the Trustee and deposited in the Interest Account or be applied pro rata in accordance with any applicable provision of a Parity Debt Instrument. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or shall be applied pro rata as required by any Parity Debt Instrument, as applicable.

The Successor Agency shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Bonds or any Parity Debt the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Successor Agency to the Trustee of written calculation of the amount permitted to be released from the Reserve Account (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Account to the Successor Agency to be applied in accordance with the Law. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required pursuant to the Indenture. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Successor Agency shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first legally available Tax Revenues. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture. If the Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture shall be pro-rata with respect to each such instrument. If the Reserve Requirement with respect to a particular series of Bonds is secured by a Qualified Reserve Account Credit Instrument that relates only to such series of Bonds, the calculation of Reserve Requirement for such series of Bonds shall be calculated on a stand alone basis.

The Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of separate issues of the Bonds and any Parity Debt in conformity with applicable provisions of the Code to the extent directed by the Successor Agency in writing to the Trustee. Additionally, the Successor Agency may, in its discretion, combine amounts on deposit in the Reserve Account and on deposit in any reserve account relating to any (but not necessarily all) Parity Debt not issued as Bonds in order to maintain a combined reserve account for the Bonds and any (but not necessarily all) Parity Debt.

(e) Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to the Indenture, other than mandatory Sinking Account redemption of Term Bonds, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Successor Agency pursuant to the Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date pursuant to the Indenture. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be redeemed pursuant to the Indenture on the date set for such redemption, other than mandatory Sinking Account redemption of Term Bonds. Interest due on Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account.

Covenants of the Successor Agency

Punctual Payment. The Successor Agency shall punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds together with the premium thereon, if any, in strict conformity with the terms of the Bonds and of the Indenture. The

Successor Agency shall faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and the Bonds. Nothing therein contained shall prevent the Successor Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to therein.

Limitation on Additional Indebtedness; Against Encumbrances. The Successor Agency covenants that, so long as the Bonds are Outstanding, the Successor Agency shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable from all or any part of the Tax Revenues, excepting only as provided in the Indenture. The Successor Agency will not otherwise encumber, pledge or place any charge or lien upon any of the Tax Revenues or other amounts pledged to the Bonds superior or on parity to the pledge and lien created in the Indenture for the benefit of the Bonds; provided, that the Successor Agency may issue and sell refunding bonds as Parity Debt payable from Tax Revenues on a parity with Outstanding Bonds to refund all or a portion of the Outstanding Bonds, and, provided further that, with respect to any such refunding (i) annual debt service on such Parity Debt, as applicable, is lower than annual debt service on the obligations being refunded during every year the obligations would otherwise be outstanding and (ii) the final maturity of any such Parity Debt does not exceed the final maturity of the obligations being refunded. Nothing contained in the Indenture shall prevent the Successor Agency from issuing and selling Subordinate Debt, provided that if Plan Limits are in effect, the issuance of such Subordinate Debt shall occur only if it will not cause the Successor Agency to violate the provisions of the Indenture.

Extension of Payment. The Successor Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any Bond or claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding the Bonds or claims for interest in any other manner. In case the maturity of any such Bond or claim for interest shall be extended or funded, whether or not with the consent of the Successor Agency, such Bond or claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Payment of Claims. The Successor Agency shall promptly pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Successor Agency or upon the Tax Revenues or other amounts pledged to the payment of the Bonds, or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing in the Indenture shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. The Successor Agency shall at all times keep, or cause to be kept, proper and current books and accounts in which accurate entries are made of the financial transactions and records of the Successor Agency. Within 180 days after the close of each Fiscal Year an Independent Certified Public Accountant shall prepare an audit of the financial transactions and records of the Successor Agency for such Fiscal Year. To the extent permitted by law, such audit may be included within the annual audited financial statements of the City. The Successor Agency shall furnish a copy of such financial statements to any Owner upon reasonable request of such Owner and at the expense of such Owner. The Trustee shall have no duty to review such audits.

*Protection of Security and Rights of Owners***.** The Successor Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the Closing Date with respect to the 2015 Bonds, the 2015 Bonds shall be incontestable by the Successor Agency.

*Payments of Taxes and Other Charges***.** Except as otherwise provided in the Indenture, the Successor Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Successor Agency or the properties then owned by the Successor Agency in the Project Areas, or upon the revenues therefrom when the same shall become due. Nothing therein shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said taxes, assessments or charges. The Successor Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Project Area or any part thereof.

*Compliance with the Law; Recognized Obligation Payment Schedules***.** The Successor Agency shall comply with all of the requirements of the Law. Pursuant to Section 34177 of the Law, not less than 90 days prior to each January 2 and June 1, the Successor Agency shall submit to the Oversight Board and the State Department of Finance, a Recognized Obligation Payment Schedule. The Successor Agency shall take all actions required under the Law to include in the Recognized Obligation Payment Schedule for each Semiannual Period debt service on the Bonds, so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 and June 1, as applicable, amounts required to enable the Successor Agency to pay principal of, and interest on, the Bonds on a timely basis, as such amounts of debt service are set forth in the Recognized Obligation Payment Schedule attached to the Indenture as Exhibit B and made a part thereof, or as such Schedule may be hereafter amended. In order to ensure that amounts are available for the Trustee to pay debt service on all Outstanding Bonds on a timely basis, not fewer than 90 days prior to June 1, 2015 (or at such earlier time as may be required by the Dissolution Act), the Successor Agency shall submit an Oversight Board-approved Recognized Obligation Payment Schedule to the State Department of Finance and to the County Auditor-Controller that shall include all of the debt service due on all Outstanding Bonds on September 1, 2015 and, not fewer than 90 days prior to each January 2 and June 1 thereafter (or at such earlier time as may be required by the Dissolution Act), for so long as any Bonds are outstanding, the Successor Agency shall submit an Oversight Board-approved Recognized Obligation Payment Schedule to the State Department of Finance and to the County Auditor-Controller that shall include (i) one-half of all debt service due on all Outstanding Bonds for the Bond Year in which such January 2 and June 1 occur, and (ii) any amount required to cure any deficiency in the Reserve Account pursuant to the Indenture (including any amounts required due to a draw on the Qualified Reserve Account Credit Instrument.

In the event the provisions set forth in the Dissolution Act as of the Closing Date of the 2015 Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds and, if the timing of distributions of the Redevelopment Property Tax Trust Fund is changed, the receipt of (i) not less than one of half of debt service due during each Bond Year on all Outstanding Bonds prior to March 1 of such Bond Year, and (ii) the remainder of debt service due during such Bond Year on all Outstanding Bonds prior to the next succeeeding September 1.

*Plan Limits***.** Unless the Plan Limits no longer apply to the Successor Agency under the Law, the Successor Agency shall annually review the total amount of Tax Revenues remaining available to be received by the Successor Agency under the Plan Limits, as well as future cumulative annual debt service. If remaining Tax Revenues allocable under the Plan Limits are less than 105% of all future debt service on the Bonds, any Parity Debt and any other obligations of the Successor Agency payable from Tax Revenues, all Tax Revenues not needed to pay current or any past due debt service on any Successor Agency obligations or to replenish the Reserve Account to the Reserve Requirement shall be deposited into a Trustee-held escrow account (the "Escrow Account") and invested in Defeasance Obligations. Moneys in the Escrow Account must be used only to pay debt service pro rata on the Bonds and any Parity Debt.

*Dissolution Act Invalid; Maintenance of Tax Revenues***.** In the event that the applicable property tax revenues provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid and, in place of the invalid provisions, provisions of the Law or the equivalent become applicable to the Bonds, the Successor Agency shall comply with all requirements of the Law or the equivalent to ensure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and, in the case of amounts payable by the State, appropriate officials of the State.

Continuing Disclosure. The Successor Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Successor Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default under the Indenture. However, any Participating Underwriter or any holder or beneficial owner of the 2015 Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Successor Agency to comply with its obligations under the Indenture.

Tax Covenants

The Successor Agency shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2015 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2015 Bonds would have caused the 2015 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Successor Agency shall assure that the proceeds of the 2015 Bonds are not so used as to cause the 2015 Bonds to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code. The Successor Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2015 Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code. The Successor Agency shall take any and all actions necessary to assure compliance with Section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2015 Bonds. The Successor Agency shall take all actions necessary to assure the exclusion of interest on the 2015 Bonds from the gross income of the Owners of the 2015 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the 2015 Bonds.

Deposit and Investment of Moneys in Funds

Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Costs of Issuance Account shall be invested by the Trustee in Permitted Investments as directed by the Successor Agency in the Written Request of the Successor Agency filed with the Trustee at least 2 Business Days in advance of the making of such investments. In the absence of any such Written Request of the Successor Agency, the Trustee shall invest any such moneys in Permitted Investments described in clause (d) of the definition thereof, which by their terms mature prior to the date on which such moneys are required to be paid out under the Indenture. The Trustee shall be entitled to rely conclusively upon the written instructions of the Successor Agency directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. Moneys in the Redevelopment Obligation Retirement Fund may be invested by the Successor Agency in any obligations in which the Successor Agency is legally authorized to invest its funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be deposited in the Interest Account. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made at the direction of the Successor Agency or otherwise made pursuant to the Indenture.

The Successor Agency acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Successor Agency the right to receive brokerage confirmations of security transactions as they occur, the Successor Agency specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Successor Agency periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee under the Indenture.

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by the Indenture. Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Successor Agency for earnings derived from funds that have been invested.

The Successor Agency covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value. The Trustee has no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Successor Agency in any Written Certificate or Written Request of the Successor Agency.

The term “Fair Market Value” shall mean the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

Amendment of Indenture

The Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption and without the consent of any Owners, to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Successor Agency contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers therein reserved to or conferred upon the Successor Agency; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Successor Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not, in the reasonable determination of the Successor Agency, materially adversely affect the interests of the Owners; or

(c) to amend any provision in the Indenture relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of Bond Counsel; or

(d) to amend the Recognized Obligation Debt Service Payment Schedule set forth in Exhibit B of the Indenture to take into account the redemption of any Bond prior to its maturity; or

(e) to provide for the issuance of Parity Debt pursuant to a Supplemental Indenture, as such issuance is authorized by the Indenture.

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding with the consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the

Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Successor Agency to pay the principal, interest or redemption premium, (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, or (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent. In addition, the Trustee shall be entitled to an opinion of counsel concerning the Supplemental Indenture's lack of any material adverse effect on the Owners.

Events of Default and Acceleration of Maturities

The following events shall constitute Events of Default under the Indenture:

(a) if default shall be made by the Successor Agency in the due and punctual payment of the principal of or interest on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) if default shall be made by the Successor Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds or any Parity Debt Instrument contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of 60 days following receipt by the Successor Agency of written notice from the Trustee or any Owner of the occurrence of such default, provided that if in the reasonable opinion of the Successor Agency the failure stated in the notice can be corrected, but not within such 60 day period, such failure will not constitute an event of default if corrective action is instituted by the Successor Agency within such 60 day period and the Successor Agency thereafter diligently and in good faith cures such failure in a reasonable period of time; or

(c) If the Successor Agency files a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction will approve a petition seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will approve a petition, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Successor Agency or of the whole or any substantial part of its property.

If an Event of Default has occurred under the Indenture and is continuing, the Trustee may, or, if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) the Trustee shall, subject to the provisions of the Indenture, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity.

Immediately upon receiving notice or actual knowledge of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Successor Agency by telephone promptly confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion may, also give such notice to the Owners by mail, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Successor Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law), and the reasonable fees and expenses of the Trustee, (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall promptly give written notice of the foregoing to the Owners of all Bonds then Outstanding, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Successor Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

*Application of Funds Upon Acceleration***.** All of the Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration as provided in therein, and all sums thereafter received by the Trustee thereunder, shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture, including reasonable compensation to its agents, attorneys (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and counsel and any outstanding fees, expenses of the Trustee; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the net effective rate then borne by the Outstanding Bonds (to the extent that such interest on overdue installments of principal and interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

*Power of Trustee to Control Proceedings***.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; *provided, however,* that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

*Limitation on Owner's Right to Sue***.** No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest on such Bond as provided in the Indenture, shall not be impaired or affected without the written consent of such Owner, notwithstanding any of the provisions of the Indenture.

*Non-Waiver***.** Nothing in the Indenture or in the Bonds, shall affect or impair the obligation of the Successor Agency, which is absolute and unconditional, to pay from the Tax Revenues and other amounts pledged under the Indenture, the principal of and interest on the Bonds to the respective Owners on the respective Interest Payment Dates, as therein provided, or affect or impair the right of action, which is also absolute and unconditional, of the Owners or the Trustee to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner or the Trustee shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners and the Trustee by the Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners and the Trustee.

If a suit, action or proceeding to enforce any right or exercise any remedy shall be abandoned or determined adversely to the Owners or the Trustee, the Successor Agency, the Trustee and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Discharge of Indenture

*Defeasance of Bonds***.** If the Successor Agency shall pay and discharge the entire indebtedness on all Bonds or any portion thereof in any one or more of the following ways:

(i) by well and truly paying or causing to be paid the principal of and interest on all or the applicable portion of Outstanding Bonds, as and when the same become due and payable; or

(ii) by irrevocably depositing with the Trustee or an escrow agent, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay all or a portion of Outstanding Bonds, including all principal and interest, or;

(iii) by irrevocably depositing with the Trustee or an escrow agent, in trust, Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds or a portion thereof (including all principal and interest) at or before maturity; or

(iv) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the Successor Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Successor Agency under the Indenture shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (a) the covenants of the Successor Agency under the Indenture with respect to the Code, (b) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, (c) the obligations of the Successor Agency under the Indenture, and (d) the obligation of the Successor Agency to pay or cause to be paid to the Owners, from the amounts so deposited with the Trustee, all sums due thereon and to pay the Trustee all fees, expenses and costs of the Trustee. In the event the Successor Agency shall, pursuant to the foregoing provision, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Successor Agency all such instruments as may be necessary or desirable to evidence such discharge, including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Successor Agency has determined to pay and discharge in part.

In the case of a defeasance or payment of all of the Bonds Outstanding, any funds thereafter held by the Trustee which are not required for said purpose or for payment of amounts due the Trustee pursuant to the Indenture shall be paid over to the Successor Agency for deposit in the Redevelopment Obligation Retirement Fund.

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APPENDIX B

FORM OF BOND COUNSEL OPINION

March __, 2015

Successor Agency to the Former
Milpitas Redevelopment Agency
455 East Calaveras Boulevard
Milpitas, California 95035

OPINION: $__________ Successor Agency to the Former Milpitas Redevelopment Agency 2015 Tax Allocation Refunding Bonds (Redevelopment Project Area No. 1)

Members of the Successor Agency:

We have acted as bond counsel in connection with the issuance by the Successor Agency to the Former Milpitas Redevelopment Agency (the "Successor Agency") of its $_________ to the Former Milpitas Redevelopment Agency 2015 Tax Allocation Refunding Bonds (Redevelopment Project Area No. 1) (the "Bonds"), pursuant to the Community Redevelopment Law, constituting Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California (the "Law"), Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (the "Dissolution Act"), and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Refunding Law"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of March 1, 2015 (the "Indenture"), by and between the Successor Agency and U.S. Bank National Association, as trustee (the "Trustee"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Successor Agency contained in the Indenture, and in certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Successor Agency is duly created and validly existing as a public entity, with the power to enter into the Indenture, perform the agreements on its part contained therein, and issue the Bonds.

2. The Indenture has been duly approved by the Successor Agency, and constitutes a valid and binding obligation of the Successor Agency, enforceable against the Successor Agency in accordance with its terms.

3. Pursuant to the Law, the Dissolution Act and the Refunding Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, subject to no prior lien granted under the Law, the Dissolution Act and the Refunding Law, except to the extent described in the Indenture.

4. The Bonds have been duly authorized, executed and delivered by the Successor Agency, and are valid and binding special obligations of the Successor Agency, payable solely from the sources provided therefor in the Indenture.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; although for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds, and the enforceability of the Bonds and the Indenture, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and may also be subject to the exercise of judicial discretion in appropriate cases.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix C concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the Successor Agency takes no responsibility for the completeness or accuracy thereof. The Successor Agency cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2015 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2015 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2015 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2015 Bonds. The 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing Successor Agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2014 Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Successor Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any), and interest payments on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Successor Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the

Successor Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the 2015 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Successor Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Successor Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the 2015 Bonds are required to be printed and delivered.

The Successor Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the 2015 Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Successor Agency believes to be reliable, but the Successor Agency takes no responsibility for the accuracy thereof.

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APPENDIX D

FORM OF SUCCESSOR AGENCY CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the Successor Agency to the Former Milpitas Redevelopment Agency (the "Successor Agency") in connection with the issuance of $____________ Successor Agency to the Former Milpitas Redevelopment Agency 2015 Tax Allocation Refunding Bonds (Redevelopment Project Area No. 1) (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of March 1, 2015, by and between the Successor Agency and the U.S. Bank National Association, as trustee. The Successor Agency covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Successor Agency for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the Successor Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" shall mean Willdan Financial Services, or any successor Dissemination Agent designated in writing by the Successor Agency and which has filed with the Successor Agency a written acceptance of such designation.

"EMMA System" shall mean the Electronic Municipal Market Access system of the MSRB or such other electronic system designated by the MSRB or the Securities and Exchange Commission for compliance with S.E.C Rule 15c2-12(b).

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The Successor Agency shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the Successor Agency's fiscal year (which date currently would be March 31, based upon the June 30 end of the Successor Agency's fiscal year), commencing with the report for the 2013-14 fiscal year, provide to the MSRB through the EMMA System an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. **The Official Statement constitutes the Annual Report for the 2013-14 fiscal year.** Not later than fifteen (15) Business Days prior to said date, the Successor Agency shall provide the Annual Report to the Dissemination Agent (if other than the Successor Agency). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Successor Agency may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Successor Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the Successor Agency is unable to provide to the MSRB through the EMMA System an Annual Report by the date required in subsection (a), the Successor Agency shall provide to the MSRB, in electronic format as prescribed by the MSRB through the EMMA System, a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Successor Agency, file a report with the Successor Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB through the EMMA System pursuant to this Disclosure Certificate.

Section 4. <u>Content of Annual Reports</u>. The Successor Agency's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the Successor Agency prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for the Annual Reports provided for in Section 3 above, financial information and operating data with respect to the Successor Agency for the preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the Official Statement for the Bonds, as follows:

(i) Principal amount of Bonds outstanding as of June 30 of the most recently-completed fiscal year.

(ii) Balance in the Reserve Account and a statement of the Reserve Requirement as of June 30 of the most recently-completed fiscal year.

(iii) Information for the most recently-completed fiscal year of the type included in Tables 4, 5 and 7 (if and to the extent the information for Table 5 is available from the County of Santa Clara) of the Official Statement.

(iv) Notice if, during the most recently-completed fiscal year, the Project Area reached its cumulative tax increment limit.

(v) A calculation of debt service coverage for the most recently completed fiscal year provided by Tax Revenues with respect to debt service on the Bonds and any outstanding Parity Debt.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Successor Agency or related public entities, which have been submitted to the MSRB through the EMMA System or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Successor Agency shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The Successor Agency shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the Successor Agency or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the Successor Agency or an obligated person, or the sale of all or substantially all of the assets of the Successor Agency or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Successor Agency shall, or shall cause the Dissemination Agent (if not the Successor Agency) to, file a notice of such occurrence with the MSRB through the EMMA System, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The Successor Agency acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material." The Successor Agency shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the Successor Agency determines the event's occurrence is material for purposes of U.S. federal securities law. The Dissemination Agent shall not be responsible for determining whether an event is material.

Section 6. <u>Termination of Reporting Obligation</u>. The Successor Agency's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon the delivery to the Dissemination Agent of an opinion of nationally recognized bond counsel retained by the Successor Agency to the effect that continuing disclosure is no longer required. If such termination occurs prior to the final maturity of the Bonds, the Successor Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent.

(a) The Successor Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Successor Agency pursuant to this Disclosure Certificate, unless the Successor Agency is the Dissemination Agent, as provided herein. The initial Dissemination Agent shall be Willdan Financial Services. If at any time there is no designated Dissemination Agent appointed by the Successor Agency, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of Dissemination Agent hereunder, the Successor Agency shall be the Dissemination Agent and undertake or assume its obligations hereunder. The Dissemination Agent may resign by providing thirty days written notice to the Successor Agency and the Trustee.

Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The Dissemination Agent may resign its duties hereunder at any time upon written notice to the Successor Agency.

(b) The Dissemination Agent shall be paid compensation by the Successor Agency for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Successor Agency from time to time and for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent (unless the Successor Agency is the Dissemination Agent) shall have no duty or obligation to review any information provided to it by the Successor Agency hereunder and shall not be deemed to be acting in any fiduciary capacity for the Successor Agency, holders or beneficial owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the Successor Agency or an opinion of nationally recognized bond counsel retained by the Successor Agency.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Successor Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied (provided no amendment or waiver shall be made that affects the duties or rights of the Dissemination Agent without its written consent):

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel retained by the Successor Agency, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel retained by the Successor Agency, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Successor Agency to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB through the EMMA System in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Successor Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Successor Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Successor Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Successor Agency to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Successor Agency to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Successor Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. All of the immunities, indemnities, and exceptions from liability in Article VI of the Indenture insofar as they relate to the Trustee shall apply to the Trustee and the Dissemination Agent in this Disclosure Certificate. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Successor Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the Successor Agency or an opinion of nationally recognized bond counsel retained by the Successor Agency. The obligations of the Successor Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person, other than the Successor Agency, shall have any right to commence any action against the Trustee or Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Successor Agency, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: ______________________

SUCCESSOR AGENCY TO THE FORMER
MILPITAS REDEVELOPMENT AGENCY

By ____________________________

Name __________________________

Title __________________________

AGREED AND ACCEPTED:
WILLDAN FINANCIAL SERVICES,
AS DISSEMINATION AGENT

By: ________________________________

Name: ______________________________

Title: _______________________________

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Successor Agency to the Former Milpitas Redevelopment Agency
Name of Bond Issue:	$____________ Successor Agency to the Former Milpitas Redevelopment Agency 2015 Tax Allocation Refunding Bonds (Redevelopment Project Area No. 1)
Date of Issuance:	_____________, 2015

NOTICE IS HEREBY GIVEN that the Successor Agency to the Milpitas Redevelopment Agency (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture of Trust, dated as of March 1, 2015, by and between the Successor Agency and the Trustee, by and between the Successor Agency to the Former Milpitas Redevelopment Agency and U.S. Bank National Association, as trustee. The Issuer anticipates that the Annual Report will be filed by _____________.

Dated: ______________________

SUCCESSOR AGENCY TO THE FORMER
MILPITAS REDEVELOPMENT AGENCY

By ___________________________

Name _________________________

Title __________________________

cc: Trustee

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APPENDIX E

SUCCESSOR AGENCY FINANCIAL STATEMENTS THROUGH JUNE 30, 2014

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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Provider of a full-range of municipal services

City of Milpitas

CALIFORNIA

CITY OF MILPITAS, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014

Prepared by

THE DEPARTMENT OF FINANCIAL SERVICES

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

INTRODUCTORY SECTION

Page

INTRODUCTORY SECTION:

FINANCIAL SECTION:

Page

FINANCIAL SECTION: (Continued)

Page

STATISTICAL SECTION:

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479 www.ci.milpitas.ca.gov

November 6, 2014

Honorable Mayor, Members of the City Council and City Manager:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2014. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

A separate single audit report has been prepared in conformity with the provisions of the Federal Single Audit Act amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State and Local Governments."

THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Economic Development Corporation (the EDC), the Milpitas Housing Authority (the Housing Authority) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. The EDC, Housing Authority, and Terrace Gardens are separate legal entities from the City and are controlled by the City. The EDC and the Housing Authority have the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Terrace Gardens Inc. issues its own component unit financial statements.

Milpitas is a general law city of the State of California. The City was incorporated in 1954 and operates under a Council-Manager form of government. The City's political and legislative body is the City Council and is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services, and appointment of the City Manager and City Attorney. There are four City Council members who are elected at-large for staggered four-year terms, and the Mayor is selected every two years in a separate citywide election.

The City provides a full range of municipal services. These include: police, fire, community services, public improvements, planning, building and public facility inspection, engineering, water and sewer utilities, and general administrative services.

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks,

General Information: 408-586-3000

Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Veterans Commission, Public Art Committee and the Mobile Home Park Rental Review Board.

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the "Crossroads of Silicon Valley," with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 40 years, the population growth has increased from 26,561 in 1970 to over 66,790 in 2010 (latest census). The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2001 and 2004, over 130,000 jobs were lost as a result of the economic recession. Between 2005 and 2007, the local economy began to recover slowly until 2008 when the economy went into global recession due to subprime mortgages, plummeting home sales and meltdown of the financial market. This region was severely impacted due to a concentration of the high-tech industry, heavy reliance on exports, decline of home prices, and reduced consumer spending. Milpitas was similarly impacted because of its location and comparable economic mix. In 2012, the local economy has finally emerged from the most unprecedented and prolonged economic recession in recent history. The housing market also showed substantial recovery. The section below entitled "Major Development Activities in the City" will discuss some of the development activities that are occurring in Milpitas.

There are approximately 1,448 acres or 2.6 square miles of land area in the City limits designated for various industrial uses; about 113 acres are vacant and available in parcels ranging in size from 3 acre to 35 acres. Included in this acreage total are nine industrial parks and 438 manufacturing plants. An estimated 410 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

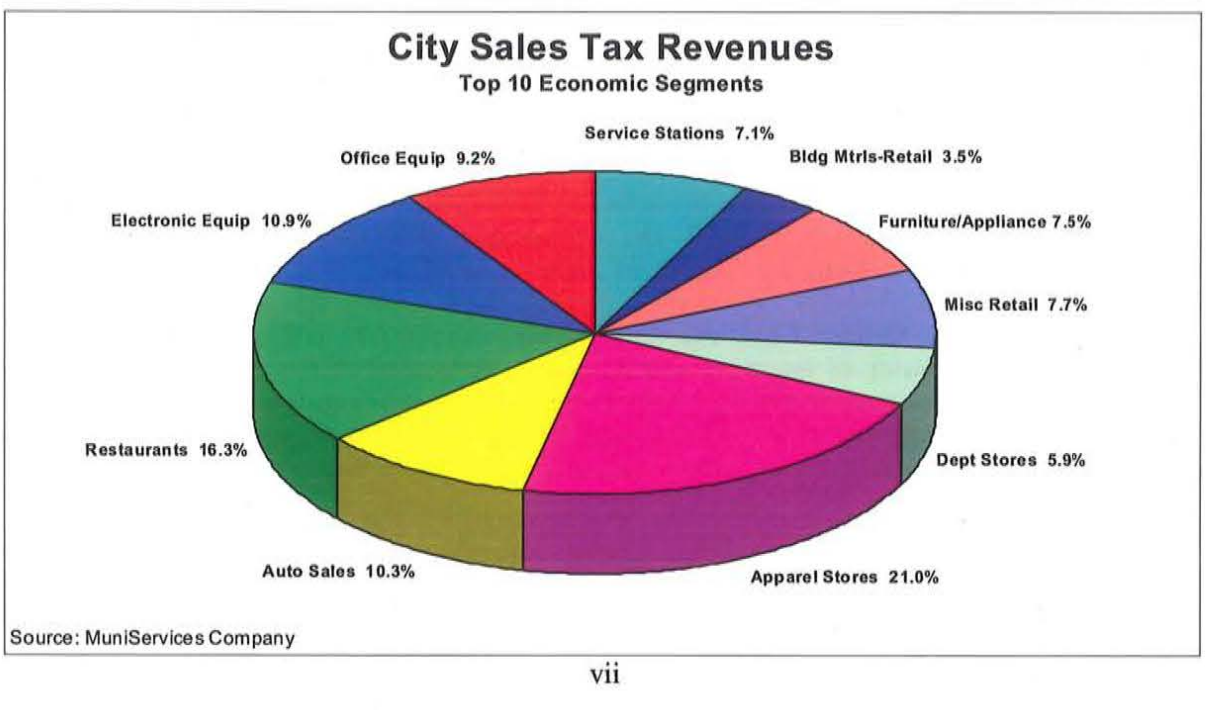
The leading economic segments are office equipment, apparel stores, restaurants, and electronic equipment. The five largest manufacturing employers are Cisco Systems, Inc., KLA-Tencor Corporation, SanDisk Corporation, Linear Technology, Inc. and Flextronics. Several of these top employers, including SanDisk Corporation and Linear Technology, make Milpitas their corporate headquarters. The two largest non-manufacturing employers in Milpitas are the Milpitas Unified School District and Vitas Healthcare Corporation of CA.

Consumer Confidence Level

The latest consumer confidence survey report showed that the U.S. consumer sentiment in March 2014 reached an all time high of 82.30 since 2008. Consumer confidence is an indicator designed to measure the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Since consumer spending drives more than 65% of the U.S. Gross Domestic Product, the index is a good indicator that when consumers' confidence is high, consumers would likely make more purchases thus further boosting the economy.

Top Ten Sales Tax Generators by Economic Segment

The chart below provides a snapshot of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about $16.5 million, with the top ten economic segments generating about $14.2 million. Economic segments such as apparel stores, restaurants, and miscellaneous retail increased over a year ago, while electronic equipment, auto sales, and office equipment segments decreased.



Many of the major activities initiated in FY13-14 were consistent with the City Council's direction to focus on projects and funding that will provide for the economic stability of the community, especially developments in the Midtown and the Transit Area that will enhance the City's long-term financial condition.

Major Development Activities in the City

Midtown Specific Plan – The vision for this area includes high density housing within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began with several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities undertaken by outside agencies include the construction of a County Health Center, a parking garage and a 103-unit Senior Housing apartment building. Major residential development includes completion of the Centria West project for 366 condominium dwelling units. Other development in process includes 200 housing units developed by Shea Homes.

Transit Area Specific Plan – The City adopted a Transit Area Specific Plan in June 2008 which provides for medium to high density development surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. Currently there are about 1,400 housing units in the Transit Area that are under various stages of development.

Residential Development – Although residential development activities in this region were impacted by the soft housing market in the last few years, there is a renewed interest in residential developments recently. Outside of the Midtown and Transit Area, there are several residential developments that are either under construction or completed and occupied. These projects include Murphy Ranch Townhomes (285 townhomes), Robson Homes (83 units), Orchid (80 single family detached units) and Sinclair Renaissance (80 single family detached units).

Non-residential Development – Major commercial construction includes expansion and tenant improvements of FireEye, a malware protection company. Building permits were also issued to Flextronics, Solexel, KLA-Tencor and Micron for tenant improvements. Micron is a semiconductor business relocated from San Jose.

Budget Strategies in Fiscal 2013-14

As a result of the ruling by the California Supreme Court, all the redevelopment agencies throughout the State were dissolved as of January 31, 2012. The consequences of the dissolution of the Redevelopment Agency were particularly difficult for the City of Milpitas. In addition to the loss of funding for many major infrastructure and economic development projects, the City also lost approximately $7 million annually allocated to the General Fund. The City undertook drastic cost cutting measures that included staff reduction, restructuring of non-core programs, and outsourcing of certain maintenance services. Nevertheless, the City balanced its FY13-14 General Fund budget and continued to focus on delivery and preservation of core services while maximizing overall organizational efficiency and cost savings. These accomplishments will be discussed in the next section, City Annual Performance Report.

CITY ANNUAL PERFORMANCE REPORT

During fiscal year 2013-2014, City staff initiated and implemented various programs and projects that significantly improved services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects is as follows:

Fire

- Responded to 4,838 emergency incidents with an average response time of 4:24 minutes.
- Presented fire prevention information at over 45 public events.
- Conducted 1,180 plan reviews, issued 1,062 approvals/permits and performed 5,534 fire inspections.
- Certified 555 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

Police

- Reduced residential burglaries by 23% in 2013.
- Reduced average emergency response time to 2:31 minutes in FY12-13, the lowest average emergency response time in the last thirteen years.
- Reduced auto theft by 17% in 2013.
- Concluded the 15-month investigation of the murder of the 7-11 employee with the arrest of 4 suspects.

Engineering

- Completed construction of the Milpitas Sports Center locker rooms improvements and open to the public for use prior to the 4th of July events.
- Completed the City's Long Term Trash Reduction Plan.
- Completed the City-wide Storm Drain Master Plan & Sewer System Management Plan.
- Completed the tests of 1800 backflow devices in the City.

Public Works Maintenance

- Coordinated water system shutdown for development and BART construction.
- Investigated 2,280 customer service requests and provided immediate response for urgent/safety related service requests.
- Provided cross-training and safety training to staff to improve efficiency and reduce injuries.
- Responded immediately to all roadway hazards, graffiti abatement, and emergency storm service requests.

Planning/Neighborhood Services

- Established new Environmental/CEQA consulting services.
- Completed Housing Element Zoning Ordinance Amendments pursuant to State Law.
- Processed over 700 code enforcement service requests and code violations.
- Managed and administered 1,200 affordable Housing units for Milpitas Housing Authority.

Human Resources and Recreation

- Adhered to the Affordable Care Act (ACA) requirements regarding the Marketplace Coverage (Exchange) Notices for Employees.
- Continued to work on recruitments on a timely basis for all departments. To date approximately 30 recruitments have been finalized.
- Processed 1,340 memberships in the first 7 months of the fiscal year for the Senior Center.
- Successfully completed two public art installations (City Hall Minute Man and Cartwheel Kids move) and one public art maintenance project at Augustine Park.

Building & Safety

- Utilized iPad for inspection in the field to streamline and improve efficiency in the inspection process.
- Introduced online application for extension of plan check and permits.
- Enhanced public outreach by sending e-newsletters to more than 3,000 customers.
- Introduced electronic sign-in system in Permit Center to improve customer service.

Administration

- Eliminated the General Fund budget structural deficit from $12 million in fiscal 2012 to a balanced budget in fiscal 2014.
- Obtained a "AAA" general credit rating from Standard & Poor's rating services.
- Developed long-term fiscal planning policies.
- Launched Citywide Strategic Plan to update City's visions, values and goals.

City Attorney

- Successfully prevailed in five significant lawsuits.
- Provided hands-on legal guidance through Redevelopment Agency wind down.
- Advised management through continuing labor negotiations.
- Represented the City in numerous administrative/court cases.

Information Services

- Completed the MyMilpitas mobile app for iPhone and iPad.
- Completed CAD system upgrade.
- Completed Document Imaging system upgrade.
- Maintained network availability at 99.9% of the time.

Finance

- Developed an updated Cost Allocation Plan (CAP) and worked with departments to update fee schedule based on updated CAP.
- Worked with the County Auditor and State Department of Finance to receive the "Finding of Completion" for the Successor Agency of the City of Milpitas Redevelopment Agency.
- Developed and implemented real property lien process.
- Bid various frequently used commodities and services and created annualized contracts with the vendors to achieve savings and efficiency.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The Finance Department staff remains committed to improving the City's accounting system; to maintain the City's internal accounting controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. Budgetary control is directed by the City Council by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the department level by fund. The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures. The City Manager has limited budget appropriation authority in an amount not to exceed 1% of the total General Fund budget, although the appropriations must be reported to the City Council on a periodic basis. Periodic reports of revenue, expense, and investment activity are prepared and distributed to the City Council and City departments to monitor spending in relation to the budget. At fiscal year-end, open encumbrances are reported as an assignment of the fund balance. The City's accounting records are organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. Each fund is classified by category and fund type:

	Category and Fund Type
Governmental Funds:	General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds
Proprietary Funds:	Enterprise Funds and Internal Service Fund
Fiduciary Funds:	Private-Purpose Trust Fund and Agency Funds

Governmental Funds: The basic financial statements necessary to fairly present the financial position and operating results from major governmental funds are the balance sheet, and the statement of revenues, expenditures and changes in fund balance. These funds are maintained using the modified accrual basis of accounting, which is more thoroughly explained in the Notes to the Financial Statements.

Proprietary Funds: Generally accepted accounting principles applicable to private commercial business are applicable to proprietary funds of a government agency. The basic financial statements required to present the financial position and operating results from major proprietary funds are the statement of net position, statement of revenues, expenses, and changes in fund net position, and the statement of cash flows. The accrual basis of accounting is utilized as explained in the Notes to the Financial Statements.

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as a Private-Purpose Trust Fund and Agency Funds. The full accrual basis of accounting is used as explained in the Notes to the Financial Statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FINANCIAL ANALYSIS

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Milpitas' MD&A can be found immediately following the report of the independent auditors.

INDEPENDENT AUDIT

Each year the City requires an independent annual audit of the City's financial records, the results of its operations, and cash flows. This report includes the opinion of the City's independent auditors, Maze & Associates, for the basic financial statements of the City. In addition, a separately issued document contains the auditors' reports on the internal control structure and compliance with applicable laws and regulations related specifically to the single audit.

AWARDS

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for twenty-five of the last twenty-six years (fiscal years ended 1988-2013). The 1992-93 report was not submitted to GFOA due to timing delays.

We believe our current report continues to conform to the Certificate program requirements. This report will be submitted to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

I extend my appreciation to the entire staff in the Finance Department and other departments who assisted in the process of compiling the information for this report. In addition, I extend a special "thank you" to our external auditors who contributed long hours to make this document possible. Their efforts and continued dedication are greatly appreciated. I sincerely thank the Mayor, members of the City Council and City Manager, for their support, interest, and integrity in directing the financial affairs of the City in a responsible, professional, and progressive manner.

Respectfully submitted,

Emma C. Karlen, CPA
Assistant City Manager/Director of Financial Services

DIRECTORY OF OFFICIALS

June 30, 2014

City Council

Mayor	Jose S. Esteves
Vice-Mayor	Althea Polanski
Councilmember	Debra Giordano
Councilmember	Armando Gomez, Jr
Councilmember	Carmen Mantano

City Manager
Thomas C Williams

Police Chief
Steve Pangelinan

Fire Chief
Robert Mihovich, Interim

City Attorney
Michael Ogaz

Human Resources and Recreation Director
Carmen Valdez

Planning & Neighborhood Svc Director
Steven McHarris

Director of Financial Services
Emma Karlen, CPA

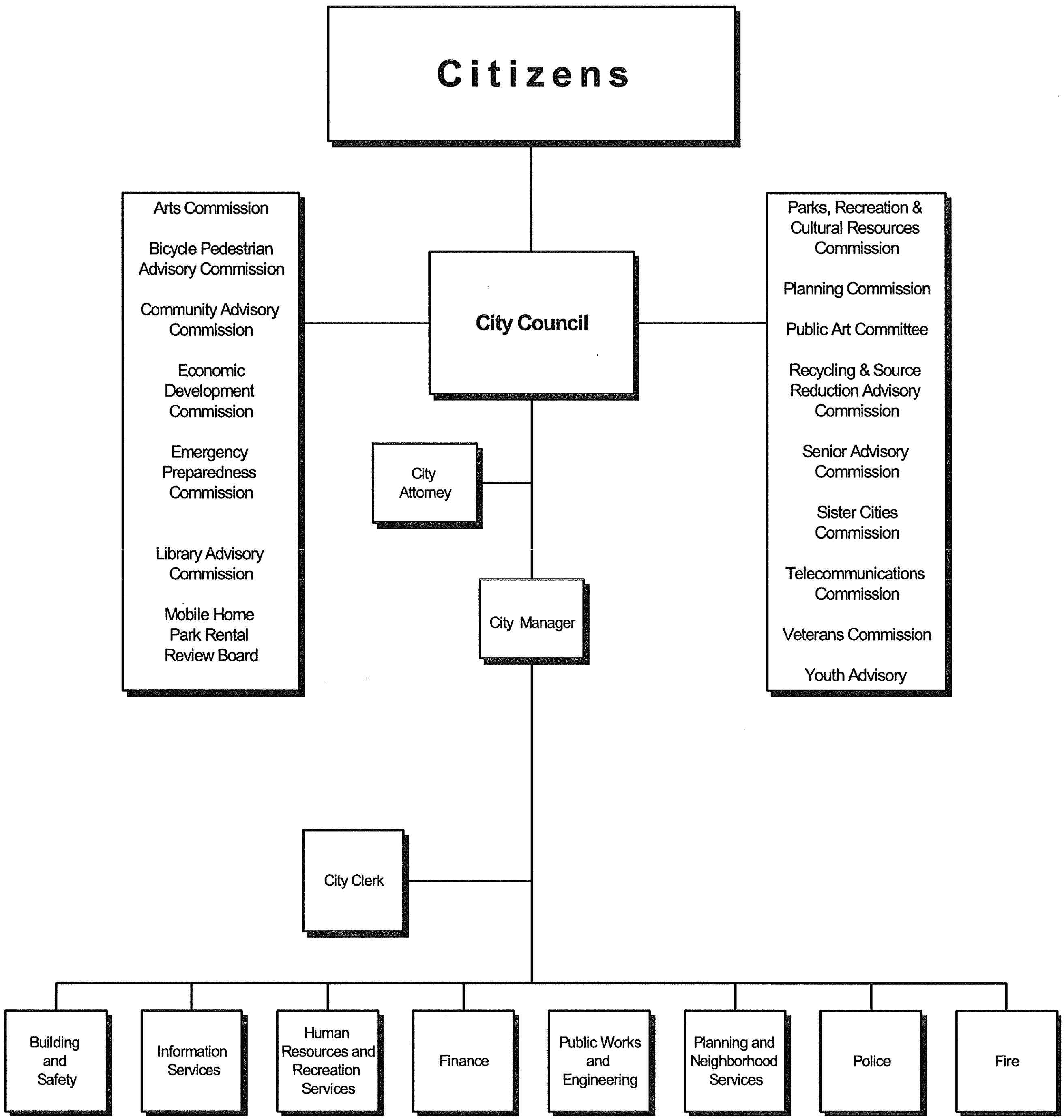
City Clerk
Mary Lavelle

Chief Information Officer
Mike Luu, Interim

Public Works Director/City Engineer
Jeff Moneda, PE

Chief Building Officer
Keyvan Irannejad

The City of Milpitas is located near the southern tip of San Francisco Bay, forty-five miles south of San Francisco. Milpitas is often called the "Crossroads of Silicon Valley" with most of its 13.56 square miles of land situated between two major freeways (I-880 and I-680), State Route 237, and a county expressway. The light rail line opened for service in 2004 and an extension of BART, with a major multi-modal station, is in the planning stages.


Citizens
Arts Commission
Bicycle Pedestrian Advisory Commission
Community Advisory Commission
Economic Development Commission
Emergency Preparedness Commission
Library Advisory Commission
Mobile Home Park Rental Review Board
City Council
Parks, Recreation & Cultural Resources Commission
Planning Commission
Public Art Committee
Recycling & Source Reduction Advisory Commission
Senior Advisory Commission
Sister Cities Commission
Telecommunications Commission
Veterans Commission
Youth Advisory
City Attorney
City Manager
City Clerk
Building and Safety
Information Services
Human Resources and Recreation Services
Finance
Public Works and Engineering
Planning and Neighborhood Services
Police
Fire

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Milpitas

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Emer

Executive Director/CEO

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

FINANCIAL SECTION

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Milpitas, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2013, which represent 1.63%, 1.70%, and 0.88% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by another auditor, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditor.

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

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

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

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Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and discretely presented component unit of the City as of June 30, 2014, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 10E, the City restated beginning fund balance and net position of three funds.

The emphasis of this matter does not constitute a modification of our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2014, on our consideration of the City'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* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
October 16, 2014

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2014. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FISCAL 2014 FINANCIAL HIGHLIGHTS

The City's revenues in fiscal 2014 reflect continued economic recovery in the South Bay region, primarily driven by improved employment and rebound of the housing market. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2014 was at 5.5%, an improvement over last year's 6.9%. The property tax revenue has shown substantial recovery due to double digit increase of median home prices. The foreclosures and property tax appeals have been trending downward. Building permit fees and Transient Occupancy Tax revenues were better than last fiscal year, reflecting a steadily improving economy.

Fiscal 2014 financial highlights include the following:

City-wide:

- The City's total net position was $599.7 million at June 30, 2014. Of this total, $433.8 million were Governmental assets and $166.0 million were Business-type assets.
- City-wide revenues include program revenues of $73.6 million, general revenues and transfers of $61.8 million, and a special item of $49.8 million totaling $185.2 million, an increase of $68.3million from the prior year's total of $116.9 million.
- Total City-wide expenses were $114.7 million, an increase of $9.4 million from the prior year's $105.3 million.

Fund Level:

- Governmental Fund balances were $116.8 million, a decrease of $7.1 million from fiscal 2013.
- Governmental Fund revenues were $99.6 million in fiscal 2014, up $17.4 million from the prior year's $82.2 million.
- Governmental Fund expenditures were $80.6 million in fiscal 2014, an increase of $3.4 million from fiscal 2013's level of $77.2 million.
- General Fund revenues of $76.8 million represented an increase of $14.1 million from fiscal 2013's revenues of $62.7 million.
- Total other financing sources of the General Fund were $3.1 million in fiscal 2014 while fiscal 2013 had a total other financing sources of $4.4 million.
- General Fund balance of $48.9 million at the fiscal 2014 year-end was $16.1 million more than the fund balance at fiscal 2013 year-end.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this part),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Supplementary Information,
5) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
6) Statistical information.

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net position for the year.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities, deferred inflows/outflows of resources and fund balances, but exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these Non-major funds. Major Funds are explained below.

The City is the Successor Agency of the Milpitas Redevelopment Agency. It holds funds to make payments according to the enforceable obligations schedules and eventually dispose of other assets and properties of the former Redevelopment Agency for the benefits of the taxing agencies. The City is also the depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of the Successor Agency, Local Improvement Districts and other entities. These statements are separate from the City's financial statements and their balances are excluded from the City's fund balances.

Together, all these statements are called the Basic Financial Statements.

The City-wide Financial Statements

All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, parks & recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The City-wide financial statements can be found in pages 21-23 of this report.

All of the City's enterprise activities, including water, recycled water, and sewer are also reported in the basic financial statements. Unlike governmental services, these activities are supported by charges paid by users based on the amount of their service consumption.

The City's governmental activities include the activities of three other separate legal entities, Milpitas Economic Development Corporation ("EDC"), the Milpitas Housing Authority ("Housing Authority"), and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of the governing board of these entities.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

Fund Financial Statements

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the citywide financial statements.

Enterprise and internal service fund financial statements are prepared on the full accrual basis and include all these funds' assets and liabilities, both current and long-term.

The Fund financial statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of the City's activities.

The City has four other Major Governmental Funds in fiscal 2014 in addition to the General Fund. These are the Economic Development Corporation Fund, Housing Authority Fund, the Street Improvement Fund and the Transit Area Impact Fee Fund, each of which is discussed in detail below.

Both of the City's Enterprise Funds are reported as Major Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major governmental funds that are Special Revenue Funds. The City has two major Special Revenue Funds, the Economic Development Corporation Fund and the Housing Authority Fund, however, only the Housing Authority adopts an annual budget.

Fiduciary Statements

The City is the Successor Agency of the former Redevelopment Agency and the agent for certain local improvement districts ("Districts"). The City holds property tax revenue distributed from the Redevelopment Property Tax Trust Fund ("RPTTF") to pay outstanding recognized obligations for the Successor Agency. The City also holds amounts collected from property owners which await transfer to the Districts' bond trustees. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position and the Agency Funds Statement of Changes in Assets and Liabilities.

CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal 2013 are presented in table form. Any significant changes are analyzed and discussed.

Governmental Activities

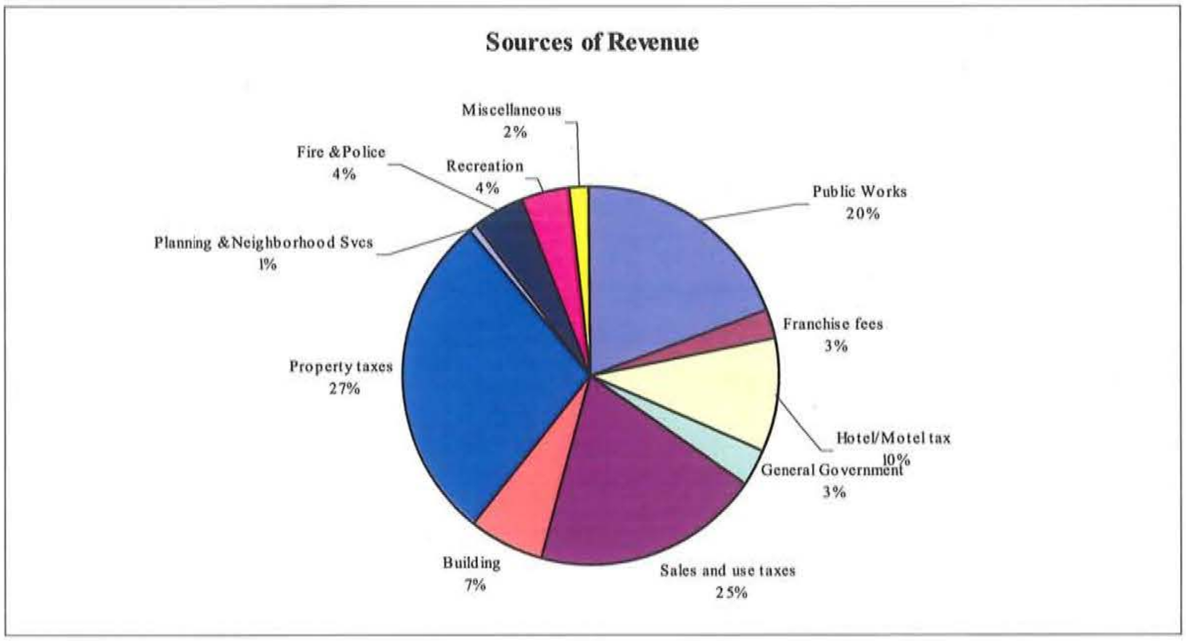
Table 1
Governmental Net Position at June 30
(in Millions)

	Governmental Activities	
	2014	2013 (Restated)
Cash and investments	$106.2	$122.1
Other assets	66.5	52.6
Capital assets	298.0	227.2
Total assets	**470.7**	**401.9**
Long-term debt outstanding	6.3	10.2
Other liabilities	30.6	24.0
Total liabilities	**36.9**	**34.2**
Net position:		
Net investment in capital assets	291.7	217.0
Restricted	90.8	85.8
Unrestricted	51.3	64.9
Total net position	**$433.8**	**$367.7**

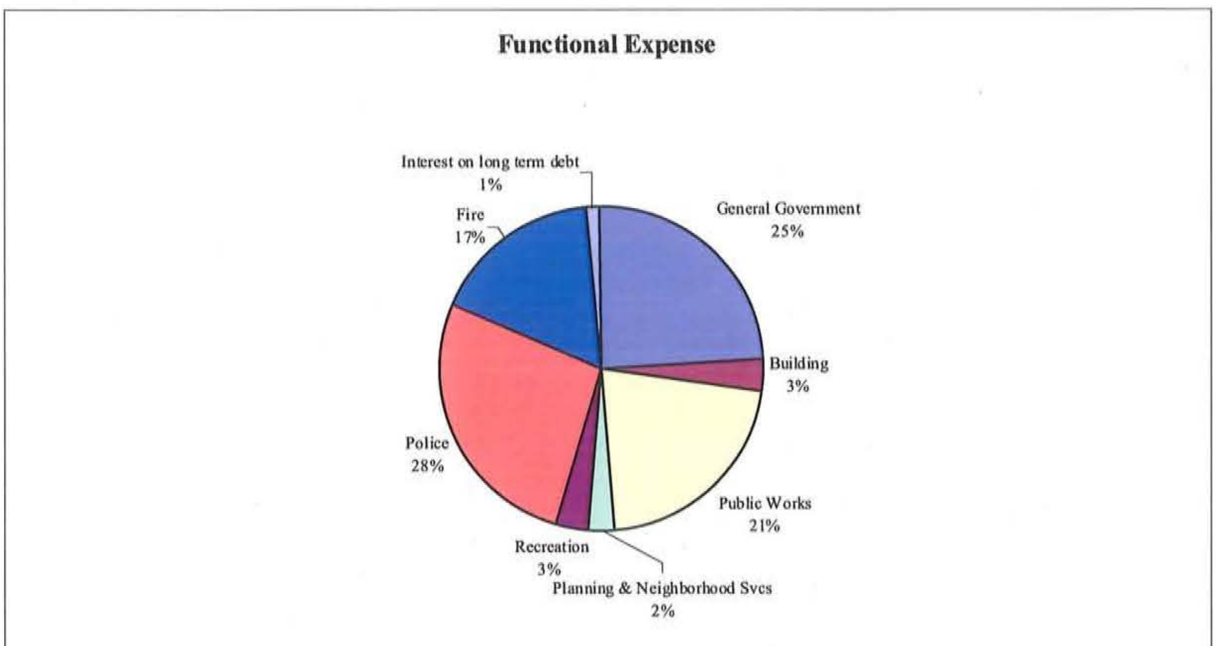
The City's governmental net position was $433.8 million at June 30, 2014, an increase of $66.1 million from 2013. This increase is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

- Cash and investments decreased $15.9 million principally due to settlement of the RDA asset transfer lawsuit with the State of California and the County of Santa Clara that required a cash payment of almost $41 million from the City of Milpitas entities.
- Other assets increased $13.9 million from last year primarily due to the property purchased by the Economic Development Corporation that was reclassified from capital assets to properties held for resale. The properties were transferred to the City as part of the lawsuit settlement mentioned above.
- Capital assets increased $70.8 million from last year, resulting from $15.6 million depreciation, offset by $86.2 million asset additions, net of retirements in fiscal 2014.
- Long-term debt decreased $3.9 million due to scheduled debt repayments.
- Other liabilities increased $6.6 million due to increased accounts payable, uninsured claims payable and unearned revenue.

Fiscal Year 2014
Governmental Activities



As the Sources of Revenue Chart above shows, $27.6 million or 27% of the City's fiscal 2014 governmental activities revenue came from property taxes, while $19.0 million or 25% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. The composition of Fiscal 2014's capital assets is shown in detail at Table 8.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Position as summarized below.

Table 2
Changes in Governmental Net Position
(in Millions)

	Governmental Activities	
	2014	2013 (Restated)
Expenses		
General Government	$21.1	$15.3
Building	2.7	2.3
Public Works	18.7	17.7
Planning & Neighborhood Svcs	2.1	2.6
Recreation	3.0	3.1
Police	23.4	21.7
Fire	15.1	15.8
Interest on long term debt	0.2	0.2
Total expenses	86.3	78.7
Revenues		
Program revenues:		
Charges for services	16.3	13.7
Operating contributions and grants	6.2	7.5
Capital Grants	15.5	8.3
Total program revenues	38.0	29.5
General revenues:		
Taxes:		
Property taxes	27.6	20.5
Sales and uses taxes	19.0	20.2
Hotel/Motel taxes	9.4	7.9
Other taxes	0.7	0.5
Franchise fees	3.5	3.3
Investment earnings	0.8	0.3
Miscellaneous	0.2	0.2
Total general revenues	61.2	52.9
Total Revenues	99.2	82.4
Surplus (Deficit) before transfers	12.9	3.7
Special item	49.8	
Transfers	3.4	3.0
Changes in net position	66.1	6.7
Beginning net position, as restated	367.7	361.0
Ending net position	**$433.8**	**$367.7**

Table 2 compares fiscal 2014 expenses and revenues with those of fiscal 2013. Expenses increased by $7.6 million in fiscal 2014, due to an increase in uninsured claims and an increase in salaries and benefits, depreciation expense and contractual services. Almost all of the program expenses experienced increases due to an increase in salaries and benefits. General Government program expenses increased $5.8 million due to the increase uninsured claims and salaries and benefit expenses.

Table 2 shows that total government revenues increased $16.7 million in fiscal 2014. Program revenues increased $8.5 million while general revenues increased $8.2 million. The increase in program revenues was due to increased charges for services and increased operating grants. The increase in general revenues was mainly due to transient occupancy tax and property tax revenue. Property tax revenue in fiscal 2014 was $7.1 million more than last year due to a one-time increased distribution from the Redevelopment Property Tax Trust Fund (RPTTF) as a result of the lawsuit settlement. The settlement of the lawsuit required the City and other entities to remit approximately $41 million to the County Controller. The proceeds were subsequently distributed to all the taxing entities within the Redevelopment Area. The City is one of the taxing entities and received approximately $6.3 million from the RPTTF. Sales tax revenue in fiscal 2014 was $1.2 million less than fiscal 2013, due to the loss of a major sales tax generator. Transient Occupancy Tax increased $1.4 million in fiscal 2014 reflecting recovery in the economy. The increase of investment earnings by $0.5 million in fiscal 2014 was due to an increase in cash and investments. A special item of $49.8 million was reported in fiscal 2014 due to the settlement with the Department of Finance and the County of Santa Clara on the previously mentioned lawsuit. Detail of the lawsuit settlement can be found in Notes 14 and 17F.

Table 3 presents the net cost of each of the City's largest programs—general government, building, public works, planning & neighborhood services, parks & recreation, police, fire, and interest expense. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs decreased $1.0 million. The primary reasons for increased program revenues were due to economic recovery and increased capital grants.

Table 3
Governmental Activities
(in Millions)

	Net (Expenses) Revenue From Services	
	2014	2013
General Government	$(17.9)	$(10.3)
Building	3.8	2.3
Public Works	.5	(8.5)
Planning & Neighborhood Services	(1.4)	(1.7)
Recreation	1.1	3.1
Police	(21.2)	(19.7)
Fire	(13.0)	(14.2)
Interest on long term debt	(0.2)	(0.2)
Totals	**$(48.3)**	**$(49.2)**

Business-type Activities

Table 4
Business-Type Net Position at June 30
(in Millions)

	Business-Type Activities	
	2014	2013 (Restated)
Cash and investments	$52.7	$49.2
Other assets	7.7	8.2
Capital assets	114.8	113.8
Total assets	**175.2**	**171.2**
Other liabilities	2.3	2.4
Long-term Debt	6.9	7.3
Total liabilities	**9.2**	**9.7**
Net position:		
Net investment in capital assets	107.8	106.5
Restricted	37.3	35.3
Unrestricted	20.9	19.8
Total net position	**$166.0**	**$161.5**

The net position of business-type activities were $166.0 million in fiscal 2014, an increase of $4.5 million from fiscal 2013. Total assets increased $4.0 million while total liabilities decreased $0.5 million. The increase in net position was due to increased customer service charges and capital contributions for the Water and Sewer Funds.

Table 5
Changes in Business-Type Net Position
(in Millions)

	Business-Type Activities	
	2014	2013 (Restated)
Expenses		
Water Utility	$17.4	$17.2
Sewer Utility	11.0	9.4
Total expenses	28.4	26.6
Revenues		
Program revenues:		
Charges for services	34.1	32.4
Operating Grant	0.1	0.1
Capital Grants	1.4	2.0
Total program revenues	35.6	34.5
General revenues:		
Investment earnings	0.7	0.1
Total general revenues	0.7	0.1
Total Revenues	36.3	34.6
Excess before transfers	7.9	8.0
Transfers	(3.4)	(3.0)
Changes in net position, as restated	4.5	5.0
Beginning net position	161.5	156.5
Ending net position	**$166.0**	**$161.5**

Table 5 compares fiscal 2014 expenses and revenues with those of fiscal year 2013. Total expenses increased by $1.8 million in fiscal 2014 due to increased water purchase and usage. Total program revenues increased by $1.1 million primarily due to increased charges for services and capital contributions received from developers. Total general revenue was $0.7 million from interest earnings, $0.6 million higher than last year due to an increase in cash available for investment. The net transfers represent reimbursements of administration costs to the General Fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Table 6 below summarizes activities and balances of the governmental funds at the fund level:

Table 6
Financial Highlights of Governmental Funds at Fund Level at June 30
(in Millions)

	2014	2013 (Restated)
Total assets	$173.3	$190.6
Total liabilities	26.6	28.3
Total deferred inflows of resources	29.9	38.4
Total fund balances	116.8	123.9
Total revenues	99.6	82.2
Total expenditures	80.6	77.2
Total other financing sources	3.4	2.6
Total special items	27.3	

At June 30, 2014, the City's governmental funds reported combined fund balances of $116.8 million, a decrease of $4.8 million from last year. The fund balances of the Economic Development Corporation, Housing Authority Fund, and Other Governmental Funds decreased $22.7 million, $3.5 million, and $1 million, respectively, while the fund balances of the General Fund and Transit Area Impact Fee Fund increased $16.1 million and $6.4 million, respectively.

Revenues at the fund level totaled $99.6 million, an increase of $17.4 million. Revenues for the Housing Authority Fund, Street Improvement Fund and Other Governmental Funds decreased $1.9 million, $1.5 million, and $5.6 million respectively while the General Fund, Economic Development Corporation, and Transit Area Impact Fee Fund increased $14.1 million, $2.0 million and $10.1 million, respectively.

Expenditures increased $3.4 million this year to $80.6 million from last year's $77.2 million. The expenditures of the General Fund, Housing Authority Fund, Transit Area Impact Fee Fund and Other Governmental Funds increased $1.7 million, $0.2 million and $3.9 million, respectively while the Economic Development Corporation and Street Improvement Fund decreased by $1.3 million, and $3.6 million, respectively.

Analyses of Major Governmental Funds

General Fund

General Fund revenues increased to $76.8 million this fiscal year, up $14.1 million from the prior fiscal year. Increases came from property tax, revenue, other taxes, licenses and fines, intergovernmental revenue and charges for services categories while decreases came from sales taxes, and use of money and property. Property tax revenue increased $11.1 million due to residual distributions from the Redevelopment Property Tax Trust Fund ("RPTTF") was recorded in the General Fund in fiscal 2014. Approximately $9.7 million of the distributions from the RPTTF consisted of $3.4 million annual residual distribution of the Redevelopment property tax and $6.3 million one-time distributions were recorded in the General Fund. If the annual RPTTF distributions were recorded in the General Fund in fiscal 2013, the property tax revenue would have shown an increase of $0.6 million. The additional increase is due to recovery in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax decreased by approximately $1.2 million due to the loss of a major sales tax generator. Other taxes increased by $1.7 million primarily due to increased Transient Occupancy Tax revenue. Licenses and permits increased $2.3 million primarily from the building permit and inspection fees as a result of increased development activities. Charges for services also increased by $0.2 million due to increased revenues for planning and engineering fees received from private developments and increased police, fire, and recreation service charges.

General Fund expenditures increased $1.7 million to $62.9 million in fiscal 2014 primarily due to an increase in salaries and benefits.

Net transfers in were approximately $3.1 million, as compared to net transfers out of $4.4 million in fiscal 2013. Net transfers consist of $3.7 million from other funds for operating costs and transfers out of $0.6 million. The transfers out of $0.6 million were primarily for funding of capital projects.

The special item of $0.9 million consists of the transfer of lands from EDC and the Housing Authority to the City, offset by the payment to the County Controller under the settlement with State of California and the County of Santa Clara.

Economic Development Corporation

This fund accounts for the activities of the Economic Development Corporation ("EDC"). The EDC is a tax-exempt organization that was formed in fiscal 2011 for the purpose of facilitating and fostering the City's economic development and elimination of blight through public-private partnerships. During fiscal 2014, EDC had an increase in interest income of $2.0 million entirely due to repayment of interest on an interfund loan from the Transit Area Specific fund. Expenditures of $3.8 million were primarily for interest and principal payments on a property purchase. The EDC assumed the liability of the former Redevelopment Agency for the purchase of one property located in the Transit Area. Under the Purchase and Sale Agreement with Mission West, the EDC was to pay the purchase price of $21.8 million in installments, as stipulated in a promissory note. In fiscal 2014, $3.0 million of the EDC's funds along with $0.8 million collected from the City's Transit Area Impact Fee Fund were applied toward the repayment of the promissory note. The special item reflects that in 2014, the EDC settled the lawsuit with the State of California and the County of Santa Clara as a party of the City entities.

Operating transfers in of approximately $0.8 million were from the Transit Area Impact Fee Fund and were used to pay a portion of the promissory note as mentioned above.

Housing Authority

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were $1.3 million in fiscal 2014, comprised of $0.4 million of interest and rental income, $0.6 million from repayment of housing loans, and $0.3 million proceeds from the sale of an affordable housing unit. Total expenditures were $0.5 million for administration and operation of the "Silent Second" loan program, management of four affordable housing units and one commercial property with eight tenants that were transferred from the former Redevelopment Agency's Housing Reserve Fund. The special item consists of the transfer of property held for resale to the General Fund under the terms of the City's settlement with the State of California and the County of Santa Clara.

Street Improvement Capital Project

This Capital Project Fund accounts for the majority of the capital projects activity in the City that is not developed in the Transit Area. The Fund's revenues were $1.2 million in fiscal 2014, a decrease of $1.5 million from fiscal 2013. The decrease was due to one time intergovernmental revenues and developer contributions. Fund expenditures were $1.5 million in fiscal 2014, a decrease of $3.6 million from fiscal 2013, attributed to capital outlay decrease. Operating transfers in of $0.6 million were from the Gas Tax Special Revenue Fund for capital improvement project funding.

Transit Area Impact Fee

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal 2014, fund revenues were $11.3 million, primarily from fees collected from developers. Expenditures were $4.6 million, consisted of $4.4 million capital improvement project expenditures and $0.2 million for accrued interest expenditures on advances received from other funds. The operating transfer out of $0.8 million to the Economic Development Corporation was used to pay for a portion of installment payment pursuant to a promissory note.

Other Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

Fund Balance Classifications

Fund balances are classified in five categories: nonspendable, restricted, committed, assigned and unassigned based on a hierarchy of constraint. Further details on fund balance classifications can be found in Note 10B.

Table 7 shows the classification of the fund balances of the major governmental funds.

Table 7
Fund Balances at June 30 – Major Governmental Funds
(in Millions)

	2014	2013 (Restated)
General Fund		
Nonspendable	$ 23.3	$ 0.5
Committed	5.4	5.4
Assigned	6.7	10.4
Unassigned	13.5	16.4
Total	$48.9	$32.7
EDC Fund		
Restricted	4.1	26.8
Housing Authority Fund		
Restricted	$21.0	$24.6
Street Improvement Fund		
Restricted	$7.5	$7.4
Transit Area Impact Fee Fund		
Unassigned	($6.6)	($12.9)

At June 30, 2014, the fund balance of the General Fund was $48.9 million: $23.3 million was classified as nonspendable, comprised of $0.7 for prepaid materials and supplies, $17.6 million of property held for resale, and $5.0 million for advances to other funds; $5.4 million for PERS Rate Stabilization was classified as committed; $6.7 million of the fund balance comprised of $3.5 million for capital improvement, $2.8 million for uninsured claims and $0.4 million for encumbrances, was classified as assigned; $13.5 million was classified as unassigned.

The fund balance of the Economic Development Corporation Fund was $4.1 million, all restricted for economic development purposes.

The fund balances of the Housing Authority Fund and Street Improvement Fund were also classified as restricted because the amounts were restricted for specific purposes.

The fund balance of the Transit Area Impact Fee Fund was classified as unassigned due to its negative amount.

Analyses of Major Proprietary Funds

Total operating revenues of Business-type Activities increased $1.7 million from last year, while operating expenses increased $1.8 million. Total operating revenues and total operating expenses were $34.1 million and $28.1 million respectively. Non-operating revenues were $0.5 million in fiscal 2014, a decrease of $0.1 million from the prior year. Capital contributions decreased by $0.1 million while net transfers out increased by $0.3 million.

Water Utility

Water fund revenues were $21.4 million in fiscal 2014, up $1.6 million from prior year. The increase in revenues was primarily due to increased water rates and usage. Expenses were $17.4 million in fiscal 2014, up $0.2 million from prior year, primarily due to increased purchased water expense. Net position of the Water Utility Fund increased $3.0 million in the current year to a total of $69.9 million. The increase comprised of $4.0 million in operating income for the current year, $0.3 million in non-operating revenues, $0.7 million capital contributions from developers, offset by net transfers out of $1.8 million and $0.3 million restatement of the prior year beginning balance (see note 10E). The transfer out of $1.8 million was for reimbursements of administration costs incurred by the General Fund.

This Fund's Net Position includes $46.8 million invested in capital assets, $14.3 million in restricted net position, and $8.9 million in unrestricted net position.

Sewer Utility

Sewer fund revenues were $12.8 million in fiscal 2014, up $0.2 million from the prior year due to increased usage. Expenses were $10.7 million in fiscal 2014, up $1.6 million from the prior year due to increased contribution requirements for the City's share of the operating expenses at the Waste Water Treatment Plant and an increase in personnel expense. Non-operating revenues in fiscal year 2014 consisted of $0.5 million interest income, and $0.3 million interest expense. Net position of the Sewer Utility Fund increased $1.4 million in the current year to a total of $96.0 million. This increase comprised of $2.0 million in operating income, $0.2 million in non-operating income, $0.8 million in capital contributions by developers, and $2.0 million restatement of the prior year beginning balance (see note 10E), and net transfers out of $1.6 million for reimbursements of administration costs incurred by the General Fund.

$12.0 million of the Fund's Net Position was unrestricted at the fiscal year end. Of the remainder, $61.0 million was invested in capital assets and $23.0 million was restricted as to use.

CAPITAL ASSETS

The City records the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal 2014, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 8 below:

Table 8
Capital Assets at Year-end
(in Millions)

	2014	2013
Governmental Activities:		
Land	$ 57.6	$ 58.6
Construction in progress	16.4	10.9
Buildings and improvements	162.7	96.3
Other improvements	26.5	26.2
Machinery and equipment	38.4	35.8
Landscape system	29.6	29.6
Storm system	74.3	74.3
Street system	241.7	229.5
Traffic system	19.0	18.9
Less accumulated depreciation	(368.2)	(352.9)
Totals	**$298.0**	**$227.2**
Business-type Activities:		
Land	$ 1.1	$ 1.1
Construction in progress	6.2	17.7
Distribution facilities	79.6	67.3
Service lines	13.0	12.9
Sewer lines	77.4	77.4
Capacity rights	46.4	41.9
Less accumulated depreciation	(108.9)	(104.5)
Totals	**$114.8**	**$113.8**

The principal additions in fiscal 2014 were to the buildings and improvements, machinery and equipment, street system and construction-in-progress. Construction in progress included the Milpitas Boulevard Eastern Extension, street resurfacing, Milpitas Sport Center Facility Improvements and Pinewood Park Picnic Renovation. As a result of the lawsuit settlement between the State of California, the County of Santa Clara and the City entities, the Successor Agency was required to convey land and construction in progress in the amount of $98.1 million to the City and the City was required to convey land in the amount of $7.2 million to the Successor Agency. The detail of these transactions can be found in Note 8.

The City depreciates all its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 8.

DEBT ADMINISTRATION

A portion of the City's debt was issued to finance Sewer infrastructure improvements. This debt issue is secured by the sewer revenue. In fiscal 2012, the EDC purchased a property and entered into a promissory note with the seller. In fiscal 2014, the EDC conveyed the same property to the City and the City assumed the balance of the debt. The promissory note requires annual installment payments until fiscal 2016. In fiscal 2013, the City entered into a capital lease for the purchase of a phone system and equipment. The lease requires annual payments until fiscal 2017. Each of the City's debt is discussed in detail in Note 9 to the financial statements. At June 30, 2014 the City's debt comprised:

Table 9
Outstanding Debt
(in Millions)

	Balance June 30, 2014	Balance June 30, 2013
Governmental Activity Debt:		
Purchase Agreement with Mission West Properties due February 15, 2016	$ 6.0	$ 9.8
Cisco Phone System Capital Lease Due September 18, 2016	0.3	0.4
Total Governmental Activity Debt	$ 6.3	$ 10.2
Business-type Activity Debt:		
Sewer Certificates of Participation, 2006 Series A 3.4% -4.2%, due November 1, 2026	$ 6.9	$ 7.3
Total Business-type Activity Debt	$ 6.9	$ 7.3

LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2014, a total of $9.0 million in local improvement district debt was outstanding, issued by two local improvement districts. This debt is secured only by special assessments on the real properties in the district issuing the debt, and is not the City's responsibility. The City does act as these Districts' agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 16 to the financial statements.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Department, at 455 East Calaveras Boulevard, Milpitas, CA 95035-5479 or to the City's website at www.ci.milpitas.ca.gov.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position reports the difference between the City's total assets and deferred outflows of resources and the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the City's net position by subtracting total liabilities and deferred inflows of resources from total assets and deferred outflows of resources.

The Statement of Net Position summarizes the financial position of the City's Governmental Activities in a single column, and the financial position of all the City's Business-type Activities in a single column; these columns are followed by a Total column that presents the financial position of the primary government. This column is followed by a column that displays the discretely presented component unit.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, deferred inflows/outflows of resources, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by the program, and follows these with the expenses of its Business-type Activities. Program revenues – that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities, Business-type Activities or discretely presented component unit column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

Both of these Statements include the financial activities of the City and the blended component units: the Milpitas Public Financing Authority (Financing Authority), the Milpitas Economic Development Corporation (EDC) and the City of Milpitas Housing Authority (Housing Authority). The Financing Authority and Housing Authority are legally separate component units of the City, because they are controlled by the City and the City is financially accountable for their activities. The EDC is a California nonprofit public benefit Corporation that is also a legally separate component unit of the City because it is governed by a board consisting of the members of the City Council. The balances and the activities of the discretely presented component unit of Terrace Gardens, Inc. are included in these statements as separate columns.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements.*

CITY OF MILPITAS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
ASSETS				
Cash and investments available for operations (Note 3)	$102,163,673	$52,683,704	$154,847,377	$10,000
Restricted investments (Note 3)	4,054,144		4,054,144	1,244,773
Receivables:				
Accounts	2,156,165	1,754,210	3,910,375	242
Due from other governments	2,689,776	66,386	2,756,162	
Interest	214,496	97,054	311,550	
Internal balances (Note 4)	(5,445,000)	5,445,000		
Loans receivable (Note 5)	33,142,187		33,142,187	
Prepaids, materials, supplies and deposits (Note 1E)	835,158	388,143	1,223,301	28,227
Property held for resale (Note 6)	32,882,370		32,882,370	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	73,992,954	7,375,948	81,368,902	1,611,935
Depreciable capital assets, net	223,985,457	107,350,311	331,335,768	7,654,528
Total assets	470,671,380	175,160,756	645,832,136	10,549,705
LIABILITIES				
Accounts payable	7,354,514	1,413,308	8,767,822	221,774
Accrued payroll	2,918,418	137,059	3,055,477	24,210
Interest payable	6,976	44,088	51,064	
Uninsured claims payable (Note 13):				
Due within one year	921,169		921,169	
Due in more than one year	5,446,046		5,446,046	
Refundable deposits	3,159,407	189,892	3,349,299	77,039
Unearned revenue	2,820,790		2,820,790	4,021
Accrued vacation (Note 12):				
Due within one year	552,175	134,000	686,175	
Due in more than one year	3,736,435	119,806	3,856,241	
Sick leave payable (Note 12):				
Due within one year	301,612	70,572	372,184	
Due in more than one year	3,403,125	190,806	3,593,931	
Long term debt (Note 9):				
Due within one year	3,088,442	420,000	3,508,442	
Due in more than one year	3,185,508	6,490,000	9,675,508	
Total liabilities	36,894,617	9,209,531	46,104,148	327,044
NET POSITION (Note 10E)				
Net investment in capital assets and capacity rights	291,704,461	107,816,259	399,520,720	9,266,463
Restricted for:				
Capital projects	32,331,631	37,254,500	69,586,131	
Redevelopment and community development activities	58,426,148		58,426,148	
Total restricted net position	90,757,779	37,254,500	128,012,279	
Unrestricted	51,314,523	20,880,466	72,194,989	956,198
Total net position	$433,776,763	$165,951,225	$599,727,988	$10,222,661

See accompanying notes to financial statements

CITY OF MILPITAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position: Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government:						
Governmental Activities:						
General Government	$21,074,214	$1,819,032	$1,241,064	$95,564	($17,918,554)	
Building	2,683,858	6,444,782			3,760,924	
Recreation	3,012,100	1,958,447	85,013	2,029,610	1,060,970	
Public Works	18,663,961	2,471,775	3,328,707	13,357,992	494,513	
Planning and Neighborhood Services	2,118,867	431,773	384,930		(1,302,164)	
Police	23,373,427	1,091,423	1,096,975		(21,185,029)	
Fire	15,158,837	2,120,144	58,102		(12,980,591)	
Interest on long term debt	239,903				(239,903)	
Total Governmental Activities	86,325,167	16,337,376	6,194,791	15,483,166	(48,309,834)	
Business-type Activities:						
Water Utility	17,368,751	21,354,428	57,278	652,711		$4,695,666
Sewer Utility	11,008,326	12,753,215		749,111		2,494,000
Total Business-type Activities	28,377,077	34,107,643	57,278	1,401,822		7,189,666
Total Primary Government	$114,702,244	$50,445,019	$6,252,069	$16,884,988	(48,309,834)	7,189,666
Component Unit:						
Terrace Gardens Inc.	$1,796,414	$1,629,957	$161,146			
General revenues:						
Taxes:						
Property taxes					27,607,559	
Sales and use taxes					19,013,910	
Hotel/Motel taxes					9,336,309	
Other taxes					671,744	
Franchise fees, unrestricted					3,453,139	
Motor vehicle in lieu, unrestricted					30,356	
Investment earnings					844,134	689,823
Miscellaneous					200,028	
Special items (Notes 8A and 14):						
Assets transferred to/from Successor Agency and County					49,798,895	
Transfers (Note 4)					3,401,830	(3,401,830)
Total general revenues, special items and transfers					114,357,904	(2,712,007)
Change in Net Position					66,048,070	4,477,659
Net position-Beginning, as restated (Note 10E)					367,728,693	161,473,566
Net position-Ending					$433,776,763	$165,951,225

See accompanying notes to financial statements

	Net (Expense) Revenue and Changes in Net Position
	Component Unit
Total	Terrace Gardens Inc.
($17,918,554)	
3,760,924	
1,060,970	
494,513	
(1,302,164)	
(21,185,029)	
(12,980,591)	
(239,903)	
(48,309,834)	
4,695,666	
2,494,000	
7,189,666	
(41,120,168)	
	($5,311)
27,607,559	
19,013,910	
9,336,309	
671,744	
3,453,139	
30,356	
1,533,957	2,316
200,028	
49,798,895	
111,645,897	2,316
70,525,729	(2,995)
529,202,259	10,225,656
$599,727,988	$10,222,661

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

FUND FINANCIAL STATEMENTS

The Fund Financial Statements present individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit, which are not accounted for in another fund.

ECONOMIC DEVELOPMENT CORPORATION FUND

Established to account for the activities of the Milpitas Economic Development Corporation formed for the purpose of providing physical, economic and educational development, redevelopment and revitalization efforts within the City. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

HOUSING AUTHORITY FUND

Established to plan and address the housing needs of the City and to act as the Housing Successor Agency for the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

STREET IMPROVEMENT FUND

Established to account for the construction and maintenance of the street system in Milpitas. Financing may be provided through state and federal grants.

TRANSIT AREA IMPACT FEE FUND

Established to account for capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General	Economic Development Corporation	Housing Authority	Street Improvement
ASSETS				
Cash and investments available for operations (Note 3)	$31,417,209	$43,867	$5,759,836	$7,732,319
Restricted investments (Note 3)		4,054,144		
Receivables:				
Accounts	2,064,982		2,539	
Due from other governments	2,405,602			16
Interest	90,695	1,158	11,396	14,146
Loans receivable, net (Note 5)			29,863,182	
Prepaids, materials, supplies and deposits (Note 1E)	679,480		3,257	
Property held for resale (Note 6)	17,600,000		15,282,370	
Advances to other funds (Note 4)	5,000,000			
Total Assets	$59,257,968	$4,099,169	$50,922,580	$7,746,481
LIABILITIES				
Accounts payable	$1,682,584	$5,931	$14,579	$244,906
Accrued payroll	2,848,275		1,385	9,058
Refundable deposits	3,126,340		13,100	
Unearned revenue	2,709,560		1,600	
Advances from other funds (Note 4)				
Total Liabilities	10,366,759	5,931	30,664	253,964
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - loans receivable			29,863,182	
Total Deferred Inflows of Resources			29,863,182	
FUND BALANCES				
Fund balances (Note 10):				
Nonspendable	23,279,480		3,257	
Restricted		4,093,238	21,025,477	7,492,517
Committed	5,432,703			
Assigned	6,658,474			
Unassigned	13,520,552			
TOTAL FUND BALANCES	48,891,209	4,093,238	21,028,734	7,492,517
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$59,257,968	$4,099,169	$50,922,580	$7,746,481

Amounts reported for Governmental Activities in the Statement of Net Position
are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES
Revenues which are unavailable on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.

LONG TERM ASSETS AND LIABILITIES
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:
Long-term debt
Non-current portion of accrued vacation and sick leave
Non-current portion of uninsured claims payable

NET POSITION OF GOVERNMENTAL ACTIVITIES

See accompanying notes to financial statements

Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
$8,141,103	$39,349,251	$92,443,585
		4,054,144
	88,644	2,156,165
	284,158	2,689,776
5,795	73,241	196,431
	3,279,005	33,142,187
	28,393	711,130
		32,882,370
		5,000,000
$8,146,898	$43,102,692	$173,275,788
$4,310,735	$1,045,552	$7,304,287
	41,601	2,900,319
806	19,161	3,159,407
	109,630	2,820,790
10,445,000		10,445,000
14,756,541	1,215,944	26,629,803
		29,863,182
		29,863,182
	28,393	23,311,130
	30,049,948	62,661,180
		5,432,703
	11,808,407	18,466,881
(6,609,643)		6,910,909
(6,609,643)	41,886,748	116,782,803
$8,146,898	$43,102,692	
		297,978,411
		9,702,739
		29,863,182
		(6,273,950)
		(7,909,207)
		(6,367,215)
		$433,776,763

CITY OF MILPITAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	Economic Development Corporation	Housing Authority	Street Improvement
REVENUES				
Property taxes	$27,607,559			
Sales taxes	19,766,138			
Other taxes	13,795,333			
Licenses and fines	8,193,230			
Use of money and property	552,450	$1,523,779	$391,831	$85,959
Intergovernmental	1,277,702			871,036
Charges for services	5,410,092			
Developer contributions				262,096
Other	202,491	16,326	882,181	
Total Revenues	76,804,995	1,540,105	1,274,012	1,219,091
EXPENDITURES				
Current:				
General Government	12,221,259	365,813	396,061	4,906
Building and Safety	2,658,077			
Human Resources and Recreation	3,123,464			
Public Works	6,462,770			603,940
Planning and Neighborhood Services	1,753,472		81,747	
Police	22,069,962			
Fire	14,587,134			
Capital outlay		18,862		889,548
Debt service:				
Principal		3,828,464		
Interest and fees				
Total Expenditures	62,876,138	4,213,139	477,808	1,498,394
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,928,857	(2,673,034)	796,204	(279,303)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	5,727			
Transfers in (Note 4)	3,660,963	828,464		600,000
Transfers (out) (Note 4)	(600,000)			(300,000)
Total Other Financing Sources (Uses)	3,066,690	828,464		300,000
Net change in fund balance before special items	16,995,547	(1,844,570)	796,204	20,697
Special Items (Notes 8A and 14)	(883,512)	(20,864,662)	(4,331,849)	
NET CHANGE IN FUND BALANCES	16,112,035	(22,709,232)	(3,535,645)	20,697
Fund balances (deficits) at beginning of year, as restated (Note 10E)	32,779,174	26,802,470	24,564,379	7,471,820
FUND BALANCES (DEFICITS) AT END OF YEAR	$48,891,209	$4,093,238	$21,028,734	$7,492,517

See accompanying notes to financial statements

Transit Area Impact Fee	Other Governmental Funds	Total Governmental Funds
		$27,607,559
		19,766,138
	$1,196,401	14,991,734
		8,193,230
$55,098	355,267	2,964,384
	3,067,275	5,216,013
	324,702	5,734,794
11,263,420	2,449,179	13,974,695
26,314	16,900	1,144,212
11,344,832	7,409,724	99,592,759
	215,701	13,203,740
		2,658,077
		3,123,464
23,167	1,445,359	8,535,236
	367,081	2,202,300
	94,579	22,164,541
		14,587,134
4,353,664	4,773,052	10,035,126
		3,828,464
223,242		223,242
4,600,073	6,895,772	80,561,324
6,744,759	513,952	19,031,435
		5,727
	2,410,000	7,499,427
(828,464)	(2,369,133)	(4,097,597)
(828,464)	40,867	3,407,557
5,916,295	554,819	22,438,992
428,713	(1,609,208)	(27,260,518)
6,345,008	(1,054,389)	(4,821,526)
(12,954,651)	42,941,137	121,604,329
($6,609,643)	$41,886,748	$116,782,803

CITY OF MILPITAS

Reconciliation of the

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS

with the

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	($4,821,526)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance (Internal service fund additions of $470,308 have already been added to capital assets)	9,017,854
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $799,685 which has already been allocated to serviced funds.)	(14,764,830)
Capital asset retirements are deducted from fund balance	(623,649)
Capital assets transferred to property held for resale are added to fund balance	(13,400,000)
Capital assets transferred to the Successor Agency	(7,241,129)
Capital assets transferred from the Successor Agency	98,129,255
LONG TERM DEBT PAYMENTS	
Repayment of principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.	
Repayment of principal is added back to fund balance	3,828,464
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Non-current portion of accrued vacation and sick leave	(158,439)
Non-current portion of uninsured claims payable	(2,947,157)
Unavailable revenue	(918,269)
Loans write-off due to Successor Agency settlement agreement	(428,713)
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Position - All Internal Service Funds	376,209
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$66,048,070

See accompanying notes to financial statements

CITY OF MILPITAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Budget
	Original	Final	Actual Amounts Budgetary Basis	Positive (Negative)
Revenues				
Property taxes	$19,195,500	$19,203,000	$27,607,559	$8,404,559
Sales taxes	20,899,054	20,913,000	19,766,138	(1,146,862)
Other taxes	11,738,000	11,738,000	13,795,333	2,057,333
Licenses and fines	5,739,000	5,739,000	8,193,230	2,454,230
Use of money and property	307,000	307,000	552,450	245,450
Intergovernmental	857,000	989,163	1,277,702	288,539
Charges for services	5,357,000	5,377,000	5,410,092	33,092
Other	82,000	95,686	208,218	112,532
Total Revenues	64,174,554	64,361,849	76,810,722	12,448,873
Expenditures				
Current:				
General Government:				
City Manager	1,245,364	1,301,964	1,290,621	11,343
City Attorney	865,064	1,509,064	1,508,243	821
Finance	2,080,985	2,080,985	1,938,500	142,485
Information Services	2,181,148	2,181,148	2,121,087	60,061
Non-departmental	6,762,375	6,365,027	4,841,676	1,523,351
Building and Safety	2,823,257	2,823,257	2,658,077	165,180
Human Resources and Recreation	4,357,498	4,367,848	4,007,760	360,088
Public Works	6,762,442	6,762,442	6,491,904	270,538
Planning and Neighborhood Services	1,782,362	1,812,362	1,753,472	58,890
Police	22,616,204	22,637,731	22,084,891	552,840
Fire	14,347,189	14,603,825	14,595,749	8,076
Total Expenditures	65,823,888	66,445,653	63,291,980	3,153,673
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,649,334)	(2,083,804)	13,518,742	15,602,546
OTHER FINANCING SOURCES (USES)				
Transfers in	5,147,939	5,147,939	3,660,963	(1,486,976)
Transfers (out)	(600,000)	(600,000)	(600,000)	
Total Other Financing Sources (Uses)	4,547,939	4,547,939	3,060,963	(1,486,976)
Net change in fund balance before special items	2,898,605	2,464,135	16,579,705	14,115,570
Special Items			(883,512)	(883,512)
Net change in fund balance	$2,898,605	$2,464,135	15,696,193	$13,232,058
Adjustment to budgetary basis:				
Encumbrance expenditures			415,842	
Fund balance at beginning of year			32,779,174	
Fund balance at end of year			$48,891,209	

See accompanying notes to financial statements

CITY OF MILPITAS
HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (NON GAAP LEGAL BASIS) FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Budget
	Original	Final	Budgetary Basis	Positive (Negative)
Revenues				
Use of money and property	$6,000	$6,000	$391,831	$385,831
Developer contributions				
Other			882,181	882,181
Total Revenues	6,000	6,000	1,274,012	1,268,012
Expenditures				
Current:				
General Government:				
Finance	64,694	64,694	35,432	29,262
Non-departmental	703,000	703,000	360,629	342,371
Planning and Neighborhood Services	111,296	111,296	81,747	29,549
Total Expenditures	878,990	878,990	477,808	401,182
Net change in fund balance before special items	(872,990)	(872,990)	796,204	1,669,194
Special Items		(4,331,849)	(4,331,849)	
Net change in fund balance	($872,990)	($5,204,839)	(3,535,645)	$1,669,194
Fund balance at beginning of year			24,564,379	
Fund balance at end of year			$21,028,734	

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of *major funds* extends to Proprietary Funds. The City has identified the funds below as major proprietary funds.

Financial reporting standards do not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

WATER UTILITY FUND

Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

SEWER UTILITY FUND

Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, billing and collection.

NON-MAJOR INTERNAL SERVICE FUND

EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND

The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of computer systems on a cost reimbursement basis.

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
ASSETS				
Current Assets				
Cash and investments available for operations (Note 3)	$23,556,473	$29,127,231	$52,683,704	$9,720,088
Receivables:				
Accounts	1,000,754	753,456	1,754,210	
Due from other governments	41,684	24,702	66,386	
Interest	43,253	53,801	97,054	18,065
Prepaids, materials, supplies and deposits (Note 1E)	344,759	43,384	388,143	124,028
Total current assets	24,986,923	30,002,574	54,989,497	9,862,181
Noncurrent assets:				
Advance to other funds (Note 4)		5,445,000	5,445,000	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	4,946,374	2,429,574	7,375,948	
Depreciable capital assets, net	41,838,930	65,511,381	107,350,311	3,295,641
Total noncurrent assets	46,785,304	73,385,955	120,171,259	3,295,641
Total assets	71,772,227	103,388,529	175,160,756	13,157,822
LIABILITIES				
Current liabilities:				
Accounts payable	1,297,475	115,833	1,413,308	50,227
Accrued payroll	80,112	56,947	137,059	18,099
Interest payable		44,088	44,088	6,976
Refundable deposits	189,892		189,892	
Accrued vacation (Note 12)	67,000	67,000	134,000	20,857
Sick leave payable (Note 12)	35,286	35,286	70,572	7,139
Capital lease (Note 9)				88,442
Certificates of Participation (Note 9)		420,000	420,000	
Total current liabilities	1,669,765	739,154	2,408,919	191,740
Non-current liabilities:				
Accrued vacation (Note 12)	59,903	59,903	119,806	36,844
Sick leave payable (Note 12)	95,403	95,403	190,806	19,300
Capital lease (Note 9)				185,508
Certificates of Participation (Note 9)		6,490,000	6,490,000	
Total non-current liabilities	155,306	6,645,306	6,800,612	241,652
Total liabilities	1,825,071	7,384,460	9,209,531	433,392
NET POSITION (Note 10)				
Net investment in capital assets and capacity rights	46,785,304	61,030,955	107,816,259	3,021,691
Restricted for capital projects	14,273,975	22,980,525	37,254,500	
Unrestricted	8,887,877	11,992,589	20,880,466	9,702,739
Total net position	$69,947,156	$96,004,069	$165,951,225	$12,724,430

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities-Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	$21,191,564	$12,687,777	$33,879,341	$2,512,159
Other operating revenue	162,864	65,438	228,302	239
Total Operating Revenues	21,354,428	12,753,215	34,107,643	2,512,398
OPERATING EXPENSES				
Purchased water	11,946,523		11,946,523	
Sewer treatment services		5,212,154	5,212,154	
Personnel services	2,194,969	1,799,701	3,994,670	645,843
Services and supplies	1,361,967	719,541	2,081,508	674,296
Depreciation	1,528,579	2,897,547	4,426,126	799,685
Repairs and maintenance	336,713	102,824	439,537	296,168
Total Operating Expenses	17,368,751	10,731,767	28,100,518	2,415,992
Operating Income (Loss)	3,985,677	2,021,448	6,007,125	96,406
NONOPERATING REVENUES				
Interest income	207,130	482,693	689,823	88,819
Interest expense		(276,559)	(276,559)	(16,661)
Subventions and grants	57,278	8,564	65,842	
Gain on sale of assets				37,300
Total Nonoperating Revenues	264,408	214,698	479,106	109,458
Income (Loss) Before Contributions and Transfers	4,250,085	2,236,146	6,486,231	205,864
Capital contributions				170,345
Capital contributions - connection fees	652,711	740,547	1,393,258	
Transfers (out) (Note 4)	(1,829,179)	(1,572,651)	(3,401,830)	
Change in net position	3,073,617	1,404,042	4,477,659	376,209
Net position-beginning, as restated (Note 10E)	66,873,539	94,600,027	161,473,566	12,348,221
Net position-ending	$69,947,156	$96,004,069	$165,951,225	$12,724,430

See accompanying notes to financial statements

CITY OF MILPITAS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$21,821,594	$12,794,308	$34,615,902	$2,512,398
Payments to suppliers	(13,865,564)	(6,098,637)	(19,964,201)	(965,386)
Payments to employees	(2,088,572)	(1,701,681)	(3,790,253)	(633,262)
Net cash provided by operating activities	5,867,458	4,993,990	10,861,448	913,750
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Subventions and grants	57,278	8,564	65,842	
Advance to other funds		(64,358)	(64,358)	
Loans receivable				42,283
Transfers (out)	(1,829,179)	(1,572,651)	(3,401,830)	
Cash Flows from Noncapital Financing Activities	(1,771,901)	(1,628,445)	(3,400,346)	42,283
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Principal paid on long-term debt		(405,000)	(405,000)	(85,686)
Interest paid		(278,965)	(278,965)	(11,566)
Proceeds from sale of capital assets				37,300
Acquisition of capital assets	(579,642)	(4,768,314)	(5,347,956)	(299,963)
Capital contributions - connection fees	652,711	740,547	1,393,258	
Cash Flows from Capital and Related Financing Activities	73,069	(4,711,732)	(4,638,663)	(359,915)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	192,117	473,401	665,518	84,549
Cash Flows from Investing Activities	192,117	473,401	665,518	84,549
Net increase (decrease) in cash and cash equivalents	4,360,743	(872,786)	3,487,957	680,667
Cash and investments at beginning of period	19,195,730	30,000,017	49,195,747	9,039,421
Cash and investments at end of period	$23,556,473	$29,127,231	$52,683,704	$9,720,088
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	$3,985,677	$2,021,448	$6,007,125	$96,406
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,528,579	2,897,547	4,426,126	799,685
Change in assets and liabilities:				
Receivables, net	440,007	41,093	481,100	
Materials, supplies and deposits	28,072	(21,945)	6,127	(20,673)
Accrued payroll	31,212	22,835	54,047	
Accounts and other payables	(146,089)	33,012	(113,077)	38,332
Net cash provided by operating activities	$5,867,458	$4,993,990	$10,861,448	$913,750
NONCASH TRANSACTIONS:				
Contributions and transfers of capital assets, net				$170,345

See accompanying notes to financial statements

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

FIDUCIARY FUNDS

FIDUCIARY FUNDS

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

SUCCESSOR AGENCY TO THE MILPITAS REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND

The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used to make payments that are on the Recognized Obligation Payment Schedule and to dispose of assets and property of the former Redevelopment Agency for the benefit of the taxing agencies.

AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments.

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments (Note 3)	$10,370,249	$6,417,713
Interest receivable		7,449
Property held for resale (Note 17B)	18,028,814	
Total Assets	28,399,063	$6,425,162
LIABILITIES		
Accounts payable	169,004	
Refundable deposits		$1,780,402
Due to Local Improvement Districts		4,644,760
Interest payable	2,471,536	
Long-term obligations (Note 17E):		
Due in one year	9,189,566	
Due in more than one year	168,125,274	
Total Liabilities	179,955,380	$6,425,162
NET POSITION (DEFICIT)		
Held in trust for other governments	($151,556,317)	

See accompanying notes to financial statements

CITY OF MILPITAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Taxes	$19,088,300
Use of money and property	2,562
Total additions	19,090,862
Deductions:	
General and administrative	615,953
Debt Service:	
Interest and fees	9,406,115
Special Items (Note 17F):	
Assets transferred to/from the City of Milpitas and Santa Clara County	81,415,555
Total deductions	91,437,623
Net change in net position	(72,346,761)
Net position (deficit) - beginning	(79,209,556)
Net position (deficit) - ending	($151,556,317)

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milpitas was incorporated as a general law city on January 26, 1954. The City operates under the Council-Manager form of government and provides the following services: public safety, police, fire and building inspection; parks and streets; water; sanitation; recreation services; planning and zoning; general administration services, redevelopment and economic development.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

A. *Reporting Entity*

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. Each discretely presented component unit, on the other hand, is reported in a separate column in the basic financial statements to emphasize it is legally separate from the government.

PRIMARY GOVERNMENT

The financial statements of the primary government of the City of Milpitas include the activities of the City as well as the Milpitas Public Financing Authority, the Milpitas Economic Development Corporation and the City of Milpitas Housing Authority, all of which are controlled by and dependent on the City. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

Blended Component Units

The Milpitas Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Sewer Utility Enterprise Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the former Milpitas Redevelopment Agency under the laws of the State of California. As discussed in Note 17, the Redevelopment Agency was dissolved effective January 31, 2012. The Corporation was organized for the purpose of encouraging and facilitating the City's economic development, affordable housing and other community programs. The Corporation is governed by a board of directors consisting of the members of the City Council. Under an operating agreement with the Redevelopment Agency, the Corporation received funding from the Agency and will use the funds for redevelopment purposes consistent with the California Community Redevelopment Law, Health and Safety Code Section 33000 and to implement and carry out the Redevelopment Plans. The Corporation also entered into a Service Agreement with the City under which the City will perform the necessary services on an independent contractor basis to eliminate blight, provide affordable housing, improve the public realm, facilitate public and private developments, stimulate economic development, and create jobs. The Corporation is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Economic Development Corporation Special Revenue Fund.

The City of Milpitas Housing Authority, formed in February 2011, is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Housing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Housing Authority. The Financial activities of the Housing Authority are included in the Housing Authority Special Revenue Fund.

Financial statements for the Milpitas Economic Development Corporation may be obtained from the City of Milpitas located at 455 East Calaveras Blvd., Milpitas, CA 95035 or www.ci.milpitas.ca.gov/government/finance. Separate financial statements are not issued for the Public Financing Authority or the City of Milpitas Housing Authority.

Discretely Presented Component Unit

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The former Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2013 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.

Financial statements for Terrace Gardens, Inc. may be obtained from Terrace Gardens, Inc., 186 Beresford Court, Milpitas, CA 95035.

B. *Basis of Presentation*

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These Standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government, the City and its blended and discretely presented component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including franchise fees that are based on gross receipts and all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category-*governmental, proprietary,* and *fiduciary*-are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues and expenses, such as charges for services and the related costs, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as subsidies, investment earnings and any related costs, result from nonexchange transactions or ancillary activities.

C. Major Funds

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, hotel taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are incurred for public safety, public works, recreation services and the other governmental services described above.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Economic Development Corporation Fund – Established to account for the activities of the Milpitas Economic Development Corporation, a nonprofit public benefit Corporation formed in fiscal 2011 by the City and the former Redevelopment Agency, established to provide physical, economic and educational development, redevelopment and revitalization efforts within the City. Since the Corporation's only funding source was from the former Redevelopment Agency, the proceeds and revenues from any of the Corporation's activities are restricted to redevelopment activities.

Housing Authority Fund – Established to plan and address the housing needs of the City and to act as the Housing Successor of the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

Street Improvement Fund – Established to account for the construction and maintenance of the street system in Milpitas. Financing is provided through State and Federal grants.

Transit Area Impact Fee Fund – Established to account for the capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Utility Fund – Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

Sewer Utility Fund – Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, and billing and collection.

The City also reports the following fund types:

Internal Service Fund – The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of the online permit development system on a cost reimbursement basis.

Fiduciary Funds – Trust funds account for assets held by the City as an agent for various functions. The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. This fund accounts for winding down the affairs of the former Milpitas Redevelopment Agency and makes payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies.

Agency funds are used to account for assets held by the City as an agent for negotiated employee benefits, the Senior Advisory Commission, and Local Improvement Districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual are sales taxes, significant building permit fees, and interest revenue. Forfeitures, licenses, other permits and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Grant funding received in advance of the related expenditure is accounted for as unearned revenue.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary.

E. Prepaids, Materials, Supplies and Deposits

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Materials and supplies are valued at cost on a first-in first-out basis. Supplies in the enterprise and internal funds consist principally of materials and supplies for utility and internal operations. Materials and supplies of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expense or expenditure in the funds at the time individual inventory items are consumed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaids, materials, supplies and deposits in governmental funds are equally offset by nonspendable fund balance which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

G. Property Tax

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

H. Revenue Recognition for Water Utility and Sewer Utility

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgets and Budgetary Accounting*

The City adopts an annual operating budget on or before June 30 of the previous fiscal year. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the City Council by resolution. Because Milpitas is a general law city, it is not subject to a budgetary process prescribed by statute or charter.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager may approve supplemental appropriations in the General Fund providing the total increase does not exceed 1% of the original total General Fund budget subject to the following. All additional appropriations that require the use of reserves must be approved by City Council. Expenditures cannot exceed the appropriated budget at the department level without City Council approval.

The City Manager is authorized to amend appropriations within the various departments and projects within a fund, provided that the amount of the amended appropriation is $20,000 or less. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceed $20,000 require prior approval of the City Council.

Budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to the original appropriations which were amended.

B. *Adjustments to GAAP Basis from Budgetary Basis*

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures are budgeted on a project length basis rather than a fiscal year. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements. The Street Improvement, Park Improvement, General Government Project, Storm Drain Development and Transit Area Impact Fee Capital Projects Funds are budgeted on a project length basis and therefore are not comparable on an annual basis. The bylaws of the Economic Development Corporation do not require the adoption of an annual budget.

C. *Expenditures in Excess of Budget*

The Community Facilities District Special Revenue Fund had general government non-departmental expenditures in excess of budget in the amount of $821. Sufficient resources were available within the fund to finance the expenditures.

NOTE 3 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds except Cash and Investments held by Trustees, certain investments of the Successor Agency to the Milpitas Redevelopment Agency, and Terrace Gardens, Inc. so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. *Policies*

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

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. *Classification*

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or other agreements.

Cash and investments available for operations	$154,847,377
Restricted investments	4,054,144
Total Primary Government cash and investments	158,901,521
Cash and investments available for operations	10,000
Restricted investments	1,244,773
Total Component Unit cash and investments	1,254,773
Cash and investments	
in Fiduciary Funds (separate statement)	16,787,962
Total cash and investments	$176,944,256

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. *Investments Authorized by the California Government Code and the City's Investment Policy*

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	1 Year		100%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		100%	$50,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		20%	$5 million or 10%
Commercial Paper	270 Days	AA	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	2 Years		10%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
Money Market and Mutual Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		100%	No Limit

(A) Eligible Commercial Paper and Medium Term Corporate Notes combined may not represent more than 10% of the outstanding paper of an issuing corporation.

NOTE 3 - CASH AND INVESTMENTS (Continued)

D. *Investments Authorized by Debt Agreements*

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	1-2 Years		10%	No Limit
Bankers Acceptances	180 Days	A	20%	$5,000,000 or 10%
Commercial Paper	270 Days	AA, A1	15%	(A)
Negotiable Certificates of Deposit	2 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	$50,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

(A) The combined total of commercial paper and medium term corporate notes may not represent more than 10% of the outstanding paper and notes of an issuing corporation.

E. *Investments Authorized for Terrace Gardens Inc.*

Terrace Gardens, Inc. investments conform with the California Government Code.

NOTE 3 - CASH AND INVESTMENTS (Continued)

F. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
City:				
Federal Agency Obligations	$43,646,060	$16,085,980	$22,073,874	$81,805,914
Medium Term Corporate Notes	3,023,580	4,046,136	7,028,710	14,098,426
U.S. Treasury Notes	3,006,810	7,001,563	12,007,401	22,015,774
California Local Agency Investment Fund	52,415,655			52,415,655
Mutual Funds (U.S. Securities)	2,501,415			2,501,415
Negotiable Certificates of Deposit	1,000,702	250,000		1,250,702
Terrace Gardens, Inc.:				
Certificates of Deposit	881,546			881,546
Total Investments	$106,475,768	$27,383,679	$41,109,985	174,969,432
Demand Deposits - City of Milpitas				1,601,597
Demand Deposits - Terrace Gardens				373,227
Total Cash and Investments				$176,944,256

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2014 these investments matured in an average of 232 days.

Mutual funds are available for withdrawal on demand and at June 30, 2014 matured in an average of 40 days.

NOTE 3 - CASH AND INVESTMENTS (Continued)

G. *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 is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2014 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA/AAAm	AA+/AA/AA-	A+/A/A-	Total
Federal Agency Obligations		$81,805,914		$81,805,914
Medium Term Corporate Notes		13,092,996	$1,005,430	14,098,426
Mutual Funds (U.S. Securities)	$2,501,415			2,501,415
Negotiable Certificates of Deposit		250,000	750,702	1,000,702
Totals	$2,501,415	$95,148,910	$1,756,132	99,406,457
Not rated:				
California Local Agency Investment Fund				52,415,655
Negotiable Certificates of Deposit				250,000
Exempt from credit rate disclosure:				
U.S. Treasury Notes				22,015,774
Total Investments				$174,087,886

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2014.

Terrace Gardens, Inc. invests only in Time Certificates of Deposit. At June 30, 2014, all of Terrace Gardens' Time Certificates of Deposit were fully insured by Federal Deposit Insurance.

H. *Significant Investments*

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2014:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	$34,129,460
Federal Home Loan Bank	Federal Agency Obligations	27,340,020
Federal National Mortgage Association	Federal Agency Obligations	12,944,760

NOTE 4 - INTERFUND TRANSACTIONS

A. *Transfers Between Funds*

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2014 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount	
Major Funds:			
General Fund	Solid Waste Reduction and Services Special Revenue Fund	$256,917	(A)
General Fund	Hetch Hetchy Ground Lease Special Revenue Fund	2,216	(A)
General Fund	Water Utility Enterprise Fund	1,829,179	(A)
General Fund	Sewer Utility Enterprise Fund	1,572,651	(A)
Economic Development Corporation Special Revenue Fund	Transit Area Impact Fee Capital Projects Fund	828,464	(B)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	600,000	(C)
Non-Major Funds:			
General Government Project Capital Projects Fund	General Fund	600,000	(C)
General Government Project Capital Projects Fund	Street Improvement Capital Projects Fund	300,000	(C)
General Government Project Capital Projects Fund	Gas Tax Special Revenue Fund	1,100,000	(C)
General Government Project Capital Projects Fund	Lighting & Landscape Maintenance District Special Revenue Fund	410,000	(C)
Total Interfund Transfers		$7,499,427	

The reasons for these transfers are set forth below:
(A) Transfer for operating costs
(B) Transfer Park in Lieu Fees for payment related to purchase of McCandless property
(C) To fund capital projects

B. *Long-Term Interfund Advances*

On May 6, 2008, the City approved the purchase of 0.75 million gallons per day wastewater treatment capacity at the San Jose/Santa Clara Sanitary District via a purchase from the Cupertino Sanitary District (CuSD). The capacity is for build-out of the Transit Area Specific Plan. Funding for this purchase was included in the Transit Area Development Impact Fee Program. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. Therefore, the Redevelopment Project Capital Projects Fund advanced $4,549,161 to the Transit Area Impact Fee Capital Projects Fund to cover the payment to CuSD and $200,000 to cover other associated costs. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the interest rate on the advance is limited to the rates of the Local Agency Investment Fund and the advance, including principal and accrued interest in the amount of $5,499,290 was due and paid in June 2014.

NOTE 4 - INTERFUND TRANSACTIONS (Continued)

During fiscal year 2010 the Redevelopment Project Capital Projects Fund advanced $1,330,000 to the Transit Area Development Impact Fee Capital Projects Fund for the preparation costs of the Transit Area Specific Plan. The Sewer Utility Enterprise Fund advanced $4,356,000 to the Transit Area Development Impact Fee Capital Projects Fund for costs associated with the main sewage pump station improvements in the Transit Area. The Transit Area Impact Fee Capital Projects Fund does not have funding available since fees have not yet been collected. The advances are due on April 7, 2029 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the interest rate on the $1,330,000 advance is limited to the rates of the Local Agency Investment Fund and the advance, including principal and accrued interest in the amount of $1,538,054 was due and paid in June 2014. The balance of the Sewer Utility Enterprise Fund advance, including principal and accrued interest was $5,445,000 as of June 30, 2014.

During fiscal year 2011 the Redevelopment Project Capital Projects Fund advanced $2,550,000 to the Transit Area Development Impact Fee Capital Projects Fund for the Light Rail Median Landscaping Project. The advance is due on August 2, 2030 and bear simple interest of 5% annually. During fiscal year 2011, the Redevelopment Project Capital Projects Fund transferred the advance to the Economic Development Corporation Special Revenue Fund. As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the interest rate on the advance is limited to the rates of the Local Agency Investment Fund and the advance, including principal and accrued interest in the amount of $2,756,053 was due and paid in June 2014.

During fiscal year 2012 the Sewer Utility Enterprise Funds advanced $145,000 to the Transit Area Development Impact Fee Capital Projects Fund for costs associated with evaluating the existing development in the transit area. The advance bore simple interest of 5% annually and was repaid on March 31, 2014.

In June 2014, the General Fund temporarily advanced $5,000,000 to the Transit Area Development Impact Fee Capital Projects Fund. The advance will be repaid when the fund collects sufficient impact fees from developers. The advance bears simple interest at the monthly investment return of the City's portfolio. At June 30, 2014, the balance of the advance was $5,000,000.

C. *Internal Balances*

Internal balances are presented in the entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 - LOANS RECEIVABLE

The City and former Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing, and for other purposes. With the dissolution of the Redevelopment Agency as discussed in Note 17, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012.

These loans were comprised of the following at June 30, 2014:

Housing and Community Development Loans:	
Rehabilitation Loans	$3,279,005
Housing Authority Loans:	
Milpitas Housing Associates	4,659,003
Parc Metropolitan Housing Development	120,908
Montague Parkway Associates, LP	900,856
Parc North Associates LLC	1,111,417
Mid-Peninsula Milpitas Affordable Housing Associates	16,123,853
KB Home South Bay Inc.	1,622,900
Western Pacific Housing Inc.	1,811,091
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	2,713,154
Total Housing Authority Loans Receivable	29,863,182
Total Loans Receivable	$33,142,187

NOTE 5 - LOANS RECEIVABLE (Continued)

A. *Rehabilitation Loans*

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2014 the City had outstanding rehabilitation loans of $3,279,005 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2014, the City received $320,883 from all participants, and made new loans totaling $141,351.

B. *Milpitas Housing Associates Loan*

In fiscal 1997, the former Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, $3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. Interest accrued during the fiscal year totaled $240,792. As of June 30, 2014, principal and accrued interest totaled $4,659,003.

C. *Parc Metropolitan Housing Development Loans*

The Housing Authority provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the year ended June 30, 2014, the Housing Authority received principal payments of $4,099 and as of June 30, 2014, there were $120,908 in loans outstanding.

D. *Montague Parkway Associates, LP*

The former Redevelopment Agency loaned the Montague Parkway Associates, LP, a California limited partnership, $1,193,580 in fiscal 2001 to develop 464 units of rental multi-family housing. Ninety-four of the units were made available to low income households. The loan bears interest at the rate of 3.00% per year, compounded annually. The principal and all accrued interest are due and payable in 2031. For the first five years, only interest is due and payable; principal payments commence on the sixth year and continue for the remainder of the term. The loan is secured by a third deed of trust on the property. Principal of $40,308 was paid in fiscal 2014, and as of June 30, 2014, the outstanding balance totaled $900,856.

NOTE 5 - LOANS RECEIVABLE (Continued)

E. *Parc North Associates LLC Loan*

In September 2003, the former Redevelopment Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of $1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61st month after the recordation of the deeds of trust and continues until the loans are paid in full. As of June 30, 2014, there were $1,111,417 of such loans outstanding.

F. *Mid-Peninsula Milpitas Affordable Housing Associates*

In December 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of $1 million to the Developer and will provide a development loan up to $14.6 million to the Developer. No interest is accrued on the first $5 million of loan proceeds. The remaining $9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by a second deed of trust on the property. Construction began in fiscal year 2006 and was completed in December 2008. During fiscal year 2014, a payment of $20,237 was received, interest of $288,000 was accrued, and as of June 30, 2014, principal and accrued interest outstanding totaled $16,123,853.

G. *KB Home South Bay Inc. Loans*

In January 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D). In addition, the former Redevelopment Agency would provide a total of $4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, approximately $5,000,000 of subsidies to twenty-five moderate income households on Parcel D. The silent-second mortgages are not due for 45 years or upon the sale, renting or leasing of the property. Interest begins on the 37th month after the recordation of the Deed of Trust and continues until the loans are paid in full.

Due to changes in the housing market and stricter lending requirements which had created unforeseen challenges in finding qualified buyers for the affordable units, the former Redevelopment Agency amended the Agreement in February 2009 to establish an in-lieu housing payment of $1,702,000 to remove the affordable restrictions on 46 of the 67 remaining unsold affordable units ($37,000 for each unit). This amount was paid in equal parts to the Agency and to the County. In addition, the commitment for silent-second mortgages was reduced $2,300,000 to $1,950,000, and the total number of affordable units was reduced from 110 to 64.

As of June 30, 2014, there were $1,622,900 of loans to Parcel C households outstanding. As of June 30, 2014 subsidies totaling $4,707,542 had been provided.

NOTE 5 - LOANS RECEIVABLE (Continued)

H. Western Pacific Housing Inc., Loans

In August 2005, the former Redevelopment Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The former Redevelopment Agency will provide a grant of $379,480 for permits, fees, and infrastructure. The former Redevelopment Agency also will provide a total of $770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61st month after the recordation of the Deed of Trust and continues until the loans are paid in full. As of June 30, 2014, there were $614,091 such loans outstanding.

In August 2008 the Owner Participation Agreement was amended to reduce the number of units to be constructed by Western Pacific Housing Inc. to 137 and provide for the conversion of 7 of the moderate income units to low income units. In addition, in August 2008 the 327 unconstructed units of the project were sold to Lyon Milpitas LLC and the Agency entered into a new Owner Participation Agreement with Lyon Milpitas LLC to complete the construction of the affordable housing units.

In September 2006, the former Redevelopment Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of $133,333 to each of the very low income households. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2014, there were $1,197,000 of silent second loans outstanding.

I. Shapell Industries

In June 2004, the former Redevelopment Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of $800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2014, there were $800,000 of silent second loans outstanding.

NOTE 5 - LOANS RECEIVABLE (Continued)

J. *MIL Aspen Associates, Ltd.*

In April 2007, the former Redevelopment Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a $2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of the each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. During the year ended June 30, 2014, the Housing Authority received payments totaling $33,946, and interest accrued during the fiscal year totaled $131,617. As of June 30, 2014, principal and accrued interest totaled $2,713,154.

K. *Successor Agency Loans*

On September 7, 2004, the former Redevelopment Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels was $20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund was due on September 7, 2044 and bore simple interest of 10% annually. The balance of the advance, including principal and accrued interest, was $21,670,757 as of January 31, 2012. This loan had previously been reported as an interfund advance. However, with the transfer of the associated liability to the Successor Agency, repayment of the loan was based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion from the State as discussed in Note 17. In addition, the interest rate on the loan is limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore the loan balance was adjusted in fiscal year 2012 to reflect the revised interest rate and is offset with unavailable revenue in the General Fund. Under the terms of the settlement agreement discussed in Notes 14 and 17F, the parcels of land associated with this advance were conveyed to the City and as a result, the City forgave the outstanding balance of the advance in the amount of $9,472,571. However, the balance of the loan had been offset by an unavailable revenue in the General Fund and an allowance for doubtful accounts in the Statement of Net Position, therefore the forgiveness had no net effect on fund balance or net position.

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced $6,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of a land parcel. The advance was due on April 17, 2037 and bore simple interest of 5% annually. The balance of the advance, including principal and accrued interest, was $7,094,356 as of January 31, 2012. The loan had previously been reported as an interfund advance. However, with the transfer of the housing assets to the Housing Authority Special Revenue Fund and the associated liability to the Successor Agency, repayment of the loan is based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion from the State as discussed in Note 17. In addition, the interest rate on the loan is limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan and the loan balance was adjusted in fiscal year 2012 to reflect the revised interest rate. However, this loan was not deemed an enforceable obligation by the State Department of Finance, therefore the City was unable to determine whether it is collectible from the Successor Agency and it had been offset with an allowance for doubtful accounts. The State Department of Finance continues to deny that the loan is an enforceable obligation, therefore the City wrote off the balance of the loan and the allowance for doubtful accounts in the amounts of $6,891,392 during fiscal year 2014.

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT

A. *General Fund*

As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, various land parcels were transferred from the Successor Agency to the City in June 2014. Two additional parcels were transferred to the City from the Housing Authority as discussed in Note 6B below.

The land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

As of June 30, 2014, property totaling $17,600,000 is being held by the General Fund.

B. *Housing Authority*

The former Redevelopment Agency had purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer. The City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the property held for resale of the Redevelopment Agency's Housing Reserve Fund as of February 1, 2012.

In fiscal year 2010 the Agency purchased five housing units for $1,503,718 in the Parc Metro Subdivision. During fiscal year 2011, the Agency purchased one additional Parc Metro Subdivision unit for $305,095, one Centria Subdivision housing unit for $248,056, and four KB Home Subdivision housing units for $1,273,892. One of the KB Home Subdivision units with a book value of $374,253 was sold in August 2011. Two of the KB Home Subdivision units with a book value of $376,795 and $294,921 were sold in December 2012 and February 2013, respectively. Four of the Parc Metro Subdivision units were sold in fiscal year 2013, with a total book value of $1,245,559. The units were purchased in order to retain them as affordable housing units and are being held for future resale. Four of the units are rented to tenants.

In November 2009 the Agency purchased property along South Main Street in the amount of $12,443,137, which was intended for the development of senior housing with low income housing units as discussed in Note 7B.

In March 2012, the Economic Development Corporation purchased two privately held properties along South Main Street in the amount of $4,200,000. The properties were intended to be developed along with the senior housing development discussed in Note 7B. Consequently, the properties were transferred to the Housing Authority. As discussed in Notes 14 and 17F, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, since the two properties had not been funded by the former Redevelopment Agency or the Housing Authority, they were transferred to the City in June 2014.

NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT (Continued)

In February 2011, the Agency purchased additional property along South Main Street in the amount of $1,800,000 which is intended to be incorporated into the Midtown Specific Plan for housing development. The purchase of this property had been funded by a loan from the Housing Reserve Special Revenue Fund to the Redevelopment Capital Projects Fund, and with the dissolution of the Agency as of February 1, 2012, the State Department of Finance approved the property as a housing asset and the property was transferred to the Housing Authority as the successor housing agency.

As of June 30, 2014, property totaling $15,282,370 is being held by the Housing Authority.

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS

The City and former Redevelopment Agency have entered into the development agreements below in an effort to provide incentives to develop new businesses, new tax revenues and affordable housing.

A. The Crossing at Montague

In November 1999, the City approved the development of a 468 unit apartment complex, known as the Crossing at Montague Project (Project). As part of the conditions of approval, the developer of the Project is required to restrict 20% (94 units) of the units to very low income households. On behalf of the developer, the City issued $45,000,000 in tax exempt bonds and $15,000,000 in taxable bonds in June 2000. As of June 30, 2014, the outstanding principal of the debt was $51,000,000. The debt service payments on these bonds are solely the responsibility of the developer.

B. South Main Senior Lifestyles, LLC.

In August 2009, the former Redevelopment Agency entered into a Disposition and Development Agreement with the South Main Senior Lifestyles, LLC (SMSL) to develop 180 units of "Continuum of Care Senior Housing" (Phase 1 Parcel), of which 63 units will be for very low and low income households, and 207 units of family housing (Phase 2 Parcel) which will be market rate units. In accordance with the terms of the Agreement, the Agency will acquire the properties and resell them in two phases to the developer prior to construction, subject to certain conditions in the Agreement. In November 2009, the Agency purchased the properties along South Main Street in the amount of $12,443,137. The sales price for the Phase 1 Parcel will be $5,022,129, and the sales price for the Phase 2 Parcel will equal the greater of the fair market value of the Phase 2 Parcel as defined in the Agreement or $7,377,871. In addition, the Agency's Housing Reserve Special Revenue Fund will provide a grant in the amount of $7.7 million to support the development and operation of the Phase 1 Parcel project.

In March 2011, the Economic Development Corporation assumed the obligations of the Disposition and Development Agreement and on October 18, 2011, a two year extension to the Agreement was approved to include a more extensive high density residential development plan of sixty-three residential units available at affordable housing cost to income-qualified very low and low income households.

NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS

In November 2013, the Housing Authority amended the Disposition and Development Agreement. The amendment states the Authority will convey the properties to the developer as a grant after certain requirements are fulfilled. In addition, the amendment also eliminates the $7.7 million grant obligation included in the initial agreement. It further amended the number of affordable units from 63 to 48, all at the very low income level for seniors. As of June 30, 2014, the terms of the amendment have not yet been fulfilled and the properties have not been transferred to the developer.

C. D.R. Horton Bay, Inc.

In November 2012, the City entered into an Acquisition and Reimbursement Agreement with D.R. Horton Bay, Inc., which requires the developer to pay Transit Area Specific Plan (TASP) and park in lieu developer impact fees of $8,007,312 to defray all or a portion of the costs of sewer facilities and to mitigate other impacts of the Harmony Project. Under the terms of the Agreement, D.R. Horton will receive fee credits totaling $4,365,061 for impact fees for constructing trail improvements, road improvements to the east side of McCandless Road and sewer line 11A and 11B installation, and will be reimbursed $914,405 for the cost of improvements to the Sewer Lines 11A/11B. As of June 30, 2014, the City had not reimbursed any funds to D.R. Horton, and no fee credits had been issued.

D. KLA-Tencor Corporation

In June 2009, the City entered into a Sales Tax Sharing Agreement with KLA-Tencor Corporation (KLA). Under the terms of the Agreement, the City agreed to pay KLA 50% of the calendar year sales and use tax revenues paid by KLA and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from KLA for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. The City paid $72,249 of sales tax to KLA during fiscal year 2014.

NOTE 8 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

The City has recorded all its public domain (infrastructure) capital assets, which include landscape, storm, street, and traffic systems.

All capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years is reported on the statement of net position as a reduction in the book value of capital assets.

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The general capitalization threshold is $5,000. The City has assigned the useful lives below to capital assets:

	Useful Lives Years
Buildings and improvements	30
Other improvements	20
Machinery and equipment	10
Landscape system	50
Storm system	15-25
Street system	25
Traffic system	20
Water system	30-61
Sewer system	50
Capacity rights	32

Terrace Gardens, Inc. has assigned the following useful lives to its capital assets: Buildings, 50 years; Building improvements, 10-50 years; and Equipment, 5-7 years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Capital Asset Additions, Retirements and Balances

	Balance at June 30, 2013	Additions	Retirements	Transfers	Transfers to/from Successor Agency	Balance at June 30, 2014
Capital assets not being depreciated:						
Land	$58,611,487		($13,400,000)		$12,354,870	$57,566,357
Construction in progress	10,938,048	$8,005,807	(623,649)	($80,426,865)	78,533,256	16,426,597
Total capital assets not being depreciated	69,549,535	8,005,807	(14,023,649)	(80,426,865)	90,888,126	73,992,954
Capital assets being depreciated:						
Buildings and improvements	96,323,815			66,384,911		162,708,726
Other improvements	26,160,928			320,619		26,481,547
Machinery and equipment	35,793,830	592,808	(254,993)	2,291,778		38,423,423
Landscape system	29,638,454	9,564				29,648,018
Storm system	74,299,423					74,299,423
Street system	229,516,480	845,895		11,379,176		241,741,551
Traffic system	18,835,060	34,088		50,381		18,919,529
Total capital assets being depreciated	510,567,990	1,482,355	(254,993)	80,426,865		592,222,217
Less accumulated depreciation for:						
Buildings and improvements	(47,130,755)	(4,743,916)				(51,874,671)
Other improvements	(17,075,590)	(773,018)				(17,848,608)
Machinery and equipment	(23,084,949)	(2,445,300)	254,993			(25,275,256)
Landscape system	(11,715,798)	(593,961)				(12,309,759)
Storm system	(69,601,506)	(642,278)				(70,243,784)
Street system	(172,784,424)	(5,681,933)				(178,466,357)
Traffic system	(11,534,216)	(684,109)				(12,218,325)
Total accumulated depreciation	(352,927,238)	(15,564,515)	254,993			(368,236,760)
Net capital assets being depreciated	157,640,752	(14,082,160)		80,426,865		223,985,457
Governmental activity capital assets, net	$227,190,287	($6,076,353)	($14,023,649)		$90,888,126	$297,978,411

Current year land retirements include the transfer of a land parcel from capital assets to property held for resale in the General Fund in the amount of $13,400,000, which has been reported as a Special Item.

Transfers to and from the Successor Agency are discussed in Note 17F.

NOTE 8 - CAPITAL ASSETS (Continued)

Governmental activities construction in progress comprised the following at June 30, 2014:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Alviso Adobe Renovations	$5,424,272	$5,404,166	$20,106
Park Irrigation System Rehabilitation	400,000	376,008	23,992
Park Renovation Project	277,778	243,785	33,993
Main Street Park	350,000	188	349,812
Park Renovation Project	400,000	105,513	294,487
Pinewood Park Picnic Renovation	2,000,000	740,342	1,259,658
Higuera Adobe Park	300,000	353	299,647
Park Irrigation System	150,000	49,919	100,081
2009 Finance System Upgrade	125,000	125,000	
McCarthy Blvd Landscape	550,000	51,210	498,790
Fire Station Improvements	1,500,000	374,168	1,125,832
City Building Improvements	700,000	556,416	143,584
Midtown Parking Garage	113,804	23,053	90,751
MSC Facility Improvement	1,300,000	676,845	623,155
Police/Public Works Generator	100,000		100,000
Public Works/Police Building	300,000	243,225	56,775
Sinclair LMD Improvements	60,000	21,154	38,846
Street Resurfacing 2014	2,579,288	1,838,864	740,424
Storm Drain System	700,000	125,522	574,478
Fuel Tank Improvements	188,000		188,000
Minor Storm Drain Project	216,729	137,523	79,206
Storm Pump Station Improvements	28,590	526	28,064
Transit Area Storm Drainage Plan	150,000		150,000
Light Rail Median Lane	6,005,000	1,732,817	4,272,183
Second SCVWD Water Reservoir & Pump Station	200,000		200,000
TASP Recycled Water Line	1,000,000		1,000,000
Milpitas Boulevard Eastern Extension	17,000,000	3,600,000	13,400,000
Total construction in progress	$42,118,461	$16,426,597	$25,691,864

NOTE 8 - CAPITAL ASSETS (Continued)

B. *Business-Type Capital Asset Additions, Retirements and Balances*

	Balance at June 30, 2013	Additions	Transfers	Balance at June 30, 2014
Capital assets not being depreciated:				
Land	$1,133,079			$1,133,079
Construction in progress	17,708,473	$821,403	($12,287,007)	6,242,869
Total capital assets not being depreciated	18,841,552	821,403	(12,287,007)	7,375,948
Capital assets being depreciated:				
Distribution facilities	67,261,796		12,287,007	79,548,803
Service lines	12,913,949			12,913,949
Sewer lines	77,369,820			77,369,820
Capacity rights	41,885,902	4,526,553		46,412,455
Total capital assets being depreciated	199,431,467	4,526,553	12,287,007	216,245,027
Less accumulated depreciation for:				
Distribution facilities	(43,924,373)	(1,293,635)		(45,218,008)
Service lines	(5,170,869)	(234,944)		(5,405,813)
Sewer lines	(41,267,641)	(1,543,652)		(42,811,293)
Capacity rights	(14,105,707)	(1,353,895)		(15,459,602)
Total accumulated depreciation	(104,468,590)	(4,426,126)		(108,894,716)
Net capital assets being depreciated	94,962,877	100,427	12,287,007	107,350,311
Business-type activity capital assets, net	$113,804,429	$921,830		$114,726,259

NOTE 8 - CAPITAL ASSETS (Continued)

Business-type activities construction in progress comprised the following at June 30, 2014:

Project	Total Budget	Actual Expenditures	Unexpended Budget
Main SPS Site Improvements	$2,302,000	$2,159,795	$142,205
Minor Sewer Projects	35,000	3,470	31,530
Sewer System Replacement 1	1,500,000	204,865	1,295,135
Sewer System Replacement	1,500,000	59,943	1,440,057
TASP Sewer Line Replacement	5,000,000		5,000,000
Pressure Reducing Valve Replacement	320,000	41,184	278,816
Well Upgrade Program	4,645,000	1,799,303	2,845,697
Water System Seismic Improvements	6,187,951	681,774	5,506,177
Ayer Reservoir & Pump Station Improvements	1,050,000	658,802	391,198
Water System Replacement 08-09	700,000	118,675	581,325
Hydrant Replacement	170,000	621	169,379
Minor Water Projects	95,000	8,306	86,694
Turnout Improvements	150,000		150,000
Water Meter Replacement	75,000	26,932	48,068
Cathodic Protection I	725,000	469,733	255,267
Minor Water Projects	150,000	754	149,246
Abel Street Pipeline Extension	350,000	329	349,671
Dempsey Road Water Line Replacement	500,000	8,383	491,617
Water Supply Blending Study	100,000		100,000
Total construction in progress	$25,554,951	$6,242,869	$19,312,082

NOTE 8 - CAPITAL ASSETS (Continued)

C. *Terrace Gardens, Inc.'s Capital Assets*

The following is a summary of Terrace Gardens Inc's changes in capital assets for the fiscal year ended December 31, 2013:

	Balance December 31, 2012	Additions	Balance December 31, 2013
Capital assets not being depreciated:			
Land	$1,565,277		$1,565,277
Construction in Progress	17,132	$29,526	46,658
Total capital assets not being depreciated	1,582,409	29,526	1,611,935
Capital assets being depreciated:			
Buildings	11,530,679	29,601	11,560,280
Furniture	208,087	62,191	270,278
Office equipment	65,096		65,096
Improvements	2,142,288	261,605	2,403,893
Total capital assets being depreciated	13,946,150	353,397	14,299,547
Less accumulated depreciation	(6,267,187)	(377,832)	(6,645,019)
Net capital assets being depreciated	7,678,963	(24,435)	7,654,528
Total capital assets, net	$9,261,372	$5,091	$9,266,463

NOTE 8 - CAPITAL ASSETS (Continued)

D. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities:	
General Government	$4,254,349
Public Works	8,478,974
Parks and Recreation	838,096
Police	843,352
Fire	350,059
Internal Service Fund	799,685
Total Governmental Activities	$15,564,515
Business-Type Activities:	
Water Utility	$1,528,579
Sewer Utility	2,897,547
Total Business-Type Activities	$4,426,126
Discretely Presented Component Unit:	
Terrace Gardens, Inc.	$377,832

E. Sewer Treatment Capacity Rights

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 14.25 million gallons per day or about 7.638% of the total plant capacity. The City has capitalized its share in the amount of $46,412,455. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2014 the City's operation and maintenance share was approximately 6.454% of the total WPCP operations.

NOTE 9 - LONG TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

A. *Current Year Transactions and Balances*

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2013	Retirements	Balance June 30, 2014	Current Portion
Purchase Agreement with Mission West Properties					
0%, due February 15, 2016	$21,780,000	$9,828,464	$3,828,464	$6,000,000	$3,000,000
Cisco Phone System Capital Lease					
0.620%, due September 18, 2016	480,302	359,636	85,686	273,950	88,442
Total Governmental Activity Debt	$22,260,302	$10,188,100	$3,914,150	$6,273,950	$3,088,442
Business-type Activity Debt:					
Sewer Certificates of Participation, 2006 Series A					
3.4% - 4.20%, due November 1, 2026	$9,535,000	$7,315,000	$405,000	$6,910,000	$420,000
Total Business-type Activity Debt	$9,535,000	$7,315,000	$405,000	$6,910,000	$420,000

B. *Mission West Purchase Agreement*

In February 2011, the former Redevelopment Agency entered into an Agreement with Mission West Properties to purchase 10.89 acres of land in three parcels for $21,780,000 in the Milpitas Redevelopment Project Area No. 1 to be used as open space. The Agency assigned the Agreement to the Economic Development Corporation in March 2011. A down payment of $3 million was due on or before December 31, 2011. The remaining balance does not bear interest and is due in four annual installments of $3 million and one final installment. The purchase is to be funded by park in lieu fees collected by the City on certain land parcels as specified in the Agreement. The City agrees to transfer the park in lieu fees to the Corporation as they are collected and the Corporation agrees to pay the same amount to the seller in addition to the annual installments to reduce the outstanding balance of the purchase price. The fifth installment payment is contingent upon the City's receipt of the park in-lieu fees. On the fifth anniversary of the effective date of the Agreement, if the City has not received any park in lieu fees from one of the parcels, the Corporation is to pay $3 million. However, if on the fifth anniversary the City has not received any park in lieu fees from two of the parcels, the Corporation need not pay the remaining balance of $3.78 million until the City collects and transfers the park in lieu fees to the Corporation. In fiscal year 2014, $828,464 in park in-lieu fees were received and paid to Mission West Properties, and park in-lieu fees paid to Mission West Properties to date total $3.78 million.

As discussed in Note 17, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, the property was conveyed to the City, and the City assumed the Purchase Agreement from the Corporation.

NOTE 9 - LONG TERM DEBT (Continued)

C. *Cisco Phone System Capital Lease*

In September 2012, the City entered into a purchase agreement in the amount of $480,302 at 0.62% interest with Key Government Finance, Inc. to finance the purchase and installation of the City's phone system. Principal and interest payments of $97,252 are due each September 18 through 2016.

D. *Sewer Certificates of Participation, 2006 Series A*

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of $9,535,000 to finance certain sewer facilities within the City. The Sewer COPs are collateralized by net revenues from the City's Sewer System Installment Sale Agreement. For fiscal year 2014, net revenues amounted to $5,401,688, which represented coverage of 7.90 over the $683,965 of debt service. In lieu of a reserve fund, the COPs are secured by a $695,758 surety bond issued by the MBIA Insurance Corporation. Principal is payable annually and interest is payable semi-annually through 2027.

E. *Debt Service Requirements*

Annual debt service requirements are shown below:

	Governmental Activities		Business-Type Activities	
Year Ending June 30	Total Principal	Total Interest	Total Principal	Total Interest
2015	$3,088,442	$8,810	$420,000	$264,528
2016	3,091,286	5,966	435,000	249,348
2017	94,222	3,030	450,000	233,193
2018			470,000	216,055
2019			485,000	198,027
2020 - 2024			2,730,000	683,843
2025 - 2027			1,920,000	122,829
	$6,273,950	$17,806	$6,910,000	$1,967,823

F. *Defeased Bonds*

As of June 30, 2014, outstanding balances for defeased debt were $20,955,000 for the Redevelopment Agency 1997 Tax Allocation Bonds and $845,000 for the Sales Tax Revenue Bonds, Series 2000.

NOTE 10 – NET POSITION AND FUND BALANCES

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources. Portions of a fund's balance may be restricted, committed or assigned for future expenditure.

Net Position is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis, as explained in Note 1D.

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

A. *Net Position*

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

Net Investment in Capital Assets and Capacity Rights, describes the portion of Net Position which is represented by the current net book value of the City's capital assets and capacity rights, less the outstanding balance of any debt issued to finance these assets. Net investment in Capital Assets and Capacity Rights for the Governmental Activities is calculated as follows:

Total capital assets and capacity rights	$297,978,411
Total outstanding debt	(6,273,950)
Net Investment in Capital Assets	$291,704,461

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and redevelopment funds restricted for community development activities.

Unrestricted describes the portion of Net Position which is not restricted as to use.

B. *Fund Balances*

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee, the Finance Director. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

Detailed classifications of the City's Fund Balances, as of June 30, 2014, are below:

		Major Special Revenue Funds		Major Capital Projects			
Fund Balance Classifications	General Fund	Economic Development Corporation	Housing Authority	Street Improvement Fund	Transit Area Impact Fee Fund	Other Governmental Funds	Total
Nonspendable:							
Prepaids, materials, supplies and deposits	$679,480		$3,257			$28,393	$711,130
Property held for resale	17,600,000						17,600,000
Advance to other funds	5,000,000						5,000,000
Subtotal Nonspendable	23,279,480		3,257			28,393	23,311,130
Restricted for:							
Redevelopment Projects and Programs		$4,093,238					4,093,238
Street and Road Improvements and Maintenance				$7,492,517		3,277,966	10,770,483
Housing and community development			21,025,477			3,439,864	24,465,341
Law enforcement services						235,540	235,540
Solid waste reduction and services						2,024,541	2,024,541
Assessment district services						396,735	396,735
Hetch-Hetchy ground lease						1,680,890	1,680,890
Park improvement projects						16,877,085	16,877,085
Storm drain projects						2,117,327	2,117,327
Subtotal Restricted		4,093,238	21,025,477	7,492,517		30,049,948	62,661,180
Committed to:							
PERS stabilization	5,432,703						5,432,703
Assigned to:							
Uninsured claims payable	2,816,694						2,816,694
Public art projects						143,597	143,597
Other contracts	426,246						426,246
General government capital projects	3,415,534					11,664,810	15,080,344
Subtotal Assigned	6,658,474					11,808,407	18,466,881
Unassigned:							
General Fund	13,520,552						13,520,552
Other governmental fund deficit residuals					($6,609,643)		(6,609,643)
Subtotal Unassigned	13,520,552				(6,609,643)		6,910,909
Total fund balances (deficit)	$48,891,209	$4,093,238	$21,028,734	$7,492,517	($6,609,643)	$41,886,748	$116,782,803

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. *Minimum Fund Balance Policies*

The City's Budget Guidelines and Fiscal Policies require the City to strive to maintain the following fund balances:

1) 15% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.

2) Maintain a $5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished from unassigned fund balance after the 15% requirement of the operating expenditures has been met.

3) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside $500,000 annually from the General Fund reserve for this purpose.

4) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated and adjusted annually at appropriate levels.

5) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs and pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.

6) Maintain $2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least $2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.

7) Maintain at least $300,000 in the Recycled Water Utility Enterprise Fund (a component of the Water Utility Enterprise Fund) for the purpose of infrastructure replacement and enhancement.

8) Maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.

9) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of $300,000 in the Equipment Management Internal Service Fund.

D. *Fund Balance Deficit*

The Transit Area Impact Fee Capital Projects Fund had deficit fund balance of $6,609,643. The deficit will be eliminated by future revenues.

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

E. Fund Balance and Net Position Restatements

The City determined that water and sewer developer fees had been recorded in the Street Improvement Capital Projects Fund in prior years. The developer fees should have been recorded in the Water and Sewer Enterprise Funds. Beginning fund balance as of July 1, 2013 in the Street Improvement Capital Projects Fund has been restated and reduced in the amount of $2,296,059 and beginning net position in the Water and Sewer Enterprise Funds has been restated and increased in the amounts of $303,301 and $1,992,758, respectively.

NOTE 11 - PERS PENSION PLAN

A. CALPERS Safety and Miscellaneous Employees Plans

All qualified permanent and probationary employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2014, are summarized as follows:

	Safety		
Hire Date	Prior to April 8, 2012	After April 8, 2012	After January 1, 2013
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life
Retirement Age (range)	50	50 - 55	50 - 57
Monthly benefits, as a % of annual salary	3%	2.4 - 3%	2.0 - 2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	32.931%	32.931%	32.931%

	Safety
Actuarially required contributions	$5,757,790

	Miscellaneous		
Hire Date	Prior to October 9, 2011	After October 9, 2011	After January 1, 2013
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life
Retirement Age (range)	50 - 55	55 - 60	52 - 62
Monthly benefits, as a % of annual salary	2.0 - 2.7%	1.092 - 2%	1.0 - 2%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	21.115%	21.115%	21.115%

	Miscellaneous
Actuarially required contributions	$3,328,651

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS determines contribution requirements using a modification of the Entry Age Normal Cost Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liabilities. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Safety Plan			
June 30, 2012	$5,135,662	100%	$0
June 30, 2013	5,578,503	100%	0
June 30, 2014	5,757,790	100%	0
Miscellaneous Plan			
June 30, 2012	$3,335,630	100%	$0
June 30, 2013	2,968,004	100%	0
June 30, 2014	3,328,651	100%	0

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS uses the market related value method of valuing the Plan's assets. For the most recent actuarial report, as of June 30, 2012, an investment rate of return of 7.50% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and approximately 6 percent of the net balance is amortized annually over a rolling thirty year period.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available are set forth below at their actuarial valuation date of June 30:

Safety Plan:

	Actuarial					
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	$172,166,024	$215,540,204	$43,374,180	79.9%	$19,084,180	227.278%
2011	181,010,553	230,193,199	49,182,646	78.6%	18,135,987	271.188%
2012	189,083,568	242,400,943	53,317,375	78.0%	18,718,598	284.836%

Miscellaneous Plan:

	Actuarial					
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2010	$124,779,616	$151,572,411	$26,792,795	82.3%	$20,504,290	130.669%
2011	132,512,273	162,749,601	30,237,328	81.4%	19,964,595	151.455%
2012	139,306,261	168,715,805	29,409,544	82.6%	15,906,633	184.889%

Audited annual financial statements and ten-year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709. CALPERS usually reports information for each fiscal year seventeen months after the end of that fiscal year.

NOTE 11 - PERS PENSION PLAN (Continued)

CALPERS has reported that the value of the net assets in the Plans held for pension benefits changed during the year ended June 30, 2012 (the most recent available) as follows:

	Safety	Miscellaneous
Beginning Balance 6/30/11	$181,010,553	$132,512,273
Contributions received	7,351,373	5,096,054
Benefits and Refunds Paid	(10,347,533)	(6,446,079)
Miscellaneous Adjustments	(321,962)	(691,668)
Expected Investment Earnings Credited	13,448,561	9,854,489
Expected Actuarial Value of Assets 6/30/12	$191,140,992	$140,325,069
Market Value of Assets 6/30/12	$157,460,622	$116,242,962
Actuarial Value of Assets 6/30/12	$189,083,568	$139,306,261

Additional disclosures will be included when made available by PERS.

B. *Public Agency Retirement System*

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of $21,779 and the employee's required contributions of $87,115 were made during the fiscal year ending June 30, 2014.

NOTE 12 - EMPLOYEE BENEFITS

A. *Deferred Compensation Plan*

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

B. *Retiree Medical Benefits*

The City provides postretirement health care benefits to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2014 there were 232 participants receiving these health care benefits.

The City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of City's eligible health plans. In addition, there are eligibility rules and contribution requirements defined in the Memorandum of Understanding (MOU) with each employee group. In the MOUs, the Benefit Cap is defined as not more than the single medical premium rate paid by the City for active employees, and the Retiree Cap is 15% above the single Kaiser medical premium rate. The eligibility rules for each MOU are summarized below.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired prior to July 1, 1995	At least 5	If retirement occurred between July 1, 1990 and September 1, 2002: - Any employee only medical premium rate If retirement occurs after September 1, 2002: - Benefit cap
	Hired on or after July 1, 1995 and retired on or after September 1, 2002	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Mid-Management and Confidential (LIUNA)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Unrepresented (UNREP)	Hired prior to July 1, 1995	At least 5	Benefit cap
	Hired on or after July 1, 1995	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
Fire Safety (IAFF)	Retired prior to January 1 , 1990	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution ($83.30 per month in 2014)
	Retired January 1, 1990 - December 31, 1994	N/A	Any employee only premium
	Hired prior to January 1, 1995 and retired on or before February 20, 2007	1 but less than 10	50% of the benefit cap
		At least 10	100% of the benefit cap
	Hired prior to January 1, 1995 and retire after February 20, 2007	1 but less than 10	Up to 50% of the lesser of the retiree cap and the premium rate
		At least 10	Up to 100% of the lesser of the retiree cap and the premium rate
	Hired on or after January 1, 1995 and retire on or before February 20, 2007	1 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap
	Hired on or after January 1, 1995 and retired after February 20, 2007	1 but less than 10	25% of the lesser of the retiree cap and premium rate
		10 but less than 15	50% of the lesser of the retiree cap and premium rate
		15 but less than 20	75% of the lesser of the retiree cap and premium rate
		At least 20	100% of the lesser of the retiree cap and premium rate

NOTE 12 - EMPLOYEE BENEFITS (Continued)

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Retired Prior to January 1 , 1989	N/A	None. However, retirees may elect to continue coverage on self-pay basis. Note: the City does contribute the required minimum CALPERS contribution ($83.30 per month in 2014)
	Hired prior to January 1, 1996	At least 5	If retirement occurs on or before June 30, 2003 - Any single, medical premium rate If retirement occurs on or after July 1, 2003 - up to the retiree cap
	Hired on or after January 1, 1996	1 but less than 9 full years of service	Up to 25% of the retiree cap
		9 but less than 14 full years of service	Up to 50% of the retiree cap
		14 but less than 19 full years of service	Up to 75% of the retiree cap
		At least 19 full years of service	Up to 100% of the retiree cap
Employee Association (MEA)	Hired prior to June 30, 1996	At least 5	If retirement occurs on or before July 17, 1989 - None If retirement occurs between July 17,1989 and March 18, 2003 - Any employee only medical premium rate If retirement occurs after March 18, 2003 -Benefit cap
	Hired on or after June 30, 1996	1 but less than 10	Up to 25% of the lowest cost employee only premium but no more than the lowest employee only single rate paid by the City
		10 but less than 15	Up to 50% of the lowest cost employee only premium
		15 but less than 20	Up to 75% of the lowest cost employee only premium
		At least 20	Up to 100% of the lowest cost employee only premium
Supervisors (MSA)	Hired prior to June 30, 1995	At least 5	If retirement occurs before November 27, 2007 -Any employee only medical premium rate If retirement occurs on or after November 27, 2007 -Benefit cap
	Hired on or after June 30, 1995 and retire after November 27, 2007	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15	Up to 50% of the benefit cap
		15 but less than 20	Up to 75% of the benefit cap
		At least 20	Up to 100% of the benefit cap

Funding Policy and Actuarial Assumptions

The City's policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the City's annual budget approved by Council. The annual required contribution (ARC) for the year ended June 30, 2014 was determined as part of a July 1, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.50% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health costs trend rates of 5.50%-7.00% for medical and 3.0% for dental. The health care cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The actuarial value of assets is based upon the balance in the CERBT Trust. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. The actuarial study indicates that as of July 1, 2013, the actuarial accrued liability was estimated to be $60,933,391.

Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2014, the City contributed the ARC of $3,710,039 to the Plan. As a result, the City has calculated and recorded the Net OPEB Asset/Liability, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution	$3,710,039
Adjustment to annual required contribution	0
Annual OPEB cost	3,710,039
Contributions made	(3,710,039)
(Decrease) increase in net OPEB obligations	0
Net OPEB obligation (asset) June 30, 2013	0
Net OPEB obligation (asset) June 30, 2014	$0

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2013, amounted to $60,933,391, The AAL is partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income, net of current year premiums reimbursed to the City, resulted in assets with CERBT of $31,043,576 as of June 30, 2014, which partially funds the actuarial accrued liability.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2012, 2013 and 2014 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2012	$3,343,969	$3,343,969	100%	$0
June 30, 2013	3,475,268	3,475,268	100%	0
June 30, 2014	3,710,039	3,710,039	100%	0

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the latest available actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
7/1/2009	$9,931,187	$41,161,985	$31,230,798	24.13%	$42,390,000	73.67%
7/1/2011	19,032,986	48,698,709	29,665,723	39.08%	41,200,000	72.00%
7/1/2013	24,778,279	60,933,391	36,155,112	40.66%	35,200,000	102.71%

C. *Accrued Vacation and Sick Leave Liabilities*

Employees accrue vacation up to certain maximums, based on employee classification. Employees may elect to be paid a portion of their vacation at various times according to the applicable memorandum of understanding. Sick leave may be accumulated without limit. Vested sick leave may be paid upon separation from service in good standing and is based on a vesting schedule determined by years of service.

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2014, sick leave benefits payable increased by $247,104 and vacation benefits payable increased by $71,284. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Position.

NOTE 12 - EMPLOYEE BENEFITS (Continued)

The changes of the Accrued Vacation and Sick Leave Liabilities and the allocation of each liability among the departments are as follows:

	Accrued Vacation		Sick Leave	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Balance as of June 30, 2013	$4,267,428	$203,704	$3,557,901	$161,110
Additions	2,420,050	266,788	1,565,217	158,732
Payments and adjustments	(2,398,868)	(216,686)	(1,418,381)	(58,464)
Balance as of June 30, 2014	$4,288,610	$253,806	$3,704,737	$261,378
General Government	$465,656		$212,273	
Building	156,681		94,194	
Public Works	151,137		63,321	
Engineering and Planning	192,399		237,748	
Recreation	73,586		64,825	
Police	2,317,771		1,200,113	
Fire	873,679		1,805,824	
Water Utility		$126,903		$130,689
Sewer Utility		126,903		130,689
Internal Service	57,701		26,439	
Total	$4,288,610	$253,806	$3,704,737	$261,378
Long-Term Portion:				
Governmental activities	$3,736,435		$3,403,125	
Business-type activities		$119,806		$190,806
Total long term portions	$3,736,435	$119,806	$3,403,125	$190,806
Current Portion:				
Governmental activities	$552,175		$301,612	
Business-type activities		$134,000		$70,572
Total current portions	$552,175	$134,000	$301,612	$70,572

Accrued Vacation and Sick Leave are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

NOTE 13 - RISK MANAGEMENT

A. *Risk Pool*

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides $5,000,000 of self-funded general liability and auto coverage and $25,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's $100,000 deductible. ABAG Plan also provides $1,000,000 of employee theft coverage in excess of the City's $5,000 deductible, and $2,000,000 of cyber crime coverage (with various sub-limits depending on the type of cyber crime) in excess of the City's $50,000 deductible. ABAG Plan provides coverage for property damage up to $1 billion. The City retains a self-insured amount of $5,000 for each property and $5,000 for each vehicle per occurrence.

During the fiscal year ended June 30, 2014 the City contributed $493,109 for current year coverage.

ABAG Plan is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG Plan funding policies and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's annual contributions to ABAG Plan are calculated based on the ratio of the City's payroll to the total payrolls of all entities participating in the program and the City's loss experience. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

B. *Workers Compensation*

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of $20,000,000. The City has a deductible or uninsured liability of up to $750,000 per claim for miscellaneous employees and $1,000,000 for public safety employees.

C. *Dental*

The City is self-insured for dental care for miscellaneous employees up to a maximum of $14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2014 the City paid $612,918 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.

NOTE 13 - RISK MANAGEMENT (Continued)

D. Liability for Uninsured Claims

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City's liability for uninsured claims is limited to worker's compensation and general liability claims, as discussed above, and was computed as follows based on claims experience:

	2014			
	Worker's Compensation	General Liability	Total	2013
Beginning balance	$2,818,944	$601,114	$3,420,058	$3,717,884
Liability for current fiscal year claims	543,444	492,095	1,035,539	860,951
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	1,351,015	1,670,898	3,021,913	(276,998)
Claims paid	(929,633)	(180,662)	(1,110,295)	(881,779)
Ending balance	$3,783,770	$2,583,445	$6,367,215	$3,420,058
Due in one year	$777,789	$143,380	$921,169	$861,637

Settlements have not exceeded insurance coverage in the past three fiscal years.

NOTE 14 – SETTLEMENT WITH THE COUNTY AND OTHER PARTIES

The City, Economic Development Corporation and Housing Authority entered into a settlement agreement in June 2014 with the Santa Clara County Auditor-Controller, State Controller and other parties to resolve the dispute over cash and capital assets that had been transferred to the Economic Development Corporation prior to the dissolution of the former Milpitas Redevelopment Agency as discussed in Note 17. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling $48,330,360 to the Successor Agency and Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress in the amount of $98,129,255 to the City.

In addition, due to the Settlement Agreement requirement that the interest rate on the interfund advances in the Transit Area Development Impact Fee Capital Projects Fund (TASP loans) be limited to the rates of the Local Agency Investment Fund discussed in Note 4B, the City wrote off the remaining balance of interest due on the advances in the amount of $428,713. Unrelated to the settlement agreement, after the capital assets were transferred to the City, the City determined that land in the amount of $13,400,000 should be reported as property held for resale and transferred that balance from capital assets to the General Fund.

NOTE 14 – SETTLEMENT WITH THE COUNTY AND OTHER PARTIES (Continued)

The transactions pursuant to the settlement agreement, reported as a Special Item in the City's financial statements, comprised the following:

Cash paid to the County Auditor-Controller	($41,089,231)
Capital asset transferred to property held for resale (see Note 8A)	13,400,000
Adjustment to interest on TASP loans	428,713
Subtotal - Governmental Funds	(27,260,518)
Capital asset transferred to property held for resale (see Note 8A)	(13,400,000)
Property transferred to the Successor Agency	(7,241,129)
Capital assets transferred from the Successor Agency	98,129,255
Adjustment to interest on TASP loans	(428,713)
Special Item Reported on the Statement of Activities	$49,798,895

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

A. Litigation

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

B. Federal and State Grant Programs

The City participates in several Federal and State grant programs. These programs are subject to audit by the City's independent accountants in accordance with the provisions of the federal Single Audit Act as amended and applicable State requirements. No cost disallowances have been proposed as a result of audits completed to date; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

C. *Encumbrances*

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2014 were as follows:

Major Governmental Funds:	
General Fund	$426,246
Economic Development Corporation	4,425
Street Improvement Fund	477,112
Transit Area Impact Fee Fund	169,653
Non-Major Governmental Funds	2,160,309
Total Encumbrances	$3,237,745

D. *Silicon Valley Rapid Transit Program Berryessa Extension Project*

In September 2010, as amended, the City entered into a Master Agreement with the Santa Clara Valley Transportation Authority (VTA) to define the respective rights and obligations of each party and to ensure future cooperation between the City and VTA in connection with the Silicon Valley Rapid Transit Program Berryessa Extension Project. The Project is funded in part with funds made available to VTA by the Federal Transit Administration, and VTA will perform all acquisition, design and construction activities related to the Project.

Under the terms of the Master Agreement, VTA is entitled to reimbursement from the City's Transit Area Specific Plan (TASP) developer fees for a portion of the costs related to the eastern segment of the Milpitas Boulevard extension. The City's reimbursement commitment for this phase of the Project is not to exceed $17.0 million and is repayable as the TASP developer fees become available. Although the VTA has first priority to the available TASP funds, the payment is subordinated to the City's existing interfund advances to the Transit Area Impact Fee Capital Projects Fund.

The Milpitas Boulevard extension project began in fiscal year 2014 and the VTA has billed the City for project costs in the amount of $3.6 million through June 30, 2014. The Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment, therefore, the City has recorded a liability in the amount of $3.6 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2014.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

E. *South Bay Water Recycling System Facility Replacement*

As required by the Water Pollution Control Plant's National Pollutant Discharge Elimination System (NPDES) permit, the regional partner agencies are responsible for maintenance and operation of the South Bay Water Recycling System. The regional partner agencies, which includes the City of Milpitas, are also responsible for the planned $2 billion rehabilitation/replacement of the facility over the next thirty years. The City's share of the project is approximately 6.454% as discussed in Note 8E.

F. *Bay Area Water Supply and Conservation Agency Revenue Bonds Surcharge*

The City contracts with the City and County of San Francisco for the purchase of water from the Hetch Hetchy System operated by the San Francisco Public Utilities Commission (SFPUC). The City is also a member of the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interests of all the 24 cities and water districts, as well as two private utilities, that purchase wholesale water from the SFPUC.

In 2009 the City entered into a new 25 year agreement with the SFPUC that includes a minimum water delivery level of 5.341MGD. One of the ways that the new agreement differs from the old is in how facilities constructed by the SFPUC that benefit the regional customers are treated from a rate and financial perspective. Under the old agreement, facilities were built, capitalized, and added to the rate base with a rate of return (interest), and then paid for over their useful lives through wholesale rates. Under the new agreement, the SFPUC issues revenue bonds and the debt service (which also includes an interest component) is paid for through rates over the life of the bonds.

During the transition from the old to the new contracts, one of the issues addressed was how to deal with the $370 million in assets that were still being paid for by the wholesale customers under the old agreement. The assets were transferred to the new agreement, assigned a life with an agreed upon rate of return of 5.13%. Also negotiated was a provision to allow the wholesale customers to prepay any remaining existing assets' unpaid principal balance without penalty or premium. This prepayment was executed through the issuance of bonds by BAWSCA which provide a better interest rate given the favorable rate environment.

BAWSCA issued Revenue Bonds in the principal amount of $335,780,000 in January 2013 to prepay the capital cost recovery payment obligation and fund a stabilization fund. The Bonds mature in October 2034 and are secured by surcharges to the monthly water purchase charges imposed upon the participating members. The Bonds are not a debt obligation of any member, and BAWSCA's failure to pay its Bonds would not constitute a default by any participating member.

Should any participating member fail to pay its share, BAWSCA will rely on the stabilization fund and will pursue all legal remedies to collect the shortfall from the delinquent member. In the interim, other participating members may have their portion adjusted to insure the continued payment of the debt service surcharge.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The risk of bearing the debt service expense of a defaulting member is not significantly different than the risk each member assumes currently for fluctuations in water purchase charges. Under the Bond indenture, BAWSCA maintains a stabilization fund. If surcharge revenues collected are less than needed (due to a member's failure to pay timely), BAWSCA uses the stabilization fund to fund the debt service deficiency, and increases the surcharge in the subsequent year to make up for the prior year shortfall and reimburse the stabilization fund account. Also, given that each participating agency's governing body adopted a Resolution to participate in the Bond issue, Management believes that default is generally very unlikely.

The annual debt service surcharges are a fixed amount for each participant and are calculated by taking the subsequent fiscal year's debt service, multiplied by each participant's actual water purchase as a percent of total wholesale customer water purchases from the prior fiscal year. One-twelfth of the annual surcharge is included in the monthly bill from SFPUC. Because each participant's share of the debt service surcharge is proportional to the amount of water purchased during the prior fiscal year, the City's share of the debt service will fluctuate from year to year.

The City paid its surcharge of $1,057,528 during fiscal year 2014, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2015 is estimated to be $1,072,174.

NOTE 16 – LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balance of each of these issues as of June 30, 2014 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities Annual Amount	Principal Maturities Fiscal Years Ended	Outstanding June 30, 2014
LID #18 Phase II	1997	6.75%	$310,000 - 360,000	2015-2017	$1,005,000
LID #18	1999	5.85%	230,000 - 285,000	2015-2019	1,280,000
LID #18 Refunding	1998	5.65%	695,000	2015	695,000
LID #20	1999	5.70%	1,070,000 - 1,330,000	2015-2019	5,975,000
Total					$8,955,000

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

A. REDEVELOPMENT DISSOLUTION

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

The suspension provisions prohibited all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26.

ABx1 26 and AB1484 created three regulatory authorities, the Successor Agency Oversight Board, State Controller and Department of Finance (DOF), to review former Agency's asset transfer, obligation payments and wind down activities. ABx1 26 specifically directs the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the legislation purports to require the State Controller to order the asset returned to the redevelopment agency. The State Controller's Office completed its asset transfer review of the Milpitas Redevelopment Agency for the period from January 1, 2011 through January 31, 2012 in August 2012. The review resulted in a demand that the City return assets comprised of cash and investments, property held for resale and capital assets totaling $147,108,600 be transferred to the Milpitas Redevelopment Successor Agency. However, the results of the State Controller's review also included an incomplete list of housing assets that should have been transferred to the Housing Successor Agency, instead of the Milpitas Redevelopment Successor Agency.

Subsequent to the State Controller's review, the DOF also reviewed the housing assets inventory list and approved a majority of the non-cash assets as Housing Assets. The assets that were approved included all the housing loans that were committed to third parties, housing properties held for resale, and land planned for low-moderate income housing purposes. In November 2012, the DOF completed the first phase of the Due Diligence Review (DDR) of the Low and Moderate Housing Fund's cash balance available for allocation to the affected taxing entities. The City complied with the DOF's determination by transmitting the payment of $6,582,557 to the County Auditor-Controller in November 2012.

The City returned property held for resale of $374,253 to the Agency's Housing Reserve Special Revenue Fund and $1,800,000 to the Redevelopment Capital Projects Fund, and $6,988,800 to the Successor Agency, but due to the conflicting orders of the State Controller and DOF and also to protect the Milpitas entities interest, the City opted to wait for the completion of the second phase of the DDR of the non-housing cash balance to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. Therefore, additional adjustments resulting from the State Controller's review were not reflected in the Redevelopment Agency's balances as of January 31, 2012. See Note 17F for the resolution of adjustments.

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

Effective January 31, 2012, the Redevelopment Agency was dissolved. Certain assets of the Redevelopment Agency Housing Reserve Fund were distributed to a Housing Successor; and all remaining Redevelopment Agency assets and liabilities were distributed to a Successor Agency.

Under the provisions of AB 1484, the City can elect to become the Housing Successor and retain the housing assets. The City's Housing Authority elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Housing Authority Special Revenue Fund.

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established on March 26, 2012. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of seven members, including one member of City Council and one former Redevelopment Agency employee appointed by the Mayor.

The activities of the Housing Successor are reported in the Housing Authority Special Revenue Fund as the City has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

Cash and investments of the Successor Agency as of June 30, 2014 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2014.

B. PROPERTY HELD FOR RESALE OR REDEVELOPMENT

In August 2000, the Agency purchased land from the Santa Clara Valley Transportation Authority in the amount of $6,988,800 which is being held for future development projects. Pursuant to the settlement agreement discussed in Note 17F, the City conveyed four parcels to the Successor Agency in fiscal year 2014, which are held for future sale.

As of June 30, 2014, property totaling $18,028,814 is held by the Successor Agency.

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

C. *DEVELOPMENT AGREEMENTS*

The Successor Agency assumed the obligations of the Redevelopment Agency's Disposition and Development Agreements as follows:

1. *Installment Purchase Agreement*

The Redevelopment Agency agreed to purchase two parcels of land comprising thirty-five acres surrounding the County Correctional Facility for $57,750,000 in cash and $135,000,000 payable over eighteen years at no interest.

The Agency also agreed to re-sell this land to developers for a total of $57,750,000, of which $40,000,000 was received in fiscal 2005 and the remainder was received on the close of escrow on the second parcel in fiscal 2006. The Agency's intent in purchasing this land was to simultaneously re-sell it for development.

In addition, starting in 2024 the Agency is required to pay the County the greater of $2,000,000 or 50% of the sales tax revenue arising out of sales originating on certain properties that are in the Midtown Area, but not to exceed $5,000,000 annually, until the earlier of either June 30, 2038, the date that tax increment revenue allocated to the Agency has reached its limit; or the termination of the Redevelopment Plan.

2. *County of Santa Clara*

In August 2006, the Agency entered into a Disposition and Development Agreement with the County of Santa Clara to construct a health center and a public parking garage. Under the terms of the Agreement, the Agency sold a parcel of land to the County for the construction of the health center for $1,862,360. In addition, the Agency entered into a Ground Lease Agreement to lease a parcel of land to the County for 75 years for constructing and operating a public parking garage adjacent to the health center site. The Agency constructed certain public off-site improvements in the area, including underground utilities, roadway improvements and streetscape improvements.

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

3. Sun Power Corporation

In February 2011, the Agency entered into a Financing Agreement with SunPower Corporation to reimburse the Corporation for the acquisition and installation of capital equipment for the purpose of producing SunPower solar panels. The Corporation intends to contract with Flextronics Americas to receive shipments of specialized manufacturing equipment and to install and operate the equipment for an initial period of five years and hire and continually employ at least 80 new employees (employment goal). Under the terms of the Agreement, the Agency will reimburse the Corporation $700,000 after receiving documentation of achieving the employment goal and confirming the applicable equipment was installed. The Agency also committed to reimburse the Corporation an additional $200,000 per year over a four year period ending on January 1, 2014, if the Corporation continues to meet the manufacturing and employment obligations and has unreimbursed capital equipment and facilities improvement costs. The funding will be incrementally forgiven so long as the Corporation does not cease its relationship with Flextronics Americas or stop using the site for industrial/manufacturing purposes on or before January 1, 2014, but the remaining balance is payable if the Corporation does cease the activities as noted. The agreement terminates January 1, 2016. The Successor Agency expended $700,000 under the agreement during the year ended June 30, 2012, $400,000 under the agreement during the year ended June 30, 2013, and $200,000 under the agreement during the year ended June 30, 2014, which was recorded as a conditional grant, therefore the balance of the loan was offset with an equal allowance for forgiveness of the loan. The Corporation fulfilled a portion of the agreement and $1,100,000 was forgiven during fiscal year 2014.

Although the terms of the Agreement called for four annual payments to the Corporation, the final payment of $200,000 remains outstanding, because the Oversight Board did not approve making the payment. The Oversight Board denied the payment, because the Agreement indicates the term of the payments to the Corporation ended on January 1, 2014, although delays in the start of the project delayed the initial payment under the agreement, the terms had not been amended.

D. CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Successor Agency's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

Pursuant to the terms of the settlement agreement discussed in Note 17F below, during fiscal year 2014, the Successor Agency transferred land of $19,595,999 and construction in progress of $78,533,256 to the City.

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

E. LONG-TERM OBLIGATIONS

1. Current Year Transactions and Balances

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2013	Retirements	Balance June 30, 2014	Current Portion
2003 Tax Allocation Bonds 2%-5.25%, due September 1, 2032	$157,935,000	$5,825,000	$152,110,000	$6,120,000
Installment Purchase Agreement with the County of Santa Clara due June 30, 2023	28,427,885	3,223,045	25,204,840	3,069,566
Successor Agency Loan Purchase and Sale Agreement with the City of Milpitas	9,472,571	9,472,571		
Total	$195,835,456	$18,520,616	$177,314,840	$9,189,566

2. 2003 Redevelopment Agency Tax Allocation Bonds

In November 2003, the Agency issued Tax Allocation Bonds in the original principal amount of $200,000,000 to advance refund and defease the outstanding 1997 and 2000 Tax Allocation Bonds, and to provide financing for various redevelopment projects. The Bonds are secured by the Agency's Tax Increment Revenue. In lieu of a reserve fund, the 2003 Bonds also are secured by a $13,687,858 surety bond issued by Municipal Bond Investors Assurance Corporation. Principal is payable annually and the interest is payable semi-annually through 2033.

The pledge of all future tax increment revenue (housing and non-housing revenue) ends upon repayment of the $223,875,436 remaining debt service on the bonds which is scheduled to occur in fiscal year 2033. Projected non-housing revenues are expected to provide coverage over debt service of 1.58 over the life of the bonds. Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Housing Reserve Special Revenue Fund (housing revenue) were expected to provide coverage over debt service of 13.79 over the life of the bonds. With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed and housing set-aside amounts are no longer required, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. The Successor Agency only receives the funds necessary to fulfill its approved obligations. In fiscal year 2014, total tax increment calculated and available for distribution by the County Auditor-Controller was $40,418,284 and the total received by the Successor Agency was $19,088,300. The tax increment available for distribution represented coverage of 298% of the $13,538,234 of debt service.

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

3. Installment Purchase Agreement with the County of Santa Clara

The Redevelopment Agency has a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of $135,000,000, as mentioned in Note 17C(1) above. As discussed in Note 17C (1), under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Successor Agency has therefore recorded a liability of $25,204,840 at June 30, 2014, representing the present value of future payments due under this Agreement.

4. Loans From the City

On September 7, 2004, the Agency entered into an Agreement with the City for the purchase of eight parcels of land which are located in the Project Area. However, the terms of the purchase were not finalized until August 21, 2007 under the First Amendment to Agreement of Purchase and Sale. Under the terms of the Amended Agreement, the purchase price of the parcels was $20,455,191. The advance from the General Fund to the Redevelopment Project Capital Projects Fund was due on September 7, 2044 and bore simple interest of 10% annually. The balance of the advance, including principal and accrued interest, was $21,670,757 as of January 31, 2012.

The loan had previously been reported as an interfund advance between the City and Redevelopment Agency, but with the transfer of the Redevelopment Agency's liabilities to the Successor Agency, the advance was reported as long-term debt of the Successor Agency. The loan was originally required to be repaid by September 7, 2044, however repayment was contingent upon the Successor Agency receiving a Finding of Completion, as defined in Health and Safety Code Section 34179.6. After the Successor Agency receives a Finding of Completion, and under the provisions of Health and Safety Code Section 34191.4(b)(2)(A), the loan can be repaid by the Successor Agency. However, the Successor Agency must apply for approval of the loan by the Oversight Board including a finding that the loan was for legitimate redevelopment purposes. If the Oversight Board finds that the loan is an enforceable obligation, the loan is to be repaid in accordance with a defined schedule over a reasonable term of years. Repayment could not begin prior to fiscal year 2014 and the maximum annual repayment amount was limited based on calculations in the Code Section. In addition, the interest rate on the loan was limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore, the loan balance was adjusted in fiscal year 2012 to reflect the revised interest rate. Pursuant to the terms of the settlement agreement discussed in Note 17F below, the Successor Agency conveyed the eight parcels of land to the City and the City forgave the balance of the loan in the amount of $9,472,571.

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

During fiscal year 2011 the Housing Reserve Special Revenue Fund advanced $6,800,000 to the Redevelopment Project Capital Projects Fund for the purchase of a land parcel. The advance was due on April 17, 2037 and bore simple interest of 5% annually. The balance of the advance, including principal and accrued interest, was $7,094,356 as of January 31, 2012. The loan had previously been reported as an interfund advance within the Redevelopment Agency. However, with the transfer of the associated liability to the Successor Agency, the loan is now payable to the Housing Successor to the Agency's housing activities which is the Milpitas Housing Authority, and repayment of the loan is also based upon whether the Successor Agency to the Redevelopment Agency receives a Finding of Completion as discussed above. The interest rate on the loan is also limited to the Local Agency Investment Fund interest rate calculated from the inception of the loan. Therefore the loan balance was adjusted to reflect the revised interest rate. However, this loan was not deemed an enforceable obligation by the State Department of Finance, and the Successor Agency would not record a liability for this loan until it was approved as an enforceable obligation. The State Department of Finance continues to deny that the loan is an enforceable obligation, and during fiscal year 2014 the City determined that it will no longer pursue collection of the balance of $6,891,392.

5. *Debt Service Requirements*

Debt service requirements are shown below for all long-term debt:

Year Ending June 30	Principal	Interest
2015	$9,189,566	$9,345,042
2016	9,348,396	9,177,587
2017	9,529,187	8,987,546
2018	9,731,607	8,765,651
2019	10,485,408	9,005,307
2020-2024	54,180,676	37,152,377
2025-2029	50,330,000	12,016,158
2030-2033	24,520,000	2,110,928
	$177,314,840	$96,560,596

F. *STATE ASSET TRANSFER REVIEW, DEMAND FOR RETURN OF ASSETS, STANDSTILL AGREEMENT AND SETTLEMENT AGREEMENT*

The activities of the former Redevelopment Agency and the Successor Agency were subject to examination by the State of California and the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The review resulted in a demand that the City return certain assets to the Redevelopment Agency and as discussed in Note 17A, some of the assets were returned and others remain in the possession of the Economic Development Corporation. It is the City's position that the funds were legally placed with the Economic Development Corporation at the time of the transfer and are not subject to clawback. Therefore, assets totaling $54,854,616, comprised of current assets of $31,485,664 and capital assets of $23,368,952, remained with the Economic Development Corporation as of June 30, 2013.

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

On February 25, 2013, the City, the Corporation and the Successor Agency executed a Standstill Agreement to preserve the assets of the former Redevelopment Agency that had been transferred to the Corporation and to the City. Under the Agreement, the Corporation agrees that it will not transfer, sell or convey any of the property conveyed by the Agency or purchased with assets transferred from the Agency, refrain from incurring new financial obligations and satisfy only its specific outstanding obligations and contracts that are listed in the Agreement, including the payments required for the Mission West Purchase Agreement discussed in Note 9B. Under the Agreement, the City agreed that it would not transfer, sell or convey any of the capital assets or property held for resale conveyed by the former Agency, that the General Fund will reimburse the Successor Agency for any Corporation payments on the contracts listed in the Agreement if a final judicial determination holds that the transfer was invalid or the obligation should not have been paid from Corporation funds, except for the Mission West Purchase Agreement. In the event there was a final judicial decision that the transfers to the City and/or Corporation were invalid and subject to the "clawback" provisions of AB1484, the City and Corporation agreed to return the assets to the Successor Agency.

As noted above, the City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling $31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to $38,775,908. The City disputed the results of the DDR and the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. The County and State filed responses to the City's complaint. The two cases were coordinated and preceded to a hearing on February 28, 2014. There has not been a final judicial or administrative determination regarding the legality of the retroactive provisions of ABx1 26 and AB1484.

The City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties entered into a settlement agreement in June 2014 to resolve the matters discussed above. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling $48,330,360 to the Successor Agency and the Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress in the amount of $98,129,255 to the City. In addition, with the conveyance of certain parcels of land to the City, the City forgave the balance of the Purchase and Sale Agreement in the amount of $9,472,571.

The transactions pursuant to the settlement agreement have been reported as a Special Item in the Successor Agency's Statement of Changes in Fiduciary Net Position, which was comprised of the following:

Capital assets transferred from the City	$7,241,129
Capital assets transferred to the City	(98,129,255)
Loan for the Purchase and Sale Agreement forgiven	9,472,571
Special Item Reported on the Successor Agency's Statement of Changes in Fiduciary Net Position	($81,415,555)

NOTE 17 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

G. *COMMITMENTS AND CONTINGENCIES*

1. *State Approval of Enforceable Obligations*

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

2. *Long Range Property Management Plan*

In fiscal year 2013, the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. As discussed in Note 17F, the two cases were settled in June 2014 with a settlement agreement executed between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties.

Under the agreement, the Successor Agency and the County will jointly prepare and submit the long range property management plan ("LRPMP") to the Oversight Board for review and approval, all pursuant to Health and Safety Code section 34191.5. The Successor Agency and County intend and will work together to present this plan to the Oversight Board not later than ninety business days following the Successor Agency's receipt of the Finding of Completion. The Successor Agency received a Finding of Completion on June 27, 2014.

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

GAS TAX FUND

Established to account for the City's share of state gasoline taxes which are restricted for use on construction and maintenance of the street system in Milpitas.

HOUSING AND COMMUNITY DEVELOPMENT FUND

Established to account for community development block grants and expenditures.

LAW ENFORCEMENT SERVICES FUND

Established to account for the proceeds from Federal and State asset seizures. This fund also accounts for the Supplemental Law Enforcement Services grant, Local Law Enforcement Block grant, Justice Assistance grant and expenditures. These funds must be used only for specified law enforcement purposes.

SOLID WASTE REDUCTION AND SERVICES FUND

Established to account for landfill tipping fees allocated by Santa Clara County. The County allocates a fee of $1 per ton to each City to be used in relation to the State of California Waste Reduction Act. Revenue is used for the implementation of waste reduction programs to meet the State required landfill deposits percentage reduction. The fund also accounts for special charges built into garbage rates specifically for community promotions and household hazardous waste activities.

LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for servicing and maintaining the public landscaping and additional lighting for the district.

COMMUNITY FACILITIES DISTRICT FUND

Established to account for assessments collected within the district. Revenue is used for providing City services for the district.

HETCH-HETCHY GROUND LEASE FUND

Established to account for the lease payment to the City and County of San Francisco for the permitted use of the Hetch-Hetchy land.

CAPITAL PROJECTS FUNDS:

PUBLIC ART FUND

Established to account for the acquisition and installation of public art. Financing provided by a percentage of eligible project expenditures within the City's Annual Capital Improvement Program.

PARK IMPROVEMENT FUND

Established to account for the construction and maintenance of City parks. A special park improvement fee is imposed on developments to provide financing.

GENERAL GOVERNMENT FUND

Established to account for the construction and maintenance of general government projects. Financing provided by the General Fund.

STORM DRAIN DEVELOPMENT FUND

Established to account for the construction and maintenance of storm drain projects. A special storm drain fee is imposed on developments to provide financing.

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
ASSETS					
Cash and investments available for operations	$3,059,815	$146,307	$459,537	$1,997,534	$223,458
Receivables:					
Accounts				88,644	
Due from other governments	212,481	66,997			
Interest	5,670	301	626	3,690	415
Loans receivable		3,279,005			
Prepaids, materials, supplies and deposits		1,130	25,400	1,813	50
Total Assets	$3,277,966	$3,493,740	$485,563	$2,091,681	$223,923
LIABILITIES					
Accounts payable		$52,514	$120,015	$37,151	$56,333
Accrued payroll		232		3,993	6,432
Unearned revenue			104,608	5,022	
Refundable deposits				19,161	
Total Liabilities		52,746	224,623	65,327	62,765
FUND BALANCE					
Fund Balances:					
Nonspendable		1,130	25,400	1,813	50
Restricted	$3,277,966	3,439,864	235,540	2,024,541	161,108
Assigned					
Total Fund Balances	3,277,966	3,440,994	260,940	2,026,354	161,158
Total Liabilities and Fund Balances	$3,277,966	$3,493,740	$485,563	$2,091,681	$223,923

SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUNDS				
Community Facilities District	Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
$285,747	$1,680,138	$143,331	$17,094,380	$12,136,107	$2,122,897	$39,349,251
						88,644
4,680						284,158
534	752	266	31,633	25,421	3,933	73,241
						3,279,005
						28,393
$290,961	$1,680,890	$143,597	$17,126,013	$12,161,528	$2,126,830	$43,102,692
$40,574			$244,441	$485,077	$9,447	$1,045,552
14,760			4,487	11,641	56	41,601
						109,630
						19,161
55,334			248,928	496,718	9,503	1,215,944
						28,393
235,627	$1,680,890		16,877,085		2,117,327	30,049,948
		$143,597		11,664,810		11,808,407
235,627	1,680,890	143,597	16,877,085	11,664,810	2,117,327	41,886,748
$290,961	$1,680,890	$143,597	$17,126,013	$12,161,528	$2,126,830	$43,102,692

CITY OF MILPITAS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Property taxes					
Other taxes				$454,277	$310,154
Use of money and property	$17,496	$2,064	$2,356	12,379	1,362
Intergovernmental	2,242,995	370,862	136,025	168,105	
Charges for services				324,674	
Developer contributions					
Other		150		4,750	
Total Revenues	2,260,491	373,076	138,381	964,185	311,516
EXPENDITURES:					
Current:					
General Government		24,999		20,711	
Public Works				558,391	209,556
Engineering and Planning		367,081			
Police			94,579		
Capital outlay			43,940		
Total Expenditures		392,080	138,519	579,102	209,556
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,260,491	(19,004)	(138)	385,083	101,960
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)	(1,700,000)			(256,917)	(410,000)
Total Other Financing Sources (Uses)	(1,700,000)			(256,917)	(410,000)
Net change in fund balances before special items	560,491	(19,004)	(138)	128,166	(308,040)
Special items					
NET CHANGE IN FUND BALANCES	560,491	(19,004)	(138)	128,166	(308,040)
Fund balances at beginning of year	2,717,475	3,459,998	261,078	1,898,188	469,198
FUND BALANCES AT END OF YEAR	$3,277,966	$3,440,994	$260,940	$2,026,354	$161,158

SPECIAL REVENUE FUNDS		CAPITAL PROJECTS FUNDS				
Community Facilities District	Hetch-Hetchy Ground Lease	Public Art	Park Improvement	General Government Project	Storm Drain Development	Total Nonmajor Governmental Funds
$431,970						$1,196,401
1,570	$23,877	$1,569	$157,726	$121,060	$13,808	355,267
			70,000	79,288		3,067,275
		28				324,702
			1,801,884		647,295	2,449,179
		12,000				16,900
433,540	23,877	13,597	2,029,610	200,348	661,103	7,409,724
5,821	29,366	134,804				215,701
647,377				14,348	15,687	1,445,359
						367,081
						94,579
			1,325,192	3,301,139	102,781	4,773,052
653,198	29,366	134,804	1,325,192	3,315,487	118,468	6,895,772
(219,658)	(5,489)	(121,207)	704,418	(3,115,139)	542,635	513,952
				2,410,000		2,410,000
	(2,216)					(2,369,133)
	(2,216)			2,410,000		40,867
(219,658)	(7,705)	(121,207)	704,418	(705,139)	542,635	554,819
				(1,609,208)		(1,609,208)
(219,658)	(7,705)	(121,207)	704,418	(2,314,347)	542,635	(1,054,389)
455,285	1,688,595	264,804	16,172,667	13,979,157	1,574,692	42,941,137
$235,627	$1,680,890	$143,597	$16,877,085	$11,664,810	$2,117,327	$41,886,748

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property	$13,000	$17,496	$4,496		$2,064	$2,064
Intergovernmental	2,079,000	2,242,995	163,995	$393,000	370,862	(22,138)
Charges for services						
Other					150	150
Total Revenues	2,092,000	2,260,491	168,491	393,000	373,076	(19,924)
EXPENDITURES						
Current:						
General Government:						
Finance				12,000	11,656	344
Non-departmental				31,000	13,343	17,657
Public Works						
Planning and Neighborhood Services				577,716	508,432	69,284
Police						
Total Expenditures				620,716	533,431	87,285
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,092,000	2,260,491	168,491	(227,716)	(160,355)	67,361
OTHER FINANCING SOURCES (USES)						
Transfers (out)	(1,700,000)	(1,700,000)				
Total Other Financing Sources (Uses)	(1,700,000)	(1,700,000)				
NET CHANGE IN FUND BALANCES	$392,000	560,491	$168,491	($227,716)	(160,355)	$67,361
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					141,351	
Capital outlay						
Encumbrance adjustments						
Fund balances at beginning of year		2,717,475			3,459,998	
Fund balances at end of year		$3,277,966			$3,440,994	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			$410,000	$454,277	$44,277	$323,000	$310,154	($12,846)
$3,000	$2,356	($644)	9,000	12,379	3,379	1,000	1,362	362
104,827	136,025	31,198	121,978	168,105	46,127			
			310,000	324,674	14,674			
				4,750	4,750			
107,827	138,381	30,554	850,978	964,185	113,207	324,000	311,516	(12,484)
			28,000	20,711	7,289			
			628,622	563,841	64,781	318,174	209,556	108,618
210,029	170,779	39,250						
210,029	170,779	39,250	656,622	584,552	72,070	318,174	209,556	108,618
(102,202)	(32,398)	69,804	194,356	379,633	185,277	5,826	101,960	96,134
			(256,917)	(256,917)		(410,000)	(410,000)	
			(256,917)	(256,917)		(410,000)	(410,000)	
($102,202)	(32,398)	$69,804	($62,561)	122,716	$185,277	($404,174)	(308,040)	$96,134
	(43,940)							
	76,200			5,450				
	261,078			1,898,188			469,198	
	$260,940			$2,026,354			$161,158	

(Continued)

CITY OF MILPITAS
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	$400,000	$431,970	$31,970			
Use of money and property	2,000	1,570	(430)	$34,000	$23,877	($10,123)
Intergovernmental						
Charges for services						
Other						
Total Revenues	402,000	433,540	31,540	34,000	23,877	(10,123)
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental	5,000	5,821	(821)	30,000	29,366	634
Public Works	745,567	647,377	98,190			
Planning and Neighborhood Services						
Police						
Total Expenditures	750,567	653,198	97,369	30,000	29,366	634
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(348,567)	(219,658)	128,909	4,000	(5,489)	(9,489)
OTHER FINANCING SOURCES (USES)						
Transfers (out)				(2,216)	(2,216)	
Total Other Financing Sources (Uses)				(2,216)	(2,216)	
NET CHANGE IN FUND BALANCES	($348,567)	(219,658)	$128,909	$1,784	(7,705)	($9,489)
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital outlay						
Encumbrance adjustments						
Fund balances at beginning of year		455,285			1,688,595	
Fund balances at end of year		$235,627			$1,680,890	

PUBLIC ART			TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			$1,133,000	$1,196,401	$63,401
$2,000	$1,569	($431)	64,000	62,673	(1,327)
			2,698,805	2,917,987	219,182
	28	28	310,000	324,702	14,702
	12,000	12,000		16,900	16,900
2,000	13,597	11,597	4,205,805	4,518,663	312,858
			12,000	11,656	344
136,270	134,804	1,466	230,270	204,045	26,225
			1,692,363	1,420,774	271,589
			577,716	508,432	69,284
			210,029	170,779	39,250
136,270	134,804	1,466	2,722,378	2,315,686	406,692
(134,270)	(121,207)	13,063	1,483,427	2,202,977	719,550
			(2,369,133)	(2,369,133)	
			(2,369,133)	(2,369,133)	
($134,270)	(121,207)	$13,063	($885,706)	(166,156)	$719,550
				141,351	
				(43,940)	
				81,650	
	264,804			11,214,621	
	$143,597			$11,227,526	

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

AGENCY FUNDS

Financial reporting standards require that Agency Funds be presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as agent for individuals, government entities, and non-public organizations. These funds include the following:

EMPLOYEE BENEFITS FUND

Established to account for specific negotiated employee benefits.

SENIOR ADVISORY COMMISSION FUND

Established to account for the fund raising activities of the Commission.

LOCAL IMPROVEMENT DISTRICT (LID) FUNDS

Established to account for debt service reserves of Local Improvement Districts (LIDs) for which the City acts as administrator and paying agent. The City is not obligated for the debt issued by the LIDs.

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
Employee Benefit				
Assets				
Cash and investments available for operations	$1,988,780	$12,484	$233,483	$1,767,781
Receivables:				
Interest	3,008	3,374	3,008	3,374
Total Assets	$1,991,788	$15,858	$236,491	$1,771,155
Liabilities				
Refundable deposits	$1,991,788	$15,858	$236,491	$1,771,155
Total Liabilities	$1,991,788	$15,858	$236,491	$1,771,155
Senior Advisory Commission				
Assets				
Cash and investments available for operations	$8,959	$1,958	$1,687	$9,230
Receivables:				
Interest	13	17	13	17
Total Assets	$8,972	$1,975	$1,700	$9,247
Liabilities				
Refundable deposits	$8,972	$1,975	$1,700	$9,247
Total Liabilities	$8,972	$1,975	$1,700	$9,247
LID #18 - Reassessment and Refunding				
Assets				
Cash and investments available for operations	$1,196,150	$1,077,614	$1,406,934	$866,830
Cash and investments held by trustees	1,231,896	101		1,231,997
Receivable:				
Interest	1,793	1,605	1,793	1,605
Total Assets	$2,429,839	$1,079,320	$1,408,727	$2,100,432
Liabilities				
Due to Local Improvement Districts	$2,429,839	$1,079,320	$1,408,727	$2,100,432
Total Liabilities	$2,429,839	$1,079,320	$1,408,727	$2,100,432

CITY OF MILPITAS
AGENCY FUNDS
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
LID #20				
Assets				
Cash and investments available for operations	$1,287,012	$1,427,603	$1,390,791	$1,323,824
Cash and investments held by trustees	1,217,948	103		1,218,051
Receivables:				
Interest	1,928	2,453	1,928	2,453
Total Assets	$2,506,888	$1,430,159	$1,392,719	$2,544,328
Liabilities				
Due to Local Improvement Districts	$2,506,888	$1,430,159	$1,392,719	$2,544,328
Total Liabilities	$2,506,888	$1,430,159	$1,392,719	$2,544,328
TOTAL AGENCY FUNDS				
Assets				
Cash and investments available for operations	$4,480,901	$2,519,659	$3,032,895	$3,967,665
Cash and investments held by trustees	2,449,844	204		2,450,048
Receivables:				
Interest	6,742	7,449	6,742	7,449
Total Assets	$6,937,487	$2,527,312	$3,039,637	$6,425,162
Liabilities				
Refundable deposits	$2,000,760	$17,833	$238,191	$1,780,402
Due to Local Improvement Districts	4,936,727	2,509,479	2,801,446	4,644,760
Total Liabilities	$6,937,487	$2,527,312	$3,039,637	$6,425,162

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends
These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

Net Position – Schedule 1
Changes in Net Position – Schedule 2
Fund Balances, Governmental Funds – Schedule 3
Changes in Fund Balance, Governmental Funds – Schedule 4

Revenue Capacity
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

Assessed Value and Actual Value of Taxable Property – Schedule 5
Direct and Overlapping Property Taxes Rates – Schedule 6
Principal Property Taxpayers – Schedule 7
Property Tax Levies and Collections – Schedule 8
Taxable Sales by Category – Schedule 9
Direct and Overlapping Sales Tax Rates – Schedule10
Principal Sales Tax Payers – Schedule 11

Debt Capacity
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

Ratios of Outstanding Debt by Type – Schedule 12
Bonded Debt Pledged Revenue Coverage, Redevelopment Agency Tax Allocation Bonds – Schedule 13
Computation of Direct and Overlapping Debt – Schedule 14
Legal Debt Margin Information – Schedule 15
Installment Payment Coverage, Sewer Certificates of Participation – Schedule 16

Demographic and Economic Information
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

Bimonthly Sewer Rates by Customer Class – Schedule 17
Demographic and Economic Statistics – Schedule 18
Principal Employers – Schedule 19

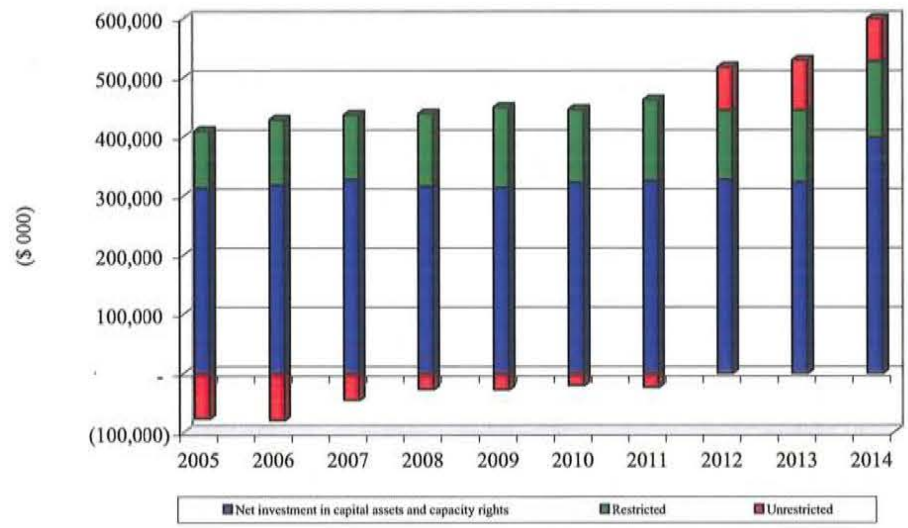
Operating Information
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

Authorized Full-Time Equivalent Employees by Function/Program – Schedule 20
Operating Indicators by Function/Program – Schedule 21
Capital Asset Statistics by Function/Program – Schedule 22

Sources
Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

City of Milpitas
NET POSITION
LAST TEN FISCAL YEARS
(Accrual basis of accounting)
(Dollars in Thousands)

Schedule 1



	Fiscal Year Ended June 30				
	2005	2006	2007	2008	2009
Governmental activities					
Net investment in capital assets and capacity rights	$225,140	$224,223	$232,841	$224,603	$221,744
Restricted	89,652	97,069	92,504	104,161	110,463
Unrestricted	(97,657)	(92,209)	(62,097)	(50,764)	(41,574)
Total governmental activities net position	$217,135	$229,083	$263,248	$278,000	$290,633
Business-type activities					
Net investment in capital assets and capacity rights	$88,191	$94,467 (a)	$95,300	$92,028	$92,576
Restricted	6,774	12,852	16,179	18,252	24,911
Unrestricted	21,125	12,980	16,652	23,603	14,172
Total business-type activities net position	$116,090	$120,299	$128,131	$133,883	$131,659
Primary government					
Net investment in capital assets and capacity rights	$313,331	$318,690	$328,141	$316,631	$314,320
Restricted	96,426	109,921	108,683	122,413	135,374
Unrestricted	(76,532)	(79,229)	(45,445)	(27,161)	(27,402)
Total primary government net position	$333,225	$349,382	$391,379	$411,883	$422,292

	Fiscal Year Ended June 30				
	2010	2011	2012	2013 (b)	2014
Governmental activities					
Net investment in capital assets and capacity rights	$218,878	$218,116	$219,034	$217,002	$291,704
Restricted	98,426	115,474	90,878	88,147	90,758
Unrestricted	(38,500)	(44,592)	53,417	64,876	51,315
Total governmental activities net position	$278,804	$288,998	$363,329	$370,025	$433,777
Business-type activities					
Net investment in capital assets and capacity rights	$104,370	$107,707	$109,146	$106,489	$107,816
Restricted	24,059	20,743	25,239	32,889	37,254
Unrestricted	17,851	20,577	19,838	19,799	20,880
Total business-type activities net position	$146,280	$149,027	$154,223	$159,177	$165,950
Primary government					
Net investment in capital assets and capacity rights	$323,248	$325,823	$328,180	$323,491	$399,520
Restricted	122,485	136,217	116,117	121,036	128,012
Unrestricted	(20,649)	(24,015)	73,255	84,675	72,195
Total primary government net position	$425,084	$438,025	$517,552	$529,202	$599,727

(a) The City restated the balance of capacity rights to remove improvements that did not add to the City's rights.
(b) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position

CITY OF MILPITAS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30			
	2005	2006	2007	2008
Expenses				
Governmental activities				
General Government	$17,412	$18,651	$16,297	$18,130
Building and Safety	2,048	2,195	2,334	2,626
Public Works	17,794	17,156	20,647	20,745
Planning and Neighborhood Services	7,116	7,453	2,396	3,239
Parks and Recreation	4,170	4,266	7,301	6,527
Police	18,773	20,473	21,452	22,440
Fire	14,448	14,381	14,329	15,411
Payment under developer agreements		9,384		
Interest on Long Term Debt	9,338		9,419	11,534
Total governmental activities expenses	91,099	93,959	94,175	100,652
Business-type activities				
Water Utility	9,668	9,837	10,673	11,567
Recycled Water Utility	247	328	337	481
Sewer Utility	6,040	7,047	8,210	8,626
Total business-type activities expenses	15,955	17,212	19,220	20,674
Total primary government expenses	$107,054	$111,171	$113,395	$121,326
Program Revenues				
Governmental activities:				
Charges for services:				
General Government	$906	$580	$662	$996
Building and Safety	2,899	5,800	5,029	4,194
Public Works	311	344	2,817	2,410
Planning and Neighborhood Services	1,678	2,412	436	459
Parks and Recreation	1,482	1,496	1,599	1,663
Police	1,693	1,132	1,406	1,351
Fire	305	1,070	1,109	1,144
Operating grants and contributions	3,780	4,089	4,600	4,617
Capital grants and contributions	12,012	12,971	16,056	15,242
Total government activities program revenues	25,066	29,894	33,714	32,076
Business-type activities				
Charges for services:				
Water Utility	12,430	13,224	14,523	14,937
Recycled Water Utility	1,017	1,086	1,203	1,323
Sewer Utility	8,253	8,966	9,833	10,041
Operating grants and contributions				
Capital grants and contributions	604	3,854	2,418	956
Total business-type activities program revenue	22,304	27,130	27,977	27,257
Total primary government program revenues	$47,370	$57,024	$61,691	$59,333
Net (Expense)/Revenue				
Governmental activities	($66,033)	($64,065)	($60,461)	($68,576)
Business-type activities	6,349	9,918	8,757	6,583
Total primary government net expense	($59,684)	($54,147)	($51,704)	($61,993)

(a) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.

(b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.

(c) The Redevelopment Agency was dissolved as of January 31, 2012.

(d) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."

(e) The parks division is part of the Public Works department beginning in fiscal year 2013.

(f) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.

2009	2010		2011		2012		2013	(d)	2014
$18,184	$33,535	(b)	$21,474	(b)	$17,418	(c)	$15,329		$21,074
2,401	1,972		1,984		2,029		2,293		2,684
19,605	22,843		16,777		21,787		17,700	(e)	18,664
3,249	2,874		2,155		2,144		2,553		2,119
6,518	6,096		6,529		5,823		3,107	(e)	3,012
22,514	22,771		22,661		22,620		21,702		23,373
15,260	14,748		15,085		14,904		15,810		15,159
9,402	9,570		9,536		2,050		227		240
97,133	114,409		96,201		88,775		78,721		86,325
12,545	11,788		12,766		15,229		17,195		17,369
576	476		470		599		(f)		(f)
12,312	8,730		9,240		8,399		9,418		11,008
25,433	20,994		22,476		24,227		26,613		28,377
$122,566	$135,403		$118,677		$113,002		$105,334		$114,702
$956	$1,165		$1,071		$1,349		$1,700		$1,819
2,897	2,031		2,823		3,436		4,554		6,445
1,996	2,571		1,826		2,440		2,668		2,472
358	182		139		237		301		432
1,655	1,642		1,662		1,833		1,987		1,958
1,425	1,091		1,263		1,134		1,051		1,091
1,108	1,137		1,210		1,292		1,508		2,120
4,920	3,892		4,869		6,146		7,487		6,195
9,801	8,840		5,704		8,294		8,286		15,483
25,116	22,551		20,567		26,161		29,542		38,015
13,873	14,051		15,201		16,773		19,801		21,354
1,288	1,260		1,300		1,447		(f)		(f)
9,849	10,393		11,406		12,445		12,632		12,753
	79		70		43		111		57
471	6,406		163		1,629		1,975		1,402
25,481	32,189		28,140		32,337		34,519		35,566
$50,597	$54,740		$48,707		$58,498		$64,061		$73,581
($72,017)	($91,858)		($75,634)		($62,614)		($49,179)		($48,310)
48	11,195		5,664		8,110		7,906		7,189
($71,969)	($80,663)		($69,970)		($54,504)		($41,273)		($41,121)

(Continued)

CITY OF MILPITAS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30			
	2005	2006	2007	2008
General Revenues and Other Changes in Net Position				
Governmental activities				
Taxes:				
Property taxes	$38,913	$44,026	$44,565	$49,061
Less: Educational Revenue Augmentation Fund payment	(2,993)	(2,422)		
Sales and use taxes	13,816	15,613	16,765	15,551
Hotel/Motel taxes	4,986	5,669	6,427	7,195
Other taxes	132	133	125	602
Franchise fees	2,772	2,643	2,912	2,968
Motor vehicle in lieu	421	1,548	357	296
Investment earnings	1,069	1,302	2,225	4,100
Gain on sale of capital assets/property		12	18,257	34
Miscellaneous	332	856	355	109
Redevelopment expense	(102,281) (a)			
Transfers	4,294	6,633	2,638	3,411
Extraordinary item				
Special Item				
Total government activities	(38,539)	76,013	94,626	83,327
Business-type activities				
Investment earnings	627	924	1,714	2,580
Transfers	(4,294)	(6,633)	(2,638)	(3,411)
Total business-type activities	(3,667)	(5,709)	(924)	(831)
Total primary government	($42,206)	$70,304	$93,702	$82,496
Change in net position				
Governmental activities	($104,572)	$11,948	$34,165	$14,751
Business-type activities	2,682	4,209	7,833	5,752
Total primary government	($101,890)	$16,157	$41,998	$20,503

(a) In 2005, the Redevelopment Agency agreed to purchase two parcels of land from the County of Santa Clara.

(b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.

(c) The Redevelopment Agency was dissolved as of January 31, 2012.

(d) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."

(e) The parks division is part of the Public Works department beginning in fiscal year 2013.

(f) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.

(g) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

2009	2010	2011	2012	2013 (d)	2014
$53,917	$58,012 (b)	$55,655 (b)	$34,029	$20,469	$27,607
15,670	14,725	16,429	18,758	20,196	19,014
5,550	5,297	6,124	7,068	7,933	9,336
416	407	380	491	516	672
3,151	2,993	3,083	3,218	3,270	3,453
237	209	323	35	37	31
1,553	700	399	1,093	260	844
35	171			46	
92	85	62	67	103	200
4,029	(2,570)	3,374	3,304	3,045	3,402
			68,882 (c)		
					49,799 (g)
84,650	80,029	85,829	136,945	55,875	114,358
1,756	857	455	390	94	690
(4,029)	2,570	(3,374)	(3,304)	(3,045)	(3,402)
(2,273)	3,427	(2,919)	(2,914)	(2,951)	(2,712)
$82,377	$83,456	$82,910	$134,031	$52,924	$111,646
$12,633	($11,829)	$10,195	$74,331	$6,696	$66,048
(2,225)	14,622	2,745	5,196	4,955	4,477
$10,408	$2,793	$12,940	$79,527	$11,651	$70,525

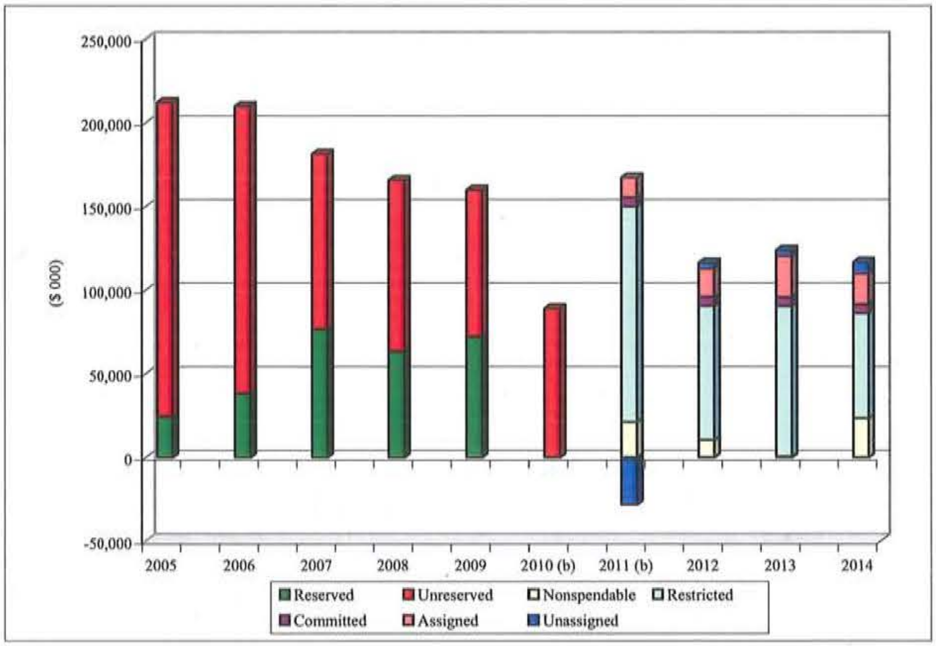
CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

CITY OF MILPITAS
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)



	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010 (b)	2011 (b)	2012	2013	2014
General Fund										
Reserved	$1,344	$1,315	$21,753	$21,749	$21,542					
Unreserved	26,699	27,966	26,716	29,359	29,293					
Nonspendable						$20,977	$20,970	$577	$468	$23,279
Restricted							24,555			
Committed						5,433	5,433	5,433	5,433	5,433
Assigned						9,465	9,698	13,904	10,434	6,658
Unassigned						14,920	15,448	15,800	16,444	13,521
Total General Fund	$28,043	$29,281	$48,469	$51,108	$50,835	$50,795	$76,104	$35,714	$32,779	$48,891
All Other Governmental Funds										
Reserved	$23,049	$36,812	$54,763	$41,416	$50,608					
Unreserved, reported in:										
Special revenue funds	23,745	3,524	4,025	4,213	4,603					
Capital project funds	137,415	140,259	74,178	69,028	53,845					
Debt service funds										
Nonspendable						$115	$23	$9,788	$11	$32
Restricted						96,873	104,290	80,112	89,821	62,661
Assigned						2,196	2,127	2,892	14,244	11,808
Unassigned						(10,219)	(43,624)	(12,234)	(12,955)	(6,610)
Total all other governmental funds	$184,209	$180,595	$132,966	$114,657	$109,056	$88,965	$62,816	$80,558	$91,121	$67,891 (a)

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.
(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011, and years prior to 2010 have not been restated to conform with the new presentation.

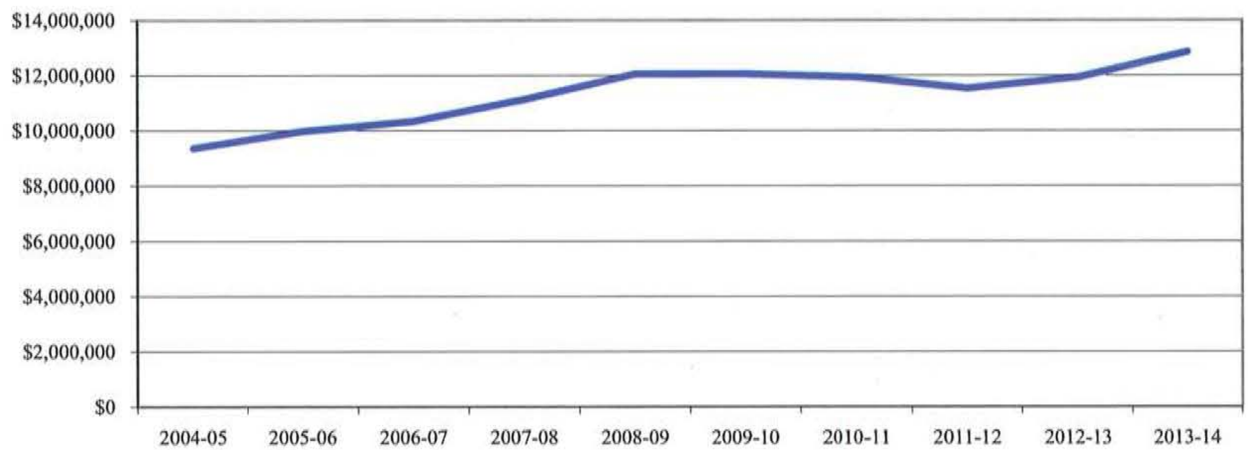
CITY OF MILPITAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(Dollars in Thousands)

	Fiscal Year Ended June 30				
	2005	2006	2007	2008	2009
Revenues					
Property taxes	$38,337	$43,155	$44,289	$49,060	$53,917
Less: Educational Revenue					
Augmentation Fund payment	(2,993)	(2,422)			
Sales taxes	14,409	16,228	17,383	16,173	16,251
Other taxes	9,066	10,003	10,508	11,636	9,937
Licenses and fines	4,328	7,357	6,958	5,991	4,619
Use of money and property	6,149	6,260	8,292	11,096	8,984
Intergovernmental	4,914	6,045	5,589	4,092	6,004
Charges for services	3,842	4,165	4,715	4,612	4,146
Developer contributions	1,439	5,010	1,217	2,884	2,558
Other	4,097	1,186	8,978	584	816
Total Revenues	83,588	96,987	107,929	106,128	107,232
Expenditures					
Current:					
General government	13,026	15,608	34,136	15,079	17,834
Building and safety	2,075	2,226	2,232	2,566	2,420
Human resources and recreation					
Public works	7,736	7,789	10,646 (b)	11,016	10,066
Engineering and planning	6,444	6,581	(b)		
Planning and neighborhood services			2,329 (b)	2,528	2,576
Recreation	4,199	4,284	(b)		
Parks and recreation			6,486 (b)	6,513	6,416
Police	19,723	20,167	20,081	21,701	21,602
Fire	15,363	14,312	13,717	14,664	15,279
Supplemental educational revenue augmentation fund payment					
Capital outlay	15,998	16,861	46,076	33,133	21,585
Payments under developer agreements					
Debt service:					
Principal	6,605	8,559	8,508	8,490	8,481
Interest and fees	9,379	9,424	15,250	11,528	11,516
Total Expenditures	100,548	105,811	159,461	127,218	117,775
Excess (deficiency) of revenues over (under) expenditures	(16,960)	(8,824)	(51,532)	(21,090)	(10,543)
Other Financing Sources (Uses)					
Proceeds from debt issuance			20,455		
Bond issuance premium					
Payments to refunded debt escrow agent					
Proceeds from sale of properties				1,868	14
Loss from sale of property					
Transfers in	23,095	28,523	22,561	20,420	23,278
Transfers (out)	(18,801)	(22,075)	(19,924)	(16,869)	(18,624)
Total other financing sources (uses)	4,294	6,448	23,092	5,419	4,668
Extraordinary Items					
Assets transferred to Housing Successor					
Assets transferred to/liabilities assumed by Successor Agency/Housing Successor					
Special Item					
Redevelopment expense	(48,000) (a)				
Assets transferred to/from Successor Agency and County					
Net Change in fund balances	($60,666)	($2,376)	($28,440)	($15,671)	($5,875)
Debt service as a percentage of noncapital expenditures	18.9%	20.2%	26.5%	21.3%	20.8%

(a) In 2005, the Redevelopment Agency made a cash payment of $48,000 K to the County of Santa Clara for two parcels of land.
(b) The City departments were reorganized in fiscal 2007.
(c) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.
Years prior to 2010 have not been restated to reflect this change in presentation.
(d) The Redevelopment Agency was dissolved as of January 31, 2012.
(e) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department.
(f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

Fiscal Year Ended June 30				
2010	2011	2012	2013	2014
$58,012 (c)	$55,655 (c)	$34,029 (d)	$20,466	$27,608
15,268	16,994	19,403	20,908	19,766
9,495	10,917	12,230	13,343	14,992
3,481	4,309	4,956	5,875	8,193
7,168	3,948	5,303	1,538	2,964
6,362	5,082	4,834	5,842	5,216
3,704	4,020	4,725	5,550	5,735
4,739	3,360	7,549	7,987	13,975
933	1,039	578	715	1,144
109,162	105,324	93,607	82,224	99,593
20,602 (c)	19,003 (c)	12,753 (d)	11,871	13,204
1,992	1,975	2,060	2,278	2,658
			3,087 (e)	3,124
13,619	7,960	8,772	9,124	8,535
2,180	2,267	2,196	2,030	2,202
6,052	5,688	5,261	(e)	(e)
22,071	21,682	21,733	20,978	22,165
14,249	14,994	14,562	15,420	14,587
11,774	2,424			
16,938	12,940	28,876	7,510	10,035
8,169	8,225	13,153	4,209	3,828
11,982	12,386	6,823	668	223
129,628	109,544	116,189	77,175	80,561
(20,466)	(4,220)	(22,582)	5,049	19,032
		21,780		
			46	
4	5	8		6
			(512)	
23,590	119,213	34,994	13,780	7,499
(23,259)	(115,839)	(31,690)	(10,735)	(4,098)
335	3,379	25,092	2,579	3,407
		17,274 (d)		
		(42,431) (d)		
				(27,261) (f)
($20,131)	($841)	($22,647)	$7,628	($4,822)
17.9%	18.5%	22.9%	7.0%	5.7%

CITY OF MILPITAS
ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(Dollars in Thousands)



	Real Property							
Fiscal Year	Residential Property	Commercial Property	Industrial Property	Other	Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
2004-05	$4,572,065	$798,350	$2,095,928	$603,547	$1,379,444	($110,377)	$9,338,957	1%
2005-06	4,952,629	814,287	2,032,245	641,662	1,651,527	(131,810)	9,960,540	1%
2006-07	5,513,377	1,141,925	2,179,658	328,782	1,284,778	(129,187)	10,319,333	1%
2007-08	5,974,338	1,208,674	2,423,285	320,499	1,329,060	(146,495)	11,109,361	1%
2008-09	6,345,176	1,350,579	2,806,181	307,980	1,437,414	(220,624)	12,026,706	1%
2009-10	6,199,167	1,368,086	2,904,523	352,408	1,446,827	(245,778)	12,025,233	1%
2010-11	6,169,631	1,347,861	2,772,798	346,493	1,557,639	(282,326)	11,912,096	1%
2011-12	6,237,714	1,325,735	2,474,543	327,933	1,415,065	(282,633)	11,498,357	1%
2012-13	6,291,949	1,348,591	2,507,227	355,453	1,706,657	(309,165)	11,900,712	1%
2013-14	6,793,845	1,388,236	2,622,328	405,531	1,764,760	(161,341)	12,813,359	1%

Source: Hdl Coren & Cone, Santa Clara County Assessor Combined Tax Rolls

Notes:

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

CITY OF MILPITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(Rate per $100 of assessed value)

	City Direct Rates		Overlapping Rates (a)		
Fiscal Year	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
2004-05	$1.00	$1.00	$0.0412	$0.0624	$0.0092
2005-06	1.00	1.00	0.0412	0.0509	0.0078
2006-07	1.00	1.00	0.0412	0.0518	0.0072
2007-08	1.00	1.00	0.0412	0.0874	0.0071
2008-09	1.00	1.00	0.0412	0.0874	0.0061
2009-10	1.00	1.00	0.0412	0.1238	0.0074
2010-11	1.00	1.00	0.0412	0.1389	0.0072
2011-12	1.00	1.00	0.0412	0.1490	0.0064
2012-13	1.00	1.00	0.0412	0.1140	0.0069
2013-14	1.00	1.00	0.0412	0.0961	0.0070

Source: County of Santa Clara, Tax Rates & Information

Notes:

(a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.
(b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.

CITY OF MILPITAS
PRINCIPAL PROPERTY TAX PAYERS
FISCAL YEARS 2013-14 and 2004-05
(Dollars in thousands)

Taxpayer	2013-2014 Taxable Assessed Value	2013-2014 Rank	2013-2014 Percentage of Total City Taxable Assessed Value	2004-2005 Taxable Assessed Value	2004-2005 Rank	2004-2005 Percentage of Total City Taxable Assessed Value
Cisco Technology Inc.	$ 987,389,413	1	7.71%	$197,220,880	2	2.11%
Milpitas Mills LP	302,422,174	2	2.36%	274,123,789	1	2.94%
KLA Tencor Corporation	249,599,168	3	1.95%	170,942,454	4	1.83%
California Diversified	153,500,000	4	1.20%			
Linear Technology Corporation	132,393,688	5	1.03%	82,333,263	10	0.88%
BRE Milpitas LLC	121,141,738	6	0.95%			
Headway Technologies Inc.	114,307,730	7	0.89%	124,853,141	6	1.34%
Silicon Valley California LLC	106,048,587	8	0.83%			
Sandbox Expansion LLC	89,250,000	9	0.70%			
Fairfield Murphy RD LLC	83,610,070	10	0.65%			
Richard T. Peery Trustee				188,618,732	3	2.02%
Lifescan Inc				103,660,117	7	1.11%
Solectron Corporation				101,868,420	8	1.09%
Seagate Technology				141,802,084	5	1.52%
Trinet Milpitas Associates				92,399,615	9	0.99%
Subtotal	$ 2,339,662,568		18.26%	$ 1,477,822,495		15.82%

Fiscal Year 2013-2014 Total Net Assessed Valuation	$12,813,359,000
Fiscal Year 2004-2005 Total Net Assessed Valuation	$9,338,957,000

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2013/14 Combined Tax Rolls

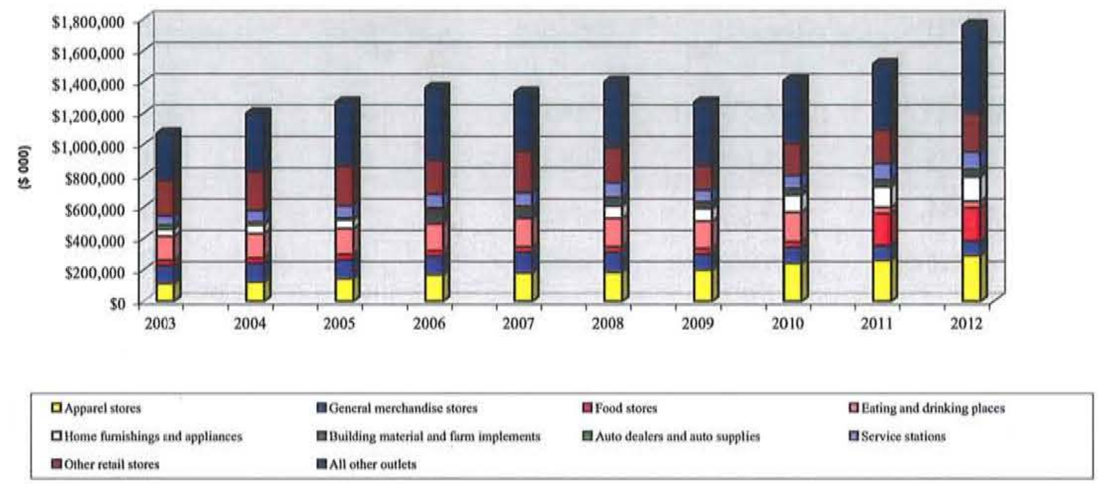
CITY OF MILPITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Dollars in thousands)

Fiscal Year		Taxes Levied (a)	Current Collections (a)	Percent of Levy Collected	Delinquent Tax Collections	Total Taxes Collected (a)	Percent of Levy
2004-05		$38,337	$38,337	100.00%	0	$38,337	100.00%
2005-06		43,155	43,155	100.00%	0	43,155	100.00%
2006-07		44,289	44,289	100.00%	0	44,289	100.00%
2007-08		49,060	49,060	100.00%	0	49,060	100.00%
2008-09		53,917	53,917	100.00%	0	53,917	100.00%
2009-10	(b)	58,012	58,012	100.00%	0	58,012	100.00%
2010-11	(b)	55,655	55,655	100.00%	0	55,655	100.00%
2011-12	(c)	34,029	34,029	100.00%	0	34,029	100.00%
2012-13	(c)	20,469	20,469	100.00%	0	20,469	100.00%
2013-14		27,608	27,608	100.00%	0	27,608	100.00%

(a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.
(b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.
Years prior to 2010 have not been restated to reflect this change in presentation.
(c) The Redevelopment Agency was dissolved effective January 31, 2012 and collections of property tax increment ceased as of that date. Subsequent to that date, a Successor Agency collects property taxes of the former Redevelopment Agency.

Source: City of Milpitas Comprehensive Financial Annual Report

CITY OF MILPITAS
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(Dollars in Thousands)



	CALENDAR YEARS									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Apparel stores	$114,599	$123,583	$145,317	$168,985	$181,878	$185,023	$200,140	$241,992	$261,414	$291,268
General merchandise stores	113,574	119,471	120,297	118,348	131,594	130,193	101,561	100,790	94,828	92,652
Food stores	33,765	32,950	33,592	34,979	34,362	31,105	34,453	38,004	203,411	214,065
Eating and drinking places	152,736	156,318	164,694	173,424	181,668	183,049	174,016	187,002	39,344	40,725
Home furnishings and appliances	45,497	54,460	54,906	(a)	(a)	77,669	80,746	108,491	130,572	155,616
Building material and farm implements	(a)	(a)	(a)	91,571	79,360	57,594	44,818	45,501	48,131	51,128
Auto dealers and auto supplies	25,558	19,990	15,132	12,221	(a)	(a)	(a)	(a)	(a)	(a)
Service stations	58,491	71,231	76,455	82,868	85,468	93,324	73,280	83,100	102,231	108,073
Other retail stores	227,373	251,599	255,805	220,862	266,915	225,954	158,982	204,074	215,350	250,826
All other outlets	301,404	370,253	405,111	460,265	373,394	417,099	402,516	401,569	420,024	558,935
Total	$1,072,997	$1,199,855	$1,271,309	$1,363,523	$1,334,639	$1,401,010	$1,270,512	$1,410,523	$1,515,305	$1,763,288
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

(a) Sales omitted because their publication would result in the disclosure of confidential information.
The numbers are included with "Other retail stores".

Source: California State Board of Equalization

CITY OF MILPITAS
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rate	Santa Clara County		State of California	
2004-05	1.00	1.00		6.25	(a)
2005-06	1.00	1.00		6.25	
2006-07	1.00	1.00		6.25	
2007-08	1.00	1.00		6.25	
2008-09	1.00	1.00		7.25	(b)
2009-10	1.00	1.00		7.25	
2010-11	1.00	1.00		7.25	
2011-12	1.00	1.00		6.25	(c)
2012-13	1.00	1.25	(d)	6.50	(e)
2013-14	1.00	1.25		6.50	

Source: California State Board of Equalization
(a) July 1, 2004 the State increased the State Rate .25%
(b) April 1, 2009 the State increased the State Rate 1%
(c) July 1, 2011 the State decreased the State Rate 1%
(d) April 1, 2013 the County increased the rate 0.25%
(e) On both July 1, 2012 and April 1, 2013 the State increased the State Rate 0.125%

Note: The City's sales tax rate may be changed only with approval of the State Legislature.

CITY OF MILPITAS
PRINCIPAL SALES TAX PAYERS
CALENDAR YEARS 2013 and 2003
IN ALPHABETICAL ORDER

2013	2003
Best Buy Stores	Arco AM/PM Mini Marts
Burlington Coast Factory	Bay Tool & Supply
Chevron Service Stations	Best Buy Stores
Cisco System Inc	Chevron Service Stations
Coach Stores	Dave & Busters
Dave & Busters	FEI Company
Flextronics	Hanson Concrete Products
Headway Technologies	Headway Technologies
Home Depot	Home Depot
KLA Tencor Corporation	KLA Tencor Corporation
Kohl's Department Stores	Life Scan
Leotek Electronics USA	Marshall's Department Stores
Marshall's Department Stores	Mazak Corporation
Mazak Corporation	McDonald's Restaurant
Milpitas Materials Company	Mervyn's Department Stores
Nanometrics	Milpitas Materials Company
Nike Factory Store	Nanometrics
One Workplace	OHKA America
Piercey Toyota & Scion	One Workplace L. Ferrari
Pivot Interiors	Orchard Supply Hardware
Shell Service Stations	Saks Fifth Avenue
South Bay Honda	Shell Services Stations
Tesoro Service Stations	Union 76 Service Stations
The Gap	Walgreen's Drug Stores
Wal-Mart Stores	WalMart Stores

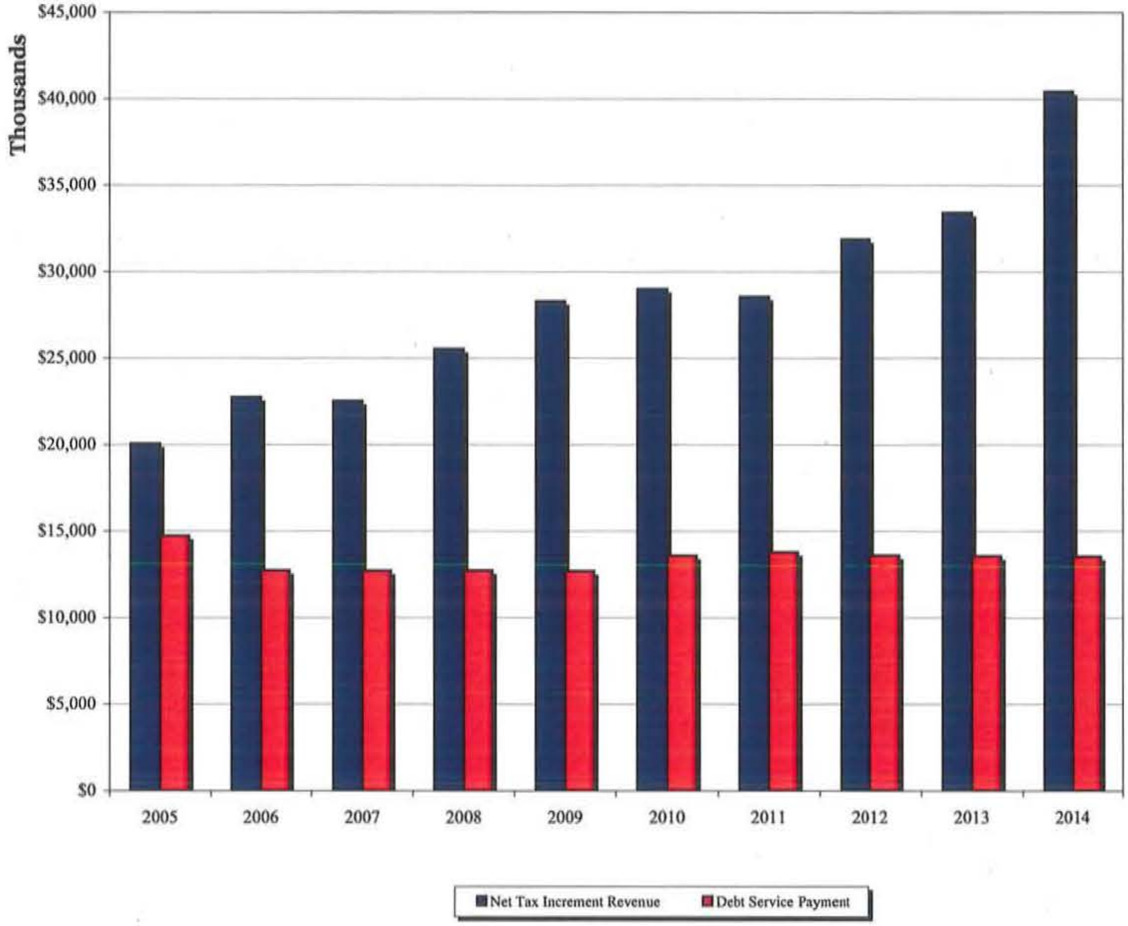
Source: MBIA MuniServices Company

CITY OF MILPITAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Dollars in thousands, except per capita)

	Governmental Activities					Business-type Activities			
Fiscal Year	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
2004-05	$4,630	$194,440	$54,281	$0	$0	$0	$253,351	7.95%	$3,898
2005-06	3,540	190,780	50,471	0	0	0	244,791	7.50%	3,750
2006-07	2,410	187,030	46,843	0	0	9,535	245,818	6.71%	3,693
2007-08	1,230	183,175	43,388	0	0	9,160	236,953	5.79%	3,413
2008-09	0	179,215	40,097	0	0	8,815	228,127	5.46%	3,221
2009-10	0	174,180	36,963	0	0	8,460	219,603	5.29%	3,069
2010-11	0	168,940	33,978	0	0	8,090	211,008	5.17%	2,949
2011-12	0	0 (b)	0 (b)	14,037	0	7,710	21,747	0.53%	322
2012-13	0	0	0	9,828	360	7,315	17,503	0.39%	258
2013-14	0	0	0	6,000	274	6,910	13,184	(c)	188

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
(a) See Schedule 18 for personal income and population data.
(b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency.
(c) Data for fiscal year 2013-14 not available until May of 2015.

CITY OF MILPITAS
BONDED DEBT PLEDGED REVENUE COVERAGE
REDEVELOPMENT AGENCY TAX ALLOCATION BONDS
LAST TEN FISCAL YEARS



Fiscal Year	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements Principal	Interest	Total	Coverage
2005	$25,215,408	$5,160,555	$20,054,853	$5,560,000	$9,163,896	$14,723,896	1.36
2006	28,606,441	5,867,736	22,738,705	3,660,000	9,062,546	12,722,546	1.79
2007	28,413,636	5,886,749	22,526,887	3,750,000	8,965,234	12,715,234	1.77
2008	32,259,656	6,740,250	25,519,406	3,855,000	8,860,665	12,715,665	2.01
2009	36,167,427	7,876,041	28,291,386	3,960,000	8,728,458	12,688,458	2.23
2010	37,162,281	8,175,650	28,986,631	5,035,000	8,548,558	13,583,558	2.13
2011	36,353,737	7,800,736	28,553,001	5,240,000	8,548,559	13,788,559	2.07
2012	31,866,464 (b) (d)	0 (b)	31,866,464	5,410,000 (c)	8,182,883 (c)	13,592,883	2.34
2013	33,401,413 (d)	0 (b)	33,401,413	5,595,000 (d)	7,973,533 (d)	13,568,533	2.46
2014	40,418,284 (d)	0 (b)	40,418,284	5,825,000 (d)	7,713,234 (d)	13,538,234	2.99

(a) Tax increments are net of pass-through payments and administrative fees withheld by the County prior to distribution to the Agency.

(b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency. The Successor Agency collects Property Taxes, with no distinction between housing and non-housing revenues, which are used for the repayment of the former Redevelopment Agency's Bonds.

(c) Includes debt service paid by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution.

(d) Tax increment reported in this table after the dissolution date is the amount calculated by the County Auditor-Controller as available for payment of enforceable obligations. Under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations.
Debt service reported was paid by the Successor Agency.

CITY OF MILPITAS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2014

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2013-14 Assessed Valuation, Direct and Overlapping Debt		$12,813,358,274
OVERLAPPING TAX AND ASSESSMENT DEBT:		
Santa Clara County	3.831%	$30,828,057
San Jose- Evergreen Community College District	11.740%	50,698,597
Milpitas Unified School District	98.984%	87,585,992
East Side Union High School District	0.348%	2,307,804
Berryessa Union School District	2.291%	687,484
Santa Clara Valley Water District Benefits Assessment District	3.831%	4,407,374
City of Milpitas 1915 Act Bonds	100%	8,995,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		185,510,308
DIRECT AND OVERLAPPING GENERAL FUND DEBT		
Santa Clara County General Fund Obligations	3.831%	29,031,867
Santa Clara County Pension Obligations	3.831%	14,382,307
Santa Clara County Board of Education Certificates of Participation	3.831%	372,756
San Jose- Evergreen Community College District OPEB Bonds	11.740%	5,570,630
East Side Union High School District OPEB Bonds	0.348%	107,167
City of Milpitas	**100%**	**0**
Santa Clara County Vector District Certifications of Participations	3.831%	125,465
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		49,590,192
Less: Santa Clara County supported obligations		(20,438,256)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$29,151,936
OVERLAPPING TAX INCREMENT DEBT (Successor Agency)	100%	$152,110,000
TOTAL DIRECT DEBT		**$0**
TOTAL GROSS OVERLAPPING DEBT		$387,210,500
TOTAL NET OVERLAPPING DEBT		$366,772,244
GROSS COMBINED TOTAL DEBT		$387,210,500 (2)
NET COMBINED TOTAL DEBT		$366,772,244

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2013-14 Assessed Valuation:	
Total Overlapping Tax and Assessment Debt	1.45%
Ratios to Assessed Valuation:	
Direct Debt %	0.00%
Total Gross Debt %	3.02%

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2013-14

Assessed value (net) - June 30, 2014		$12,813,359
Debt limit: 3.75% of assessed value (a)		$480,501
Debt applicable to limit		
Total Bonded Debt	$0	
Less: Tax Allocation Bonds not subject to limit	0	
Amount of Debt subject to limit		0
Legal debt margin		$480,501

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2004-05	$350,211	0	$350,211	0.0%
2005-06	373,520	0	373,520	0.0%
2006-07	386,975	0	386,975	0.0%
2007-08	416,601	0	416,601	0.0%
2008-09	451,001	0	451,001	0.0%
2009-10	450,946	0	450,946	0.0%
2010-11	446,703	0	446,703	0.0%
2011-12	431,188	0	431,188	0.0%
2012-13	446,277	0	446,277	0.0%
2013-14	480,501	0	480,501	0.0%

(a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in being assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

Source: City of Milpitas Finance Department
Santa Clara County Tax Assessor's Office

CITY OF MILPITAS
INSTALLMENT PAYMENT COVERAGE
SEWER CERTIFICATES OF PARTICIPATION
LAST SEVEN FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments Principal	Interest	Total	Coverage
2007-08	$11,508,195	$6,208,050	$5,300,145	$375,000	$353,893	$728,893	7.27
2008-09	10,703,586	9,838,790	864,796	345,000	406,212	751,212	1.15
2009-10	10,896,264	6,196,015	4,700,249	355,000	331,793	686,793	6.84
2010-11	11,752,362	6,420,615	5,331,747	370,000	319,468	689,468	7.73
2011-12	12,757,123	5,405,936	7,351,187	380,000	304,267	684,267	10.74
2012-13	12,785,567	6,356,621	6,428,946	395,000	292,966	687,966	9.34
2013-14	13,235,908	7,834,220	5,401,688	405,000	278,965	683,965	7.90

NOTE: The Certificates of Participation were issued on November 28, 2006.

(1) Gross Revenues include sewer service charges, other operating revenues, and interest income. Gross Revenues exclude connection fees and capital contributions.

(2) Operating Expenses include sewer treatment services, personnel services, services and supplies, and repairs and maintenance expenses. Operating Expenses exclude depreciation and amortization expenses.

CITY OF MILPITAS
BIMONTHLY SEWER RATES BY CUSTOMER CLASS
LAST TEN FISCAL YEARS

	Residential			Commercial	
Fiscal Year	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges (a)
2004-05	50.25	36.48	22.76	8.48	0.01 - 4.89
2005-06	54.77	39.49	24.57	9.24	0.02 - 3.50
2006-07	59.70	43.14	26.88	10.08	0.02 - 3.93
2007-08	59.70	43.14	26.88	10.08	0.02 - 3.93
2008-09	59.70	43.14	26.88	10.08	0.02 - 3.93
2009-10	65.08	46.49	28.73	10.99	0.97 - 6.52
2010-11	70.94	50.68	31.18	11.98	0.72 - 7.61
2011-12	72.95	51.06	33.36	12.82	2.38 - 6.99
2012-13	75.92	51.06	33.36	13.72	2.38 - 6.99
2013-14	75.92	51.06	33.36	13.72	2.38 - 6.99

Source: City of Milpitas, Engineering Department

(a) For each one hundred cubic feet of water used. Charge varies depending on the business or type of business.

CITY OF MILPITAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(Dollars in Thousands)

Fiscal Year	Population	Population Density (Sq. Mile)	Total Personal Income (a), (b)	Per Capita Personal Income (a)	School Enrollment	Unemployment Rate (%) (a)	Land Area (Sq. Mile)
2004-05	64,998	4,758	$3,184,902	49	9,602	5.60%	13.66
2005-06	65,276	4,779	3,263,800	50	9,748	4.40%	13.66
2006-07	66,568	4,873	3,661,240	55	9,682	4.70%	13.66
2007-08	69,419	5,082	4,095,721	59	9,590	5.90%	13.66
2008-09	70,817	5,184	4,178,203	59	9,649	11.80%	13.66
2009-10	71,553	5,238	4,150,074	58	9,802	11.30%	13.66
2010-11	71,552	5,238	4,078,464	57	9,887	10.30%	13.66
2011-12	67,476	4,940	4,116,036	61	9,949	8.70%	13.66
2012-13	67,894	4,970	4,481,004	66	10,033	6.80%	13.66
2013-14	70,092	5,007	(c)	(c)	10,156	5.40%	14.00

(a) For Santa Clara County.
(b) Data not available for the City, therefore the balance reported is the product of the County's Per Capita Personal Income and the City's population.
(c) Data for fiscal year 2013-14 is not available until May of 2015.

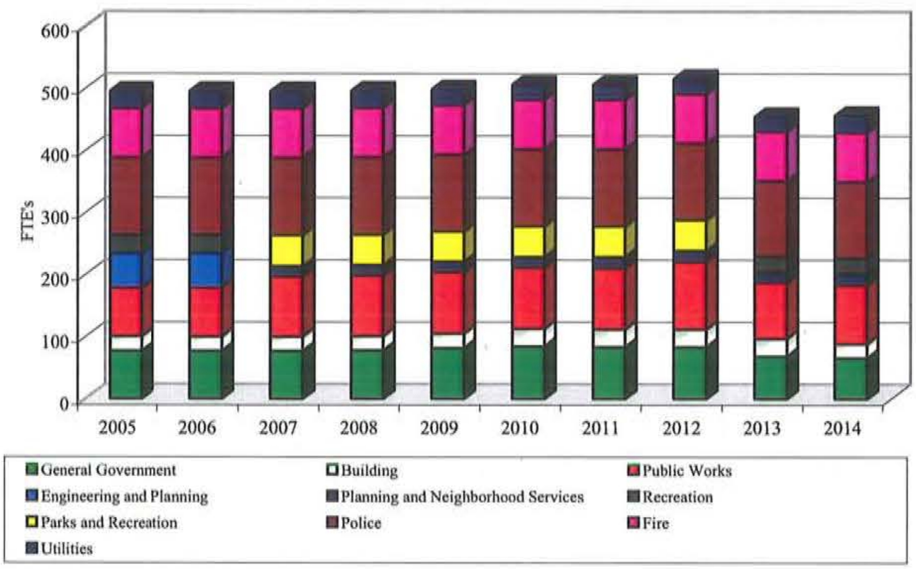
Sources: California Department of Education
California Employment Development Department
State of California, Department of Finance.
U.S. Department of Commerce, Bureau of Economic Analysis

CITY OF MILPITAS
PRINCIPAL EMPLOYERS
FISCAL YEAR 2013-14 and 2004-2005

	2013-14			2004-2005		
Employer	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,816	1	11.43%	3,000	2	8.98%
KLA-Tencor Corporation	2,402	2	7.19%	1,000	7	2.99%
SanDisk Corporation	1,875	3	5.61%			
Linear Technology Corporation	1,240	4	3.71%	900	8	2.69%
Flextronics International	1,200	5	3.59%			
Milpitas Unified School District	841	6	2.52%	849	9	2.54%
FireEye, Inc	702	7	2.10%			
Headway Technologies	699	8	2.09%			
Spectra Laboratories	350	9	1.05%			
Kaiser Permanente	350	10	1.05%			
Great Mall				3,000	1	8.98%
Lifescan, Inc.				2,500	3	7.49%
LSI Logic Corporation				1,320	4	3.95%
Seagate Technology				1,100	5	3.29%
Solectron California				1,000	6	2.99%
Adaptec Inc.				505	10	1.51%
Subtotal	13,475		40.34%	15,174		45.43%
Total Labor Force			33,400			33,400

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS
AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS



	Adopted for Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Function										
General Government	77.3	77.0	77.0	78.0	82.0	84.5	83.5	83.5	68.5	65.5
Building and Safety	23.0	23.0	23.0	23.0	23.0	28.0	28.0	28.0	28.0	23.0
Public Works	78.8	79.0	97.0 (a)	98.0	99.0	99.0	99.0	109.0	91.0	94.5
Engineering and Planning	55.5	55.5	(a)							
Planning and Neighborhood Services			16.5 (a)	16.5	17.0	17.0	18.0	18.0	16.5	18.5
Recreation	29.0	29.0	(a)						25.5 (b)	25.5
Parks and Recreation			50.0 (a)	49.0	48.5	49.5	49.5	49.5	(b)	(b)
Police:										
Sworn Police	94.0	94.0	94.0	94.0	94.5	94.5	94.5	94.0	91.5	92.0
Civilians	30.5	30.5	30.5	30.5	29.0	29.0	29.0	29.0	29.5	30.0
Fire:										
Firefighters and Safety	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Utilities	27.0	27.0	27.0	27.0	25.0	24.5	24.5	24.5	24.0	27.5
Total	495.0	495.0	495.0	496.0	498.0	506.0	506.0	515.5	454.5	456.5

(a) The City departments were reorganized in fiscal year 2007.

(b) Beginning in fiscal year 2013, parks maintenance division is now under public works department and recreation division is part of human resources department, but it is reported separately here.

Source: City of Milpitas, final budget

CITY OF MILPITAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Fiscal Year				
	2005	2006	2007	2008	2009
Function/Program					
Building and Safety					
Building permits issued	3,156	3,788	3,500	3,500	3,500
Plan checked performed	650	1,181	1,000	1,000	1,000
Public Works					
Street miles maintained	138	139	139	139	139
Customer Service Requests	3,500	3,326	3,208	3,500	3,924
Development projects reviewed	n/a	293	190	150	100
Planning and Neighborhood Services					
Customer Service Requests/Violations abated	1,620	1,802	1,470	1,100	1,250
Applications to Planning Commission	120	150	165	150	112
Parks and Recreation					
Sports Center members	6,500	7,508	7,885	8,278	8,500
Senior nutrition meals served	16,932	19,421	20,667	21,165	23,228
Athletic Field maintenance (hours)	1,947	1,947	1,947	1,946	2,242
Police					
Avg response time to emergency calls (minutes)	3:44	3:12	3:06	3:06	2:46
Number of anti-terrorist patrol checks	10,664	12,813	12,300	3,500	3,500
Crime prevention presentations	180	179	190	240	275
Number of vehicle citations issued	14,453	14,161	10,624	12,386	11,558
DARE presentations: schools/students	14/1579	13/1538	14/1572	14/1492	13/1440
Fire					
Emergency calls for service	4,200	4,250	4,000	4,368	4,300
Public education events	73	70	65	80	70
Permits Inspections	2,514	4,231	4,300	5,400	4,000
Plan Review	845	1,005	1,000	750	995
Utility					
Clean sewer lines (feet)	500,000	500,000	500,000	500,000	500,000
Repair, replace or set water meters	422	425	600	580	700
Average daily consumption (thousands of gallons)	10,090	9,162	9,693	9,693	8,870

Source: City of Milpitas, final budget

Fiscal Year				
2010	2011	2012	2013	2014
2,700	2,800	2,800	3,400	4,300
800	800	800	1,100	1,500
139	139	139	139	139
3,900	3,000	3,350	3,500	2,880
118	225	200	200	205
980	800	725	725	725
84	45	96	106	159
10,000	1,200	1,400	1,600	1,450
24,056	23,076	23,304	22,090	20,656
2,100	1,641	n/a	n/a	n/a
2:47	2:49	2:42	2:32	2:33
1,469	1,469	1,693	1,996	2,550
266	281	235	201	200
11,391	8,544	6,901	4,120	3,516
12/850	11/845	12/770	0	0
4,400	4,400	4,075	4,356	4,356
90	80	120	45	45
4,000	4,000	4,334	4,510	4,510
1,000	900	671	807	807
500,000	550,000	500,000	329,313	640,255
500	380	491	149	298
9,200	8,100	8,200	9,340	9,300

CITY OF MILPITAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Fiscal Year				
	2005	2006	2007	2008	2009
Function/Program					
Public Works					
Miles of streets	137	139	139	139	138
Street lights	4,346	4,354	4,354	4,435	4,460
Square feet of buildings maintained (in thousands)	350	350	350	350	350
City vehicles	631	635	635	630	617
Signs	7,250	7,167	7,400	8,000	8,131
Signal lights	68	68	68	68	71
City Parks	26	26	29	32	32
Acres of Parkland	172	172	172	172	179
Playgrounds	32	32	30	29	37
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Swimming pools	3	3	4	4	3
Tennis courts	22	22	22	22	24
Football field	1	1	1	1	1
Baseball fields	21	21	21	21	21
Soccer fields	13	13	13	13	13
Basketball courts	5	5	5	5	5.5
Volleyball courts	7	7	7	7	7
Handball courts	4	4	4	4	4
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	30	30	28	27	28
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	13	14	16	14	14
Fire hydrants	1,755	1,756	1,756	1,809	1,756
Utility					
Miles of water mains	203	204	204	206	204
Water Tank Storage capacity (million of gallons)	15.64	15.64	15.64	16.21	15.64
Miles of sanitary sewers	173	173	173	177	173
Miles of storm drain	99	105	105	107	106
Miles of recycled water main	11.0	11.0	11.0	11.0	11.0

Source: City of Milpitas, final budget

Fiscal Year				
2010	2011	2012	2013	2014
139	139	287	287	287
4,496	4,496	4,500	4,500	4,500
350	427	376	376	376
622	622	247	242	252
8,363	8,363	8,534	8,534	5,500
71	71	72	72	72
29	31	31	33	34
179	178	179	179	180
33	33	33	24	25
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
4	4	3	3	3
20	17	20	20	20
1	1	1	1	1
15	15	12	8	8
5	2	3	9	9
5.0	5.0	4.0	8	8
5	4	5	4	9
1	1	1	5	5
2	2	2	2	2
28	28	27	27	29
4	4	4	4	4
13	15	13	22	19
1,840	1,840	1,840	1,840	1,847
213	213	213	213	214
16.26	16.26	16.26	16	16
178	178	179	179	179
110	110	110	110	110
3.1	3.1	3.9	4	4

CITY OF MILPITAS

CALIFORNIA

INCORPORATED

JANUARY 26, 1954

APPENDIX F

STATE DEPARTMENT OF FINANCE APPROVAL LETTER

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January 13, 2015

Ms. Emma Karlen, Director of Financial Services
City of Milpitas
455 East Calaveras Boulevard
Milpitas, CA 95035

Dear Ms. Karlen:

Subject: Approval of Oversight Board Action

The City of Milpitas Successor Agency (Agency) notified the California Department of Finance (Finance) of its December 2, 2014 Oversight Board (OB) resolution on December 3, 2014 Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance has completed its review of the OB action.

Based on our review and application of the law, OB Resolution No. 50 approving the Agency to refund the 2003 Tax Allocation Bonds, is approved. This approval is specifically conditioned on the understanding that no refunding bonds will be issued unless such bonds meet the limitations in HSC section 34177.5 (a). Any debt service obligations listed in a Recognized Obligation Payment Schedule stemming from bonds issued not in compliance with that section will not be approvable by Finance.

Please direct inquiries to Wendy Griffe, Supervisor, at (916) 445-1546.

Sincerely,

Jennifer for

JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Jane Corpus Takahashi, Finance Manager, City of Milpitas
Ms. Irene Lui, Controller Treasurer, Santa Clara County
Mr. Jim Fabian, Principal, Fieldman, Rolapp, and Associates
Ms. Elizabeth Gonzalez, Bureau Chief, Local Government Audit Bureau, California State Controller's Office
California State Controller's Office

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APPENDIX G

GENERAL INFORMATION ABOUT THE CITY OF MILPITAS AND THE COUNTY OF SANTA CLARA

*The following information concerning Santa Clara County (the **"County"**) and the City of Milpitas (the **"City"**) is included only for the purpose of supplying general information regarding the Project Area. The Refunding Bonds are not a debt of the County, the City, the State of California (the **"State"**) or any of its political subdivisions, and neither the County, the City, the State nor any of its political subdivisions is liable therefor.*

General

The County. Santa Clara County (the "**County**") covers an area of over 1,300 square miles and is located south of the San Francisco Bay in northern California. There are two distinct valleys in the County, which are referred to as North County and South County. South County has more of an agricultural base and is comprised of only two cities, twenty miles apart from each other. As a contrast, North County is densely populated, heavily industrialized and extensively urbanized. This part of the County is comprised of 13 cities, each adjacent to another. Due to its high concentration of high-technology industries, the northwestern portion of North County is commonly referred to as "Silicon Valley." Several small lakes and reservoirs are scattered across the County and the highest peak can be found in San José at Mount Hamilton with an elevation of 4,213 feet. Several major highways serve the County, including Highway 101 providing access to San Francisco and Los Angeles.

The City. The City of Milpitas (the "**City**") was incorporated in January 1954 and is located 45 miles south of San Francisco in the northern part of Santa Clara County. Once a small agricultural town and later a stop-over point for travelers between Oakland and San Jose, Milpitas has grown into one of the world's premier computer and semiconductor producers. Located in the northeastern side of the "Silicon Valley," the City encompasses 13.63 square miles.

Milpitas is a general law city, incorporated in 1954. It operates under a Council-Manager form of government. The City's political and legislative body is the City Council and is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services and appointment of City Manager and City Attorney. There are four City Council members who are elected at-large for staggered four –year terms, and the Mayor is selected every two years in a separate citywide election.

The City provides a full range of municipal services. These include: police, fire, neighborhood services, public improvements, planning, building and public facility inspection, engineering, water and sewer utilities, redevelopment, and general administrative services.

Population

The following table lists population estimates for the City, the County and the State of California for the last five years, as of January 1 each year.

CITY OF MILPITAS, COUNTY OF SANTA CLARA, STATE OF CALIFORNIA
Population Estimates
Years 2010 through 2014, as of January 1

Year	City of Milpitas	Santa Clara County	State of California
2010	66,672	1,781,427	37,223,900
2011	66,637	1,794,337	37,427,946
2012	66,865	1,813,702	37,668,804
2013	67,845	1,840,895	37,984,138
2014	70,092	1,868,558	37,340,074

Source: California Department of Finance, Demographic Research Unit.

Industry and Employment

The City is part of the San Jose Sunnyvale Santa Clara Metropolitan Statistical Area (“**MSA**”), which is comprised of Santa Clara and San Benito Counties. The unemployment rate in the San Jose-Sunnyvale-Santa Clara MSA was 5.2% in September 2014, down from a revised 5.5% in August 2014, and below the year-ago estimate of 6.6%. This compares with an unadjusted unemployment rate of 6.9% for California and 5.7% for the nation during the same period. The unemployment rate was 6.5% in San Benito County, and 5.2% in Santa Clara County.

SANTA CLARA COUNTY
Civilian Labor Force, Employment and Unemployment
Calendar Years 2009 through 2013
March 2013 benchmark

	2009	2010	2011	2012	2013
Civilian Labor Force (1)	875,700	879,600	891,500	910,400	923,200
Employment	781,000	782,600	804,200	833,700	860,100
Unemployment	94,800	97,000	87,400	76,700	63,200
Unemployment Rate	10.8%	11.0%	9.8%	8.4%	6.8%
Wage and Salary Employment:					
Agriculture	3,500	3,500	3,400	3,300	3,400
Mining and Logging	200	200	200	200	300
Construction	33,400	31,400	30,900	33,900	36,700
Manufacturing	151,300	148,900	152,600	153,200	153,300
Wholesale Trade	35,200	34,500	33,500	34,500	36,200
Retail Trade	77,100	76,800	79,600	81,900	82,700
Transportation, Warehousing, Utilities	11,900	11,700	11,800	12,700	13,600
Information	43,800	46,300	51,200	54,100	58,600
Finance and Insurance	18,100	18,100	19,200	20,200	20,400
Real Estate and Rental and Leasing	13,100	12,700	12,900	12,800	12,800
Professional and Business Services	160,400	160,800	166,600	177,700	190,200
Educational and Health Services	120,200	122,500	124,800	132,700	143,400
Leisure and Hospitality	73,500	73,800	76,300	81,300	86,100
Other Services	24,100	23,900	24,100	24,300	25,000
Federal Government	10,600	10,500	10,000	9,700	9,800
State Government	6,600	6,200	6,200	6,200	6,100
Local Government	76,200	74,700	73,700	72,800	73,200
Total all Industries (2)	859,100	856,600	876,900	911,500	951,600

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Totals may not add due to rounding.
Source: State of California Employment Development Department.

Principal Employers

The following table lists the principal employers within the City for the fiscal year 2013-14.

CITY OF MILPITAS
Principal Employers
As of June 30, 2014

Employer Name	No. of Employees	% of City Employment
Cisco Systems, Inc.	3,816	11.43%
KLA-Tencor Corporations	2,402	7.19
SanDisk Corporation	1,875	5.61
Linear Technology Corporation	1,240	3.71
Flextronics International	1,200	3.59
Milpitas Unified School District	841	2.52
FireEye, Inc.	702	2.10
Headway Technologies	699	2.09
Spectra Laboratories	350	1.05
Kaiser Permanente	350	1.05

Source: City of Milpitas Comprehensive Annual Fiscal Report for Fiscal Year Ended June 30, 2014.

The following table lists the largest manufacturing and non-manufacturing employers within the County as of November 2014:

COUNTY OF SANTA CLARA
Major Employers
As of November 2014
(In Alphabetical Order)

Employer Name	Location	Industry
Adobe Systems Inc	San Jose	Publishers-Computer Software (Mfrs)
Advanced Micro Devices Inc	Sunnyvale	Computers-System Designers & Consultants
Apple Inc	Cupertino	Computers-Electronic-Manufactu
Bon Appetit-Cafe Adobe	San Jose	Restaurant Management
California's Great America	Santa Clara	Amusement Places
Christopher Ranch Llc	Gilroy	Garlic (Mfrs)
Fine Pitch	Milpitas	Solar Energy Equipment-Manufacturers
Gca Services	Alviso	Janitor Service
General Motors Advanced Tech	Palo Alto	Automobile-Manufacturers
Hewlett-Packard Co	Palo Alto	Computers-Electronic-Manufactu
Intel Corp	Santa Clara	Semiconductor Devices (Mfrs)
Kaiser Permanente Medical Ctr	San Jose	Hospitals
Kaiser Permanente Medical Grp	San Jose	Hospitals
Lockheed Martin Space Systems	Sunnyvale	Satellite Equipment & Systems-Mfrs
Microsoft Corp	Mountain View	Computer Software-Manufacturers
Nasa	Mountain View	Federal Government-Space Research/Tech
Net App Inc	Sunnyvale	Computer Storage Devices (Mfrs)
Philips Lumileds Lighting Co	San Jose	Lighting Fixtures-Supplies & Parts-Mfrs
San Jose State	San Jose	Schools-Universities & Colleges Academic
Santa Clara Valley Med Ctr	San Jose	Hospitals
Sap Center At San Jose	San Jose	Stadiums Arenas & Athletic Fields
Silicon Valley Sports & Entrtn	San Jose	Entertainment Bureaus
Stanford Univ School Medicine	Stanford	Schools-Medical
Surgecenter of Palo Alto	Palo Alto	Surgical Centers
Va Medical Ctr-Palo Alto	Palo Alto	Hospitals

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2014 2nd edition.

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City, the County, the State of California and the United States for the period 2009 through 2013.

CITY OF MILPITAS, SANTA CLARA COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
EFFECTIVE BUYING INCOME
As of January 1, 2009 through 2013

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2009	City of Milpitas	$ 1,856,665	$ 79,012
	Santa Clara County	55,561,405	71,077
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Milpitas	1,736,263	74,872
	Santa Clara County	53,692,143	68,047
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Milpitas	1,766,410	74,066
	Santa Clara County	54,491,135	67,801
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	City of Milpitas	1,760,820	73,766
	Santa Clara County	61,464,868	68,852
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Milpitas	1,881,475	76,417
	Santa Clara County	61,802,913	70,595
	California	858,676,636	48,340
	United States	6,982,757,379	43,715

Source: The Nielsen Company (US), Inc.

Commercial Activity

In 2009, the SBE converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2009 is not comparable to that of prior years. Summaries of historic taxable sales within the City and the County during the past five years in which data is available are shown in the following tables. Annual figures for calendar year 2013 or 2014 are not yet available.

Total taxable sales during the first two quarters of calendar year 2013 in the City were reported to be $824,335,000, a 5.76% decrease over the total taxable sales of $874,740,000 reported during the first two quarters of calendar year 2012.

CITY OF MILPITAS
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2008 through 2012 (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	987	$983,912	2,026	$1,401,011
2009 (1)	1,130	867,997	1,884	1,270,513
2010 (1)	1,143	1,008,956	1,846	1,410,525
2011 (1)	1,180	1,095,281	1,905	1,515,305
2012 (1)	1,193	1,204,355	1,914	1,763,290

(1) Data for retail stores not comparable to prior years.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during the first two quarters of calendar year 2013 in the County were reported to be $17,965,400,000, a 4.61% increase over the total taxable sales of $17,173,998,000 reported during the first two quarters of calendar year 2012.

COUNTY OF SANTA CLARA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2008 through 2012 (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	20,603	$19,313,313	47,253	$32,274,306
2009 (1)	26,695	16,385,238	43,396	27,427,709
2010 (1)	27,215	17,695,858	43,583	30,523,322
2011 (1)	27,252	19,419,542	43,390	33,431,217
2012 (1)	28,109	21,116,708	43,980	36,220,445

(1) Data for retail stores not comparable to prior years.
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Activity

Construction activity in the City and the County for the past five years for which data is available is shown in the following tables. Annual figures are not yet available for calendar year 2014.

CITY OF MILPITAS
Building Permit Valuation
For Calendar Years 2009 through 2013
(Dollars in Thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$1,009.9	$591.5	$2,523.1	$25,511.6	$88,491.4
New Multi-family	11,840.2	55,207.1	40,019.8	20,383.0	140,604.9
Res. Alterations/Additions	9,560.6	3,718.8	4,559.9	3,873.8	3,932.5
Total Residential	22,410.8	59,517.4	47,102.8	49,768.4	233,028.8
New Commercial	0.0	0.0	14,850.0	10,643.8	8,958.0
New Industrial	0.0	0.0	0.0	1,835.9	3,310.0
New Other	677.4	10,555.9	150.0	1,570.0	0.0
Com Alterations/Additions	29,325.0	26,073.1	30,558.3	81,837.6	71,368.6
Total Nonresidential	30,002.4	36,629.1	45,558.3	95,887.3	83,636.7
New Dwelling Units					
Single Family	9	3	7	66	265
Multiple Family	60	413	366	66	577
TOTAL	69	416	373	132	842

Source: Construction Industry Research Board, Building Permit Summary.

SANTA CLARA COUNTY
Building Permit Valuation
For Calendar Years 2009 through 2013
(Dollars in Thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$245,033.4	$307,367.4	$366,126.4	$678,168.8	$694,884.6
New Multi-family	74,466.1	457,923.9	315,853.0	558,544.1	941,420.4
Res. Alterations/Additions	259,190.4	320,582.9	392,229.1	288,105.1	423,739.6
Total Residential	578,689.8	1,085,874.3	1,074,208.5	1,524,818.0	2,060,044.6
New Commercial	215,433.8	267,010.0	228,074.5	745,468.8	1,217,647.4
New Industrial	0.0	33,862.0	68,701.3	22,481.5	72,222.0
New Other	213,976.4	119,682.9	47,728.5	19,197.3	1,749,161.2
Com Alterations/Additions	758,365.7	735,059.6	1,122,235.2	1,115,633.3	1,293,656.1
Total Nonresidential	1,187,775.9	1,155,614.6	1,466,739.5	1,902,780.9	4,332,686.8
New Dwelling Units					
Single Family	667	826	978	1,432	1,859
Multiple Family	450	3,627	2,234	4,245	6,009
TOTAL	1,117	4,453	3,212	5,677	7,868

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX H

FISCAL CONSULTANT'S REPORT

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FA FRASER & ASSOCIATES

Redevelopment and Financial Consulting

225 Holmfirth Court
Roseville CA 95661

Phone: (916) 791-8958
FAX: (916) 791-9234

FISCAL CONSULTANT REPORT

Successor Agency to the
Milpitas Redevelopment Agency

Milpitas Redevelopment Project No. 1

January 2015

Section A - Introduction

The Successor Agency to the Redevelopment Agency of the City of Milpitas (Agency or Successor Agency) is considering the issuance of Tax Allocation Refunding Bonds, Series 2015 (Bonds). The Agency intends to pledge a portion of the tax increment revenues generated from the Milpitas Redevelopment Project No.1 (Project Area) to repayment of the Bonds.

The purpose of this Fiscal Consultant Report (Report) is to provide in depth information about the tax increment revenues to be used to support repayment of the Bonds. The Report includes the following sections that address various aspects of the revenue stream:

A. **Introduction**: This section provides an overview of the Report and its purpose.
B. **Redevelopment Dissolution Act**: Includes a discussion of the Redevelopment Dissolution Act bills that are contained in AB 26, AB 1484 and other legislative bills that amended the Act (the Dissolution Act).
C. **General Information**: Provides information on the Project Area, including a general description of the Redevelopment Plan and the financial and time limits of the Project Area. A brief description of the systems and procedures used by Santa Clara County for the allocation of tax increment is also included in this section.
D. **Taxable Values and Historical Revenues**: Information in this section includes a description of the categories of taxable values, the historical trends in values and revenues and the Top Ten Assessees of the Project Area.
E. **Assessment Appeals**: The findings from a review of the records of the Santa Clara County Assessment Appeals Board are included in this section.
F. **Estimate of Current and Future Revenues**: This part of the report includes the tax increment projections for the Project Area.
G. **Adjustments and Liens on Revenue**: This section provides information on and the estimated impact of adjustments and liens on the revenue stream.

The value and revenue estimates contained in this Report are based upon information and data which we believe to be reasonable and accurate. The assessment practices and county allocation procedures discussed in this Report are based on information provided by representatives of Santa Clara County. Assessment practices and allocation procedures are set, in part, administratively and can be changed. Nothing came to our attention during this review to indicate changes are imminent. To a certain extent, the estimates of revenue are based on assumptions that are subject to a degree of uncertainty and variation and therefore we do not represent them as results that will actually be achieved. However, they have been conscientiously prepared on the basis of our experience in the field of financial analysis for redevelopment agencies. The numbered tables that are referred to are located in the back of the Report.

Section B – Redevelopment Dissolution Act

In December 2011, the California Supreme Court issued its opinion in the case of *California Redevelopment Association, et al., v. Matosantos, et al.* The Court upheld the right of the state to dissolve redevelopment agencies pursuant to the Dissolution Act. Based on modified time lines approved by the Court, all redevelopment agencies, including the Milpitas Redevelopment Agency (Original Agency), were dissolved effective February 1, 2012. The City of Milpitas has assumed the role of Successor Agency and is charged with winding down the affairs of the Original Agency and to make payments due on enforceable obligations, as defined in the Dissolution Act.

Under the Dissolution Act, tax increment is no longer deemed to flow to the Successor Agency. Rather, all funds are considered property taxes. The requirement to deposit a portion of the tax increment into a low and moderate income housing fund is no longer required. The Dissolution Act allows the Agency to issue refunding bonds so long as the refunding results in debt service savings. The Agency is authorized to pledge the property tax revenues that were formerly tax increment revenues to secure repayment of the refunded bonds.

The County Auditor-Controller is required to determine the amount of property taxes that would have been allocated to each redevelopment agency had the agency not been dissolved. All former tax increment monies go into a Redevelopment Property Tax Trust Fund (RPTTF or Trust Fund) which is controlled by the County Auditor-Controller. References in this report to tax increment mean property taxes that are deposited to the RPTTF.

The money in the Trust Fund is used as follows:

1. Allocate to the County property tax administrative fees and other costs needed to implement the Dissolution Act.
2. Pay all pass-through payments to the taxing entities. The former Project Area has an obligation to make payments required pursuant to Section 33607.5 and 33607.7 of the Community Redevelopment Law (CRL) and 34183 (a) of the Dissolution Act.
3. Pay obligations required per the Recognized Obligation Payment Schedule (ROPS), including debt service on the Bonds.
4. Pay the administrative allowance, which goes to the Successor Agency to be used to wind down the affairs of the Original Agency.
5. Distribute the balance to the taxing entities pursuant to Section 34183 and 34188 of the Dissolution Act.

The allocations from the Trust Fund take place in two six month installments in January and June of each year. The Successor Agency prepares a forward looking ROPS to cover the subsequent six month period. Once approved by the Oversight Board and DOF, the

County Auditor-Controller releases the Trust Fund revenues to pay for the obligations on the ROPS. By way of illustration, funds released in June 2014 generally reflect property taxes that were collected during the period from January through April 2014. The approved ROPS covered costs that are paid during the period from July through December 2014. Any excess Trust Fund revenue not needed to meet the various obligations shown in items one through four above would be reallocated to the taxing entities. The six month allocation system in the Dissolution Act can cause a problem in meeting debt service payments for some agencies, since semi-annual debt service payment on the Bonds are uneven. For the Agency, interest payments are made in March each year, while principal and interest payments are made in September. The Agency has not had this problem since there have been adequate RPTTF allocations to meet debt service requirements during each ROPS period, as shown in the ROPS cash flow attached as an appendix to this report. In addition, the Indenture for the Bonds will require that the Agency set-aside 50 percent of the principal payment on the Bonds during each ROPS period, which will create a more even payment schedule between periods.

Section C - General Information

The Project Area

The Redevelopment Plan for the Project Area was originally adopted by the City Council on September 21, 1976 pursuant to Ordinance No.192 (Original Area). The Project Area has been amended multiple times. Three of these amendments added territory, which are referred to as the First Amendment Area, Second Amendment Area and the Midtown Area. The Midtown Area was added to the Project Area as part of the Eighth Amendment that was approved on June 17, 2003. The Eighth Amendment also established one combined tax increment limit and one combined limit on the principal amount of bonds that can be outstanding at one time for the entire Project Area. The City Council also extended certain financial time limits with amendments that were adopted in October 2003 and October 2006. Also in October 2006, the Project Area was merged with the Great Mall Project Area, but that project area is not eligible to receive tax increment and so no revenue is generated from it. In May of 2010, the City Council amended the Redevelopment Plan for the thirteenth time. That amendment added territory and also changed certain time and financial limits, but that ordinance was rescinded in April 2012 and has no effect on the generation of tax increment.

The current financial time limits for the Project Area are shown on the following page.

	Original Area	First Amendment Area	Second Amendment Area	Midtown Area
Debt Establishment	1/01/14	1/01/14	1/01/14	6/17/23
Plan Effectiveness	9/21/2019	9/4/2022	5/4/2025	6/17/2034
Tax Increment Receipt	9/21/2029	9/4/2032	5/4/2035	6/17/2049
Bond Debt Limit	--------------------$498 million combined---------------			
Tax Increment Limit	---------------$2.4 billion combined----------------			

As shown above, the Redevelopment Plan contains a cumulative limit on the amount of tax increment the Agency can be allocated of $2.4 billion. It is unclear whether, under the Dissolution Act, the tax increment limit is still in existence. Section 34182 (c) (1) of the Dissolution Act states that the amount of revenues previously received by redevelopment agencies prior to dissolution are deemed property tax revenues, which would support the idea that tax increment limits no longer exist, since there is no longer any tax increment being distributed to agencies. It is also unclear, if the limit is still in effect, what counts towards the limit, whether all former tax increment or only that portion which is received by the Agency to pay for enforceable obligations. If it is assumed that all tax increment continues to be subject to the limit, then the Agency has received approximately $707.7 million in tax increment under the cumulative tax increment limit through 2013-14. If only the amount the Successor Agency receives is subject to the limit, then the total cumulative tax increment received through 2013-14 is approximately $663.5 million. If the cumulative limit is based on total tax increment, then based on the projections of tax increment shown in this Report in Table 6, which are based on a 2 percent trend in real property values plus new development, the cumulative tax increment limit will not be reached before the Bonds mature. Assessed value growth would need to average 7 percent per year in order for the tax increment limit to be reached by 2031 when the Bonds mature.

The Original Area contains 577 acres of land. The First Amendment Area added 483 acres of land; the Second Amendment Area added 479 acres; and the Third Amendment Area added 691 acres. In total, the Project Area contains 2,230 acres and includes low and medium density residential, industrial, commercial and public land uses. The table on the following page provides information on the land uses in the Project Area based on the 2014-15 property tax roll.

LAND USE CATEGORY SUMMARY 2014-15			
	Parcels	Taxable Value	Percent of Total
Residential	3,986	$2,304,093,539	38.79%
Commercial	195	540,577,642	9.10%
Industrial	182	1,465,299,109	24.67%
Vacant Land	456	275,204,067	4.63%
Other	58	47,345,348	0.80%
Total Secured	4,877	4,632,519,705	78.00%
Unsecured / State Assessed		1,306,666,402	22.00%
Grand Total		**5,939,186,107**	**100.00%**

Property Tax Allocation Procedures

The method by which a county allocates property taxes and tax increment revenues can have a significant impact on the receipt of such revenues. Incorrectly allocated revenues can result in a redevelopment project area receiving erroneous amounts of revenue. In addition, the method a county uses to allocate delinquent taxes, roll corrections and property tax refunds will impact the amount of tax increment received. For these reasons, Santa Clara County's procedures for the allocation of property taxes and tax increment were evaluated.

Santa Clara County calculates tax increment to the Project Area by applying the one percent tax rate to incremental taxable values. The County also allocates unitary revenue to the Project Area. The allocation of unitary revenue is based on a formula under which revenues are adjusted by the actual growth or decline in unitary revenues on a countywide basis.

Tax increment generated from both the secured and unsecured tax rolls are allocated based on 100 percent of the County calculated levy. Redevelopment agencies are therefore shielded from the impact of delinquent property taxes on both the secured and unsecured roll. The allocation to redevelopment agencies differs from the County's normal allocation to other taxing entities under the Teeter Plan. Under the Teeter Plan, taxing entities receive 100 percent of the secured tax levy without regard to the impact of delinquent property taxes, but unsecured taxes are allocated based on actual collections. The County also adjusts tax increment payments for roll corrections, such as refunds of property taxes due to successfully appealed assessments.

Subsequent sections of this Report include a discussion of the impact of the County's allocation practices on the Project Area's tax increment revenues.

Section D – Taxable Values and Historical Revenues

Taxable Values

Property is valued as of January 1 of each year. Property that is subject to taxation is valued at 100 percent of its full cash value. Locally assessed property is appraised by the county assessor's office. The State Board of Equalization (SBE) values state assessed property.

Real property consists of land and improvements and can either appear on the secured or the unsecured roll. The secured roll includes property on which the property tax levied becomes a lien on the property to secure payment of taxes. Unsecured property does not become a lien on such property, but may become a lien on other property of the taxpayer.

Locally assessed real property is subject to the provisions of Article XIII A of the California Constitution, commonly referred to as Proposition 13. Under Proposition 13, property is valued based either on its value in 1975-76 or if newly constructed or sold after this date, then on the full cash value of the property at that time. Property values may only increase by an inflation factor of up to 2 percent annually. The Proposition 13 value of property is sometimes referred to as the factored base year value. Pursuant to Section 51 (b) of the Revenue and Taxation Code, assessors must enroll the lesser of the market value or the factored base year value of property.

Personal property values can be classified as either secured or unsecured property. Personal property is not subject to the provisions of Proposition 13. Personal property is appraised annually at the full cash value of the property. Absent new acquisitions, the full cash value of personal property tends to decline over time as a result of depreciation. Fixtures, while categorized as real property and subject to the restrictions of Proposition 13, are also subject to declining values through depreciation.

State-assessed property is also not subject to the provisions of Proposition 13. Such property is valued by the SBE based on the full cash value of the property. State-assessed property is categorized as secured property and is either unitary or non-unitary property. Since 1987-88, the value of unitary property has been reported on a county-wide basis, with unitary revenues allocated to taxing entities and redevelopment projects pursuant to a formula contained in AB 454. Starting in 2007-08, unitary railroad value has been reported on a county-wide basis with the resulting revenues allocated under a formula contained in state law. State-assessed non unitary values are reported at the local tax rate area level.

Project Area Value Trends

Table 1 shows the historical taxable values for the Project Area over the past ten years. Taxable values have increased from $3.4 billion in 2005-06 to $5.9 billion in 2014-15. The total percentage change was 74.95 percent over the ten-year period. The average annual percentage change in values was 6.41 percent.

Secured values dropped between 2009-10 and 2011-12 by a total of $226 million. The largest reason for the drop was due to Proposition 8 reductions (see Section E for a complete discussion). The County made across the board reductions pursuant to Proposition 8 to both residential and non-residential property. Non-residential property decreased by $321 million. Residential property also went down during this period by $120 million due to Proposition 8 reductions, although only approximately $30 million of this affected the 2011-12 tax roll. The balance of the reductions occurred after the January 1 lien date, primarily for newly constructed residential units, and affected the subsequent 2012-13 tax roll. The sale of property also decreased values by $66.7 million. Reductions in value were partially offset by new development activity and other property sales which increased value by a total of $205 million.

Between 2012-13 and 2014-15, secured values increased by over $1 billion. The table below summarizes the components that led to the increase.

Increases 2012-13 to 2014-15	
Residential Prop 8 Reversals	$160,136,610
Residential CPI	19,202,441
Residential Sales	48,091,636
Residential New Development	315,732,428
NR Prop 8 Reversals	308,053,554
NR Sales / New Dev.	130,365,433
Other NR Increases	19,368,028
Total	$1,000,950,130

Many of the Proposition 8 reductions have been reversed, which added to the value increase. There is also significant new residential development being constructed in the Project Area, which increased value by $315 million. This reflects only the partial completion and sale of units for these developments. The tax increment projections included in Section F include projections of new assessed value for those residential units that have recently been completed or that are under construction but are not yet fully on the tax roll.

Historical Tax Increment Revenues

Table 2 provides information on the historical receipt of tax increment revenues in the Project Area. The initial County levy is compared to the actual receipt of tax increment (exclusive of supplemental revenues) to determine collection trends. The levy and receipts analysis shown on Table 2 reflect gross tax increment. Actual receipts of tax increment have averaged 99.23 percent of the levy for the Project Area.

Supplemental property tax receipts are also shown on Table 2. Supplemental taxes are a function of new construction or changes of ownership since the last property tax lien date and typically increase the amount of tax increment in a project area. When supplemental property taxes are included the Agency has received 100.33 percent of the levy.

Table 3 presents historical information on Tax Revenues. The amounts shown on this table reflect those revenues that are a part of the Tax Revenues pledged to repayment of the Bonds.

Top Ten Assessees

The Top Ten Assessees in the Project Area are summarized on Table 4. Taxable value for the Top Ten Assessees represents 34.62 percent of the overall value of the Project Area and 40.01 percent of the incremental value.

Section E – Assessment Appeals

Taxpayers may appeal their property tax assessments. The value of locally assessed property is appealed to the local county assessor, while the value of state assessed property is appealed to the SBE. Both real and personal property assessments can be appealed. Personal property appeals are filed based on disputes over the full cash value of the property.

Under California law, there are two types of appeals for the value of real property. A base year appeal involves the Proposition 13 value of property. If an assessee is successful with a base year appeal, the value of the property is permanently reduced. In the future, the value can only be increased by an inflation factor of up to 2 percent annually. Appeals can also be filed pursuant to Section 51 (b) of the Revenue and Taxation Code. Under this section of the code, also referred to as Proposition 8 appeals, the value of property can be reduced due to damage, destruction, removal of property or other factors that cause a decline in value. When the circumstance that caused the decline is reversed the value of the property can be increased up to the factored base year value of the property. Values can be reduced under Proposition 8 either based on a formal appeal or they can be set by the county assessor.

Assessment Appeals Activity

Due to the impact that assessment appeals can have on the taxable values and tax increment revenues of a project area, a review of recently resolved and open appeals was conducted. The table below shows the outcome of resolved appeals between 2010-11 and 2012-13. The information has been provided to indicate the potential impact from open appeals. All of the appeals shown in the table below have been incorporated into the 2014-15 tax roll.

Prior Resolved Appeals – Analysis of Impacts	
Total Number of Filed Appeals	175
Number of Appeals Outstanding	82
Resolved Appeals	93
Number of Resolved Appeals with Reductions	77
% of Appeals Resulting in Reductions to AV	83%
Assessed Value Reductions from Resolved Appeals	$141,019,279
Average Percent Reduction to Assessed Value	22%
Overall Success Factor	**18%**

Table 5 shows the number of open appeals in the Project Area. In order to determine the potential future impact of the appeals, we have applied the overall success factor ratio shown above of 18 percent to all open appeals. This could, in total, reduce future taxable values by $313.9 million. We have assumed that these reductions would impact the 2015-16 and 2016-17 tax rolls, and have reduced taxable values for purposes of the tax increment projections shown on Table 7 by this amount. If the appeals are successful, they will also trigger refunds of prior year taxes paid. Since some of the outstanding appeals go back to 2012-13, there could be multiple year refunds. We have reduced the tax increment projections shown on Table 7 in 2015-16 and 2016-17 for the potential reductions from refunds.

Proposition 8 Reductions and Reversals

A number of counties in California, including Santa Clara County, have processed temporary assessed value reductions for certain properties (Proposition 8 reductions) where the assessed values exceeded the current market value of properties as of the January 1 lien date without prompting from individual taxpayers. Typically, the properties to be reviewed by the various counties for these “automatic” reductions were single family homes and condominiums which transferred ownership between 2003 and December 31, 2010. These Proposition 8 reductions were triggered because residential property values decreased in many areas of the state during that time period.

We have reviewed information on all Proposition 8 residential value changes between fiscal years 2009-10 and 2014-15 to determine how many parcels went down in value in the Project Area during that period, and also how many have received reversals. The results of our analysis are shown below.

Proposition 8 Residential Impacts	
Decreases – 2009-10 Through 2012-13	
Number of Residential Parcels	1,385
Percentage of All Parcels	43%
Total Value Decline	($163,266,450)
Increases – 2012-13 Through 2014-15	
Number of Residential Parcels	1,313
Percentage of All Parcels	42%
Total Value Increase	$160,136,610

As shown on the table above, 1,385 residential parcels (inclusive of both single and multifamily parcels) had been reduced as of fiscal year 2012-13 tax roll, with a value reduction of $163 million. Proposition 8 value reductions are temporary, and once the market value of property goes back up, the value for the parcels under Proposition 8 status can increase up to their Proposition 13 base, including the compounded 2 percent Proposition 13 inflation adjustment. Beginning in 2013-14, and continuing through 2014-15, the County has reversed many of the prior Proposition 8 reductions and increased value by $160 million.

In terms of future residential Proposition 8 reductions, recent sales data indicates that property is selling for more than the value recorded on the current tax roll. The table below shows the recent trends for calendar years 2013 and 2014 (through September).

2013 Sales:	
Total Sales	197
Aggregate Sales Price	$141,212,582
Aggregate Tax Roll Value	$79,046,664
Percent Increase Between Sales Price and Tax Roll Value	79%
2014 Sales:	
Total Sales	135
Aggregate Sales Price	$ 102,864,600
Aggregate Tax Roll Value	$64,244,963
Percent Increase Between Sales Price and Tax Roll Value	61%

The table shows that sales values were 79 percent higher than tax roll values in 2013, and that 2014 sales values were 61 percent higher. It should also be noted that part of the reason that sales values have been so much higher than tax roll values is due to the impact of new housing development, since only partial value was recorded on the prior year tax roll as the units were being constructed. Given that sales prices are exceeding tax roll values by a substantial margin, and the County has reversed most of the prior residential Proposition 8 reductions, we have assumed that there would be no further Proposition 8 reductions in fiscal year 2015-16 or future fiscal years for purposes of the tax increment projections shown in Section F.

Santa Clara County also reduced non-residential property pursuant to Proposition 8, in some cases without the filing of appeals by the property owner. The impact of those reductions, and the subsequent reversals, are shown in the table below. The reductions for non-residential property primarily occurred on the 2011-12 tax roll, and by 2014-15 assessed value for most of those reductions had been largely reversed.

Proposition 8 Non-Residential Impacts	
Decreases – 2009-10 Through 2011-12	
Number of Parcels	70
Percentage of All Parcels	8%
Total Value Decline	(321,533,787)
Increases – 2012-13 Through 2014-15	
Number of Parcels	64
Percentage of All Parcels	7%
Total Value Increase	308,053,554

Section F - Estimate of Current and Future Tax Increment Revenue

County auditor-controller's are required to calculate the funds that flow to the RPTTF as if the redevelopment agency still existed. Given this, the RPTTF, or tax increment revenues, continue to be calculated by first subtracting the base year value of a project area from the current year taxable value in order to determine the incremental taxable value of the project area. The 1 percent tax rate is then applied to the incremental taxable value in order to determine tax increment revenues. In the aftermath of the Dissolution Act, the County no longer allocates any tax increment from tax rates in excess of 1 percent.

Unitary revenues are allocated to the Project Area based on a formula contained in AB 454. Generally, the Agency receives unitary revenues on the basis of amounts that were received in the prior fiscal year. The prior year allocations are adjusted annually based on changes in unitary revenue on a countywide basis.

The Agency also receives supplemental property taxes for the Project Area on an annual basis. Due to the difficulty of estimating supplemental revenues, we have not included such revenues in the projections. Supplemental property taxes typically increase the receipt of tax increment.

Current Year Revenues

An estimate of current year (2014-15) tax increment revenues are shown on Table 6. The values utilized are based on actual taxable values provided by Santa Clara County. Tax increment generated from the application of the 1 percent tax rate to incremental taxable value for 2014-2015 is estimated at $51.4 million. Unitary revenues are estimated to equal $261,500 for the Project Area for the 2014-15 fiscal year. The estimate is based on the actual unitary revenues allocated to the RPTTF in 2013-14.

Projected Revenues

Tables 7 and 7.1 provide a projection of tax increment revenues. Real property shown on the tables consists of locally reported secured and unsecured land and improvement values. The other property category includes personal property and state assessed values.

The future level of real and other property values has been estimated based on actual values reported by Santa Clara County for 2014-15 (see “Current Year Revenues” above). On December 5, 2014 the SBE issued a letter showing that the annual inflation adjustment for fiscal year 2015-16 would be 1.998 percent. For 2015-16 we have used that factor to increase real property values, and for future fiscal years beyond 2015-16, we have used a 2 percent inflation factor for the projections on Table 7. The 2 percent factor is the maximum inflation factor that county assessors can use to increase real property values. The other property category of value has been held constant in the projections on Table 7. For purposes of the projections on Table 7.1, we have increased value for the inflation adjustment in 2015-16 only, and have made adjustments for appeals and new development as described below.

Increases in real property values have been offset by the estimated impact of open assessment appeals. Appeals are estimated to reduce real property values by $156.9 million in 2015-16 and 2016-17.

Taxable values have also been increased for new housing developments that have recently been completed but not fully included on the tax roll, and for units that are currently under construction, as shown on Table 8. There are a total of 677 housing units that are projected to increase taxable value by approximately $144 million in both 2015-16 and 2016-17.

Section F – Adjustments and Liens on Tax Increment

The tax increment revenues of the Project Area are subject to certain adjustments and liens, as described in this section.

Adjustments to Revenue

There are two adjustments to the tax increment revenues shown on Table 6: refunds and property tax administrative fees. Refunds have been deducted based on the potential impact previously described for assessment appeals and also based on prior adjustments made by the County that have not yet been deducted from the RPTTF.

State law allows counties to charge taxing entities, including redevelopment agencies, for the cost of administering the property tax collection system. In addition, the Dissolution Act allows counties to recover their costs in implementing the redevelopment Dissolution Act. Both portions of the fees have been estimated and included based on the percentage that such fees represented from the January and June 2014 RPTTF distribution.

Former Housing Set-Aside

Prior to the Dissolution Act, the Original Agency was required to deposit not less than 20 percent of the tax increment generated in the Project Area into a special fund to be used for qualified low and moderate income housing programs. The Dissolution Act no longer requires such a deposit. The Agency has no obligations payable from the formerly required low and moderate income housing fund, and so no reductions have been made to the tax increment projections.

AB 1290 Tax Sharing Payments

Pursuant to 1994 legislation, AB 1290, the Agency is required to make payments to the affected taxing entities from the Project Area. These payments are required from the Original, First Amendment and Second Amendment Areas because the cumulative tax increment limit was increased from $240 million to $502 million pursuant to a prior amendment of the Redevelopment Plan that was completed in 1996. Payments of the pass through payments are only due on increases in tax increment revenues above levels that were received in 2000-01 (referred to as the AB 1290 AV Base Year). For the Third Amendment Area the payments were due upon addition of that territory.

AB 1290 pass through payments are based on the following tiers:

Tier	Payment Required
Tier 1	<u>Original, First & Second Amendment Area</u>: 25% of the gross tax increment, net of the housing set-aside, attributable to increases above the AB 1290 AV Base assessed values during the remaining term the Agency receives tax increment.

	Third Amendment Area: 25% of the gross tax increment net of the housing set-aside.
Tier 2	Original, First & Second Amendment Area: Beginning in the 11th year after establishment of the AB 1290 AV Base, an additional payment equal to 21% of the gross tax increment, net of the housing set-aside, attributable to growth above a second adjusted base year value. This tier should have begun in 2011-12. Third Amendment Area: Beginning in the 11th year after the Amendment Area first received tax increment, an additional payment equal to 16.8% of the gross tax increment, net of the housing set-aside, attributable to growth above the adjusted base year value in 2014-15.
Tier 3	Original, First & Second Amendment Area: The Original Area will no longer receive tax increment when this tier is triggered, but the First and Second Amendment Areas will owe such payments. Beginning in the 31st year after establishment of the AB 1290 AV Base, an additional payment equal to 14% of the gross tax increment, net of the housing set-aside, attributable to growth above a second adjusted base year value. This tier would begin in 2031-32. Amendment Area: Beginning in the 31st year after the Amendment Area first received tax increment, an additional payment equal to 14% of the gross tax increment, net of the housing set-aside, attributable to growth above the adjusted base year value in 2034-35.

Tier 1 and 2 payments are being made from the Original Area, the First Amendment Area and the Second Amendment Area. Our review of the County's allocation of pass through payments for 2014-15 indicated that the County was initially using a 30 percent housing set-aside for purposes of preparing the projections. While the Dissolution Act requires that the calculations of the pass through payments be made as if the housing set-aside still exists, the percentage that should be used is 20 percent. Agency staff informed the County of the discrepancy in their calculations, and an adjustment was made to correct the calculation for 2014-15. In addition, the County has adjusted the AB 1290 payments that were due in 2013-14, which were understated by $953,477. A portion of this amount was deducted from the January 2015 RPTTF allocation, with the balance to come from the June 2015 allocation. We have included this additional pass through obligation in our calculations for 2014-15.

Table 1
Milpitas Successor Agency
Milpitas Project Area No. 1

HISTORICAL TAXABLE VALUE

Fiscal Year	Locally-Assessed Secured Value	Unsecured Value	State-Assessed Value	Total Taxable Value	Percentage Change	Total Incremental Value (1)	Actual Incremental Value (1)
2014-15	$4,632,519,705	$1,306,472,986	$193,416	$5,939,186,107	14%	$5,139,459,268	$5,139,459,268
2013-14	4,038,508,838	1,178,633,709	161,180	5,217,303,727	10%	4,417,576,888	4,417,576,888
2012-13	3,604,736,835	1,138,773,917	161,180	4,743,671,932	12%	3,943,945,093	3,943,945,093
2011-12	3,549,429,356	703,478,246	161,180	4,253,068,782	-4%	3,453,341,943	3,453,341,943
2010-11	3,703,194,397	746,085,665	145,062	4,449,425,124	-2%	3,649,698,285	3,649,698,285
2009-10	3,775,859,557	784,570,321	145,062	4,560,574,940	4%	3,760,848,101	3,760,848,101
2008-09	3,688,307,142	689,942,742	145,062	4,378,394,946	17%	3,578,668,107	3,578,668,107
2007-08	3,177,309,608	572,039,432	0	3,749,349,040	11%	2,949,622,201	2,949,622,201
2006-07	2,798,785,590	575,708,325	0	3,374,493,915	-1%	2,574,767,076	2,667,327,761
2005-06	2,544,690,494	850,099,181	0	3,394,789,675	N/A	2,595,062,836	2,735,225,491

Total Percentage Change	74.95%
Average Percentage Change	6.41%

(1) Taxable Value above base year value of $799,726,839. Amendment No. 3 was below base through 2006-07, and so the actual incremental value used to calcuate tax increment was higher than the total shown.

Table 2
Milpitas Successor Agency
Milpitas Project Area No. 1

HISTORICAL TAX INCREMENT LEVY AND RECEIPTS

	Levy per County (1)	(2) Tax Increment Receipts Less Supplementals	% of Levy Received	Supplementals	Total Tax Increment Receipts	% of Levy Received
2013-14	$44,175,768	$45,128,429	102.16%	$564,398	$45,692,827	103.43%
2012-13	36,277,199	36,577,546	100.83%	(36,706)	36,540,840	100.73%
2011-12	36,557,004	33,790,387	92.43%	88,297	33,878,684	92.67%
2010-11	38,588,071	38,588,070	100.00%	415,610	39,003,680	101.08%
2009-10	39,747,466	39,747,466	100.00%	1,128,783	40,876,249	102.84%
Average Receipts to Levy			99.23%			100.33%

(1) Intial levy reported by Santa Clara County.
(2) Receipts per Agency records, inclusive of property tax administrative fees and pass through payments.

Table 3
Milpitas Successor Agency
Milpitas Project Area No. 1

HISTORICAL ANALYSIS OF TAX REVENUES

Category	2009-10	2010-11	2011-12	2012-13	2013-14
Tax Increment	$39,747,466	$38,588,070	$33,790,387	$36,577,546	45,128,429
Supplemental Taxes	1,128,783	415,610	88,297	(36,706)	564,398
Total Tax Increment (1)	40,876,249	39,003,680	33,878,684	36,540,840	45,692,827
Adjustments to Tax Revenue:					
Property Tax Administration Fees	401,383	419,169	574,505	679,621	649,360
Liens on Tax Increment:					
Housing Set-Aside (2)	8,175,250	7,800,736	0	0	0
AB 1290 Tax Sharing (3)	3,302,804	2,230,775	1,437,716	2,548,841	4,625,182
Tax Revenue	**28,996,812**	**28,553,000**	**31,866,463**	**33,312,378**	**40,418,285**

(1) Reflects actual receipts based on the records of the Agency.
(2) Estimated based on 20 percent of total tax increment. Starting in 2011-12, the housing set-aside deposit was no longer required.
(3) Payments per the provisions of AB 1290 were triggered in 2001-02.

Table 4
Milpitas Successor Agency
Milpitas Project Area No. 1

TEN MAJOR PROPERTY TAX ASSESSEES (1)

Assessee	Number of Parcels	Type of Use	2014-15 Secured	2014-15 Unsecured	2014-15 Total Value	%of Total Value (2)	%of Inc Value (2)
1) Cisco Technology Inc. (3)	6	Industrial / R&D	$333,650,000	$639,715,875	$973,365,875	16.39%	18.94%
2) KLA Tencor Corporation (3)	2	Industrial / R&D	82,230,000	201,567,337	283,797,337	4.78%	5.52%
3) Essex Portfolio	1	Apartment	131,424,789	0	131,424,789	2.21%	2.56%
4) Silicon Valley California I LLC (3)	12	Industrial / R&D	109,472,101	0	109,472,101	1.84%	2.13%
5) Fairfield Murphy RD LLC	2	Industrial / R&D	105,345,742	0	105,345,742	1.77%	2.05%
6) Headway Technologies Inc. (4)	4	Industrial / R&D	0	100,079,790	100,079,790	1.69%	1.95%
7) SPUS6 Murphy Crossing	3	Industrial / R&D	95,431,300	0	95,431,300	1.61%	1.86%
8) Sandisk Corporation (4) *	6	Industrial / R&D	0	92,560,878	92,560,878	1.56%	1.80%
9) Sandbox Expansion LLC *	5	Industrial / R&D	89,655,191	0	89,655,191	1.51%	1.74%
10) A and P Children Investments	1	Industrial / R&D	75,018,422	0	75,018,422	1.26%	1.46%
Top 10 Total Valuation			**$1,022,227,545**	**$1,033,923,880**	**$2,056,151,425**	**34.62%**	**40.01%**
Total Project Area AV			**$4,632,713,121**	**$1,306,472,986**	**$5,939,186,107**		

** The City has indicated that these two may be related entities.*

(1) Based on ownership of locally-assessed secured and unsecured property.
(2) Based on 2014-15 Project Area taxable value of $5,939,186,107 and incremental value of $5,139,459,268.
(3) Each of these have open assessment appeals.
(4) Reflect leasehold interests and are shown on the unsecured roll.

Source: Santa Clara County property tax records.

Table 5
Milpitas Successor Agency
Milpitas Project Project Area No. 1

ANALYSIS OF OPEN APPEALS

Assessee	14-15 Roll Value	(1) Estimated Resolved Value	Estimated Reduction	(2) Estimated Refund
Cisco Systems (3)	$943,429,808	$775,351,686	$168,078,122	$5,042,344
Kla-Tencor Corporation	201,567,337	165,656,812	35,910,525	359,105
Linear Technology Corp	56,278,667	46,252,258	10,026,409	300,792
Silicon Valley Ca I Llc	79,930,000	65,689,954	14,240,046	142,400
Stephens & Stephens	26,697,146	21,940,877	4,756,269	95,125
Milpitas Town Center	48,248,765	39,652,935	8,595,830	85,958
Ixys Buckeye Llc	8,000,238	6,574,944	1,425,294	42,759
475-525 Sycamore Drive	25,000,000	20,546,088	4,453,912	89,078
Phf Ruby Llc	18,560,152	15,253,541	3,306,611	99,198
Pacific Automotive Group	13,438,159	11,044,064	2,394,095	23,941
Trinet Essential Facilities	13,520,000	11,111,325	2,408,675	48,174
1855 Barber Lane-Milpitas	10,300,000	8,464,988	1,835,012	36,700
1504-1530 Mccarthy Boulevard	11,000,000	9,040,279	1,959,721	39,194
Inland American/Stephens	6,000,438	4,931,421	1,069,017	21,380
Shapell Industries Inc	5,372,800	4,415,601	957,199	9,572
200 Serra Way	38,273,795	31,455,071	6,818,724	68,187
CRP Oak Cr	52,388,029	43,054,763	9,333,266	93,333
Geomax	6,319,896	5,193,966	1,125,930	11,259
Irvine Company	17,800,000	14,628,815	3,171,185	31,712
Milpitas Montague LLC	21,447,429	17,626,431	3,820,998	38,210
Pham Phuong	9,844,492	8,090,632	1,753,860	17,539
PWF Phov Equity	18,560,152	15,253,541	3,306,611	33,066
Reality Associates Fund	18,060,790	14,843,143	3,217,647	32,176
Sycamore Drive Holdings	23,573,161	19,373,450	4,199,711	41,997
The Berrueta Family LLc	8,300,000	6,821,301	1,478,699	14,787
W2005 New Century Hotel	34,635,110	28,464,641	6,170,469	61,705
Walton CWCA Wrigley Creek	18,545,816	15,241,759	3,304,057	33,041
All Other Appeals (4)	27,036,906	22,220,106	4,816,800	66,876
Grand Total	**1,762,129,086**	**1,448,194,392**	**313,934,694**	**6,979,610**

2015-16 Estimated Value Impact	156,967,347	
2016-17 Estimated Value Impact	156,967,347	
Potential Refunds - 2015-16		3,489,805
Potential Refunds - 2016-17		3,489,805

(1) Estimated based on success ratios described in the FCR.
(2) Includes multiple year refunds for those appeals that remaing open for more than one fiscal year.
(3) Include both secured and unsecured appeals. Cisco has requested a reduction to $754.8 million.
(4) Reflects 18 other appeals that have been grouped together.

Table 6
Milpitas Successor Agency
Milpitas Project Area No. 1

ESTIMATE OF TAX INCREMENT REVENUE - FISCAL YEAR 2014-15

	Taxable Value (1)
Local Secured	
Land	$2,106,267,629
Improvements	2,563,927,857
Personal Property	62,849,846
Gross Local Secured	4,733,045,332
Exempt	100,525,627
Net Local Secured	4,632,519,705
State Assessed	193,416
Unsecured	
Land	0
Improvements	209,282,431
Personal Property	1,097,212,904
Total Unsecured	1,306,495,335
Exempt	22,349
Net Unsecured	1,306,472,986
Total Value	**5,939,186,107**
Base Year Taxable Value	799,726,839
Incremental Taxable Value	5,139,459,268
Tax Increment	51,394,593
Unitary Tax Increment	261,500
Total Tax Increment Revenue	**51,656,093**
Adjustments / Liens to Tax Increment Revenue:	
Property Tax Administration Fees (2)	734,106
Property Tax Refunds / Corrections (3)	688,585
AB 1290 Tax Sharing Payments (4)	8,387,511
Tax Revenue	**$41,845,890**

(1) Based on taxable values per Santa Clara County Auditor-Controller.
(2) Estimated based on 1.42 percent, which is the percent that the fees represented in 2013-14.
(3) As reported by the County.
(4) Required per the provisions of AB 1290.

Table 7
Milpitas Redevelopment Agency
Milpitas Project Area No. 1

PROJECTION OF INCREMENTAL TAX REVENUE - 2% CPI GROWTH
(000's Omitted)

Fiscal Year	Real (1) Property	New (2) Development	Other (3) Property	Total Value	Value Over Base Of 799,727	Tax (4) Increment	Unitary (5) Revenue	Total Tax Increment	Property Tax (6) Admin Fees	Property Tax Refunds	Mandatory AB 1290 (7) Payment	Tax Revenues
2014 - 2015	$4,778,952	N/A	$1,160,234	$5,939,186	$5,139,459	$51,395	$262	$51,656	$734	$689	$8,388	$41,846
2015 - 2016	4,714,332	144,029	1,160,234	6,018,595	5,218,868	52,189	262	52,450	745	3,490	7,737	40,478
2016 - 2017	4,792,220	144,029	1,160,234	6,096,482	5,296,756	52,968	262	53,229	756	3,490	8,034	40,949
2017 - 2018	5,034,974	0	1,160,234	6,195,207	5,395,481	53,955	262	54,216	770	0	8,399	45,046
2018 - 2019	5,135,673	0	1,160,234	6,295,907	5,496,180	54,962	262	55,223	785	0	8,772	45,666
2019 - 2020	5,238,387	0	1,160,234	6,398,620	5,598,893	55,989	262	56,250	799	0	9,152	46,299
2020 - 2021	5,343,154	0	1,160,234	6,503,388	5,703,661	57,037	262	57,298	814	0	9,540	46,944
2021 - 2022	5,450,017	0	1,160,234	6,610,251	5,810,524	58,105	262	58,367	829	0	9,935	47,602
2022 - 2023	5,559,018	0	1,160,234	6,719,251	5,919,525	59,195	262	59,457	845	0	10,338	48,273
2023 - 2024	5,670,198	0	1,160,234	6,830,432	6,030,705	60,307	262	60,569	861	0	10,750	48,958
2024 - 2025	5,783,602	0	1,160,234	6,943,836	6,144,109	61,441	262	61,703	877	0	11,169	49,656
2025 - 2026	5,899,274	0	1,160,234	7,059,508	6,259,781	62,598	262	62,859	893	0	11,597	50,369
2026 - 2027	6,017,259	0	1,160,234	7,177,493	6,377,766	63,778	262	64,039	910	0	12,034	51,095
2027 - 2028	6,137,605	0	1,160,234	7,297,839	6,498,112	64,981	262	65,243	927	0	12,479	51,836
2028 - 2029	6,260,357	0	1,160,234	7,420,591	6,620,864	66,209	262	66,470	945	0	12,933	52,592
2029 - 2030 (8)	4,596,622	0	1,147,149	5,743,771	4,951,886	49,519	171	49,690	706	0	10,368	38,616
2030 - 2031	4,688,555	0	1,147,149	5,835,704	5,043,818	50,438	171	50,610	719	0	10,709	39,181
2031 - 2032	4,782,326	0	1,147,149	5,929,475	5,137,589	51,376	171	51,547	733	0	11,057	39,758

(1) Prior Year Real Property increased by 1.998 percent for 2015-16 and then by 2 percent per year. The value in 2015-16 and 2016-17 has been reduced for the potential impact of open appeals.
(2) See Table 8, Schedule of New Development.
(3) Includes the value of secured and unsecured personal property, and state-assessed railroad and non-unitary property.
(4) Based on the application of 1% tax rate to incremental taxable value.
(5) Unitary revenue estimate per actual receipts for 2013-14.
(6) Amount shown reflects estimated property tax administrative fees charged by County at 1.42%.
(7) Required per the provisions of AB 1290. The amount for 2014-15 include the underpaid amount from 2013-14.
(8) The last year to receive tax increment for the Original Area is 2028-29. The base year value will be reduced to $791,885,587.

Table 7.1
Milpitas Redevelopment Agency
Milpitas Project Area No. 1

PROJECTION OF INCREMENTAL TAX REVENUE - 0% CPI GROWTH
(000's Omitted)

Fiscal Year	Real (1) Property	New (2) Development	Other (3) Property	Total Value	Value Over Base Of 799,727	Tax (4) Increment	Unitary (5) Revenue	Total Tax Increment	Property Tax (6) Admin Fees	Property Tax Refunds	Mandatory AB 1290 (7) Payment	Tax Revenues
2014 - 2015	$4,778,952	N/A	$1,160,234	$5,939,186	$5,139,459	$51,395	$262	$51,656	$734	$689	$8,388	$41,846
2015 - 2016	4,714,332	144,029	1,160,234	6,018,595	5,218,868	52,189	262	52,450	745	3,490	7,737	40,478
2016 - 2017	4,698,255	144,029	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	3,490	7,687	40,370
2017 - 2018	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2018 - 2019	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2019 - 2020	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2020 - 2021	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2021 - 2022	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2022 - 2023	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2023 - 2024	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2024 - 2025	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2025 - 2026	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2026 - 2027	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2027 - 2028	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2028 - 2029	4,842,284	0	1,160,234	6,002,517	5,202,790	52,028	262	52,289	743	0	7,687	43,860
2029 - 2030 (8)	3,486,489	0	1,147,149	4,633,638	3,841,753	38,418	171	38,589	548	0	6,252	31,788
2030 - 2031	3,486,489	0	1,147,149	4,633,638	3,841,753	38,418	171	38,589	548	0	6,252	31,788
2031 - 2032	3,486,489	0	1,147,149	4,633,638	3,841,753	38,418	171	38,589	548	0	6,252	31,788

(1) Prior Year Real Property increased by 1.998 percent for 2015-16 and then held constant. The value in 2015-16 and 2016-17 has been reduced for the potential impact of open appeals.
(2) See Table 8, Schedule of New Development.
(3) Includes the value of secured and unsecured personal property, and state-assessed railroad and non-unitary property.
(4) Based on the application of 1% tax rate to incremental taxable value.
(5) Unitary revenue estimate per actual receipts for 2013-14.
(6) Amount shown reflects estimated property tax administrative fees charged by County at 1.42%.
(7) Required per the provisions of AB 1290. The amount for 2014-15 include the underpaid amount from 2013-14.
(8) The last year to receive tax increment for the Original Area is 2028-29. The base year value will be reduced to $791,885,587.

Appendix – ROPS Cash Flow

Appendix
Milpitas Successor Agency
Milpitas Project Area No. 1

BOND DEBT SERVICE COVERAGE - POST DISSOLUTION

	2013-14			2014-15			Refunding Bonds 2015-16		
Category	Actual January-June 2014	Actual July - December 2014	Total	Estimate January-June 2015	Estimated July - December 2015	Total	Estimate January-June 2015	Estimated July - December 2015	Total
Tax Increment	$22,701,765	$22,991,062	$45,692,827	$25,491,582	$25,828,046	$51,319,628	$24,480,189	$24,480,189	$48,960,378
Supplemental / Other Taxes			0	1,611,236	0	1,611,236	0	0	0
Total Tax Increment / Trust Fund (1)	22,701,765	22,991,062	45,692,827	27,102,818	25,828,046	52,930,864	24,480,189	24,480,189	48,960,378
Obligations									
Property Tax Administration Fees (2)	376,544	367,986	744,530	324,319	409,787	734,106	372,696	372,696	745,392
Tax Sharing Payments (3)	2,301,192	2,323,990	4,625,182	4,746,531	3,640,980	8,387,511	3,868,401	3,868,401	7,736,802
Tax Revenues for Debt Service	**$20,024,029**	**$20,299,086**	**$40,323,115**	**$22,031,968**	**$21,777,279**	**$43,809,247**	**$20,239,092**	**$20,239,092**	**$40,478,184**
Total Debt Service (4)	**3,784,804**	**9,903,804**	**13,688,608**	**3,630,804**	**10,055,805**	**13,686,609**	**6,153,575**	**6,153,575**	**12,307,150**
Remaining Revenue	**16,239,225**	**10,395,282**	**26,634,507**	**18,401,164**	**11,721,474**	**30,122,638**	**14,085,517**	**14,085,517**	**28,171,034**
Coverage	**529%**	**205%**	**295%**	**607%**	**217%**	**320%**	**329%**	**329%**	**329%**
Subordinate Obligations (5)	5,903,487	211,739	6,115,226	5,222,782	171,000	5,393,782	5,222,782	172,000	5,394,782

(1) Reflects actual receipts based on the records of the Agency for 2012-13, 2013-14 and the January 2015 payment.
Total amount for 2014-15 and 2015-16 based on FCR.
(2) As reported by the County Auditor- Controller. Amount is estimated for 2014-15.
(3) Payments due pursuant to AB 1290 payments.
(4) Represents bond year debt service for the Prior Bonds through June 2015 and the 2015 Bonds thereafter.
The September 2015 debt service on the 2015 Bonds will be sized comparable to the payment that would been due on that date for the Prior Bonds.
(5) Includes payments on the Purchase and Sale Agreement with Santa Clara County ($5 million) and other subordinate obligations.