



Annual Financial Report

Management's Discussion and Analysis

The CRA/LA provided a \$75,000 grant to the Port of Los Angeles High School to help with \$200,000 worth of interior renovations.

“The charter school is an important addition to the community,” said CRA/LA Assistant Project Manager Walter Beaumont. “It has brought teachers, families, kids and school administrators to San Pedro. Together they are making the downtown neighborhood a vital place to live and work.”

The first academic year – 2005/2006 – the high school occupied only half of the first floor. It had only 100 students, four teachers and a principal. With CRA/LA help, the second floor was transformed by the fourth academic year – 2008/2009 – into 18 classrooms.

In June, the school celebrated its first graduating class of 89 students, representing a 100 percent graduation rate. The school now has a staff of 52 educators, administrators and maintenance staff; 750 students will start classes in September.

Community Redevelopment Agency
of the CITY OF LOS ANGELES

*A Component Unit of the City of
Los Angeles, California*

**THE COMMUNITY REDEVELOPMENT AGENCY
OF THE CITY OF LOS ANGELES, CALIFORNIA**

Management's Discussion and Analysis

June 30, 2009

As management of The Community Redevelopment Agency of the City of Los Angeles (CRA/LA), we offer readers of the CRA/LA's financial statements this narrative overview and analysis of the financial activities of CRA/LA for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages one through four of this report.

FINANCIAL HIGHLIGHTS

- The net assets of CRA/LA exceeded its liabilities at the close of the fiscal year 2009 by \$102,801,000. The net assets consisted of \$53,903,000 invested in capital assets net of related debt; and \$596,051,000 restricted for capital projects, low and moderate-income housing activities, and debt service (page 21).
- The CRA/LA's financial activities during the fiscal year resulted in a net change in total net assets of \$42,850,000. Both governmental and business-type activities posted increases in net assets of \$42,571,000 and \$279,000, respectively (page 22).
- As of the close of fiscal year 2009, the CRA/LA's governmental funds reported combined ending fund balances of \$588,013,000, a decrease of \$22,268,000 in comparison with the prior year. Of this total amount, 51.8 percent or \$304,485,000 has been appropriated in the CRA/LA's fiscal year 2010 budget to meet current and future work programs (page 23).
- The CRA/LA's bonded debt and long-term notes payable at June 30, 2009 net of unamortized premiums/discounts and deferred amounts from refunding totaled \$817,091,000, a net decrease of \$19,832,000 from prior year's balance of \$836,923,000 (page 50).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the CRA/LA's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the CRA/LA's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of CRA/LA is improving or deteriorating.

The *statement of activities* presents information showing how the CRA/LA's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues, and earned but unused vacation leave).

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The governmental activities of CRA/LA include housing, community and economic development, public improvement, project general, and debt service while the business-type activity of CRA/LA includes a CRA/LA-owned and operated public parking facility.

The government-wide financial statements can be found on pages 21 and 22 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. CRA/LA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of CRA/LA can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. This reconciliation can be found on pages 24, 26, and 27.

CRA/LA maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the capital projects fund, debt service fund, housing fund, and special revenue fund, which are all considered to be major funds.

The governmental fund financial statements can be found on pages 23 and 25 of this report.

CRA/LA adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the housing and special revenue funds in the *Required Supplementary Information* on pages 72 and 73, and the capital projects and debt service funds in the *Other Supplementary Information* on pages 75 and 76.

Proprietary funds. CRA/LA maintains two different types of proprietary funds. An *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. CRA/LA uses an enterprise fund to account for the operation of a public parking garage financed by parking revenue bonds. *Internal service funds* are an accounting device used to accumulate and allocate costs and revenues internally among the CRA/LA's various functions. CRA/LA uses internal service funds to account for its personnel and administrative costs, an investment pool, and the transactions of its financing authority. Because all of these functions predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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Proprietary fund financial statements provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the above functions. Conversely, these internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 28 through 30 of this report.

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside CRA/LA. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the CRA/LA's own programs. The accounting method used for fiduciary funds is much like that used for proprietary funds except that the fiduciary funds do not have a measurement focus.

The fiduciary fund financial statement can be found on page 31 of this report.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 32 through 70 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the funding progress of the employees' pension plan and other postemployment benefits of CRA/LA on page 71 of this report, and a budgetary comparison for the housing and special revenue funds on pages 72 and 73 of this report. Other supplementary information concerning the CRA/LA's budgetary comparison for capital projects and debt service funds, financial statements of the internal service funds, financial statements of the fiduciary funds, financial statements of individual redevelopment project areas, and third-party indebtedness is presented on pages 75 through 96.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of the close of fiscal year 2009, the CRA/LA's net assets exceeded its liabilities by \$102,801,000, \$108,465,000 from governmental activities and a negative \$5,664,000 from business activities. Of this total net asset amount, \$53,903,000 is invested in capital assets net of related debt, and \$596,051,000 represents restricted net assets for capital projects, low and moderate-income housing activities, and debt service. A negative balance of \$547,153,000 was reported in unrestricted assets, which is not necessarily a sign of financial weakness. This is due mainly to outstanding long-term debt of \$817,091,000 that will be paid out of future CRA/LA revenues, primarily tax increment revenues from various redevelopment projects which are pledged on approximately 86 percent of the CRA/LA's long-term debt obligations.

The nature of redevelopment financing is such that CRA/LA issues bonds or incurs long-term debt to finance a substantial portion of its redevelopment activities which include infrastructure projects, housing, public parking, commercial and retail projects, community development activities, and others. Although infrastructure assets are transferred to the City of Los Angeles, the debt remains with CRA/LA.

CRA/LA also provides gap financing in other types of redevelopment activities and any equity assumed in these projects is usually significantly less than the underlying expenses. In addition to the public purpose of these redevelopment activities, they are designed to generate additional tax increment resources, to service the CRA/LA's debt and finance additional projects.

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The following table summarizes the CRA/LA's government-wide net assets (dollars in thousands):

	CRA/LA's Net Assets (Deficit)					
	June 30, 2009			June 30, 2008		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 643,451	\$ 2,167	\$ 645,618	\$ 657,115	\$ 2,924	\$ 660,039
Restricted assets	119,930	8,038	127,968	119,778	6,616	126,394
Land held for redevelopment	138,364	-	138,364	96,200	-	96,200
Capital assets, net of accumulated depreciation and amortization	65,385	31,396	96,781	66,479	32,039	98,518
Total assets	967,130	41,601	1,008,731	939,572	41,579	981,151
Current and other liabilities	75,185	4,387	79,572	74,637	3,897	78,534
Long-term liabilities, net of unamortized premium, discount, and deferred amount on refunding	783,480	42,878	826,358	799,041	43,625	842,666
Total liabilities	858,665	47,265	905,930	873,678	47,522	921,200
Net assets:						
Invested in capital assets, net of related debt	65,385	(11,482)	53,903	66,479	(9,636)	56,843
Restricted net assets	588,013	8,038	596,051	610,281	6,616	616,897
Unrestricted	(544,933)	(2,220)	(547,153)	(610,866)	(2,923)	(613,789)
Total net assets (deficit)	\$ 108,465	\$ (5,664)	\$ 102,801	\$ 65,894	\$ (5,943)	\$ 59,951

The CRA/LA's net assets showed a net increase of \$42,850,000 at the end of the current fiscal year, which is mainly due to the increase in land held for redevelopment of \$42,164,000. Creation of the Land Acquisition Fund enabled CRA/LA to purchase strategic parcels for future development in project areas with limited resources. When developed, these projects will deliver more jobs, retail space, and new housing units.

It should be noted that although the net assets posted a net increase of \$42,850,000 in the current year, this increase was substantially lower than the prior year's net increase of \$117,839,000. Current year's tax increment revenue increased by \$6,377,000 compared to prior year's increase of \$35,253,000 (net of the settlement amount received by Central Industrial and City Center Redevelopment Project areas of \$14,938,000). This decline in the rate of increase of tax increment revenue may be felt in the future years as the economy will continue to show weakness in real estate market. In addition, a number of economic and municipal bond market factors were attributable to the non-issuance of tax allocation bonds during the year.

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Governmental activities. During fiscal year 2009, governmental activities increased net assets by \$42,571,000. Program revenues of \$42,062,000 and general revenues of \$237,231,000 generated by the governmental activities supported program expenses of \$195,689,000 and interest on long-term debt of \$41,033,000, leaving a positive change in net assets of \$42,571,000 during the year. Of the \$279,293,000 total revenues, \$217,868,000 or 78.0 percent came from tax increment revenues.

The following table and charts provide a summary of the CRA/LA's revenues and expenses for its governmental activities (dollars in thousands):

CRA/LA's Changes in Net Assets - Governmental Activities

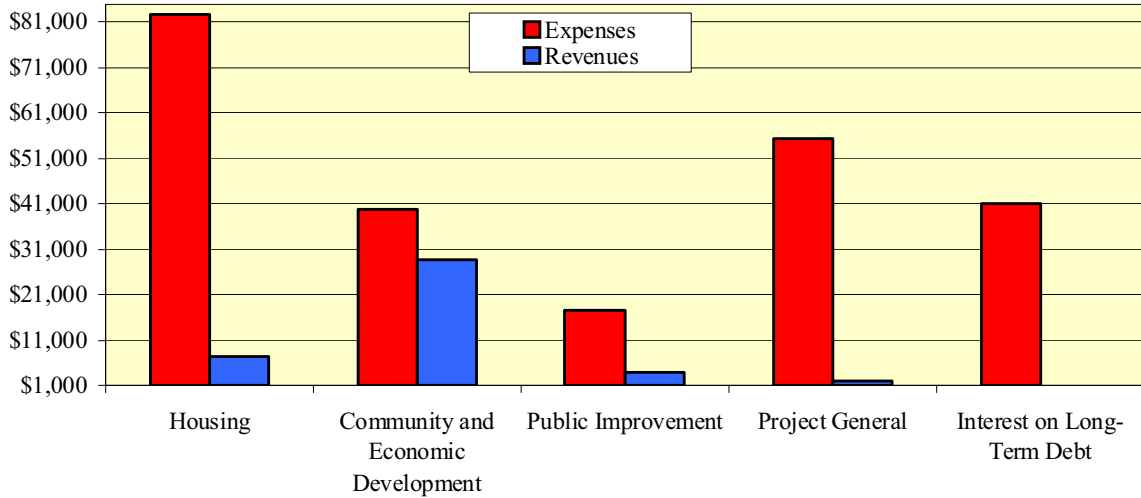
	Fiscal Year Ended	
	June 30, 2009	June 30, 2008
Revenues:		
Program revenues:		
Capital grants and contributions	\$ 37,189	\$ 44,990
Charges for services	4,873	4,988
Total program revenues	42,062	49,978
General revenues:		
Incremental property taxes	217,868	211,491
Interest income	13,457	24,188
Net change in loan valuation	4,802	12,282
Other	1,104	3,882
Total general revenues	237,231	251,843
Total revenues	279,293	301,821
Program expenses:		
Housing	82,853	58,057
Community and economic development	39,682	36,141
Public improvement	17,625	14,393
Project general	55,529	37,831
Total program expenses	195,689	146,422
Interest on long-term debt	41,033	37,610
Total expenses	236,722	184,032
Change in net assets	42,571	117,789
Net assets (deficit) - beginning of year	65,894	(51,895)
Net assets (deficit) - end of year	\$ 108,465	\$ 65,894

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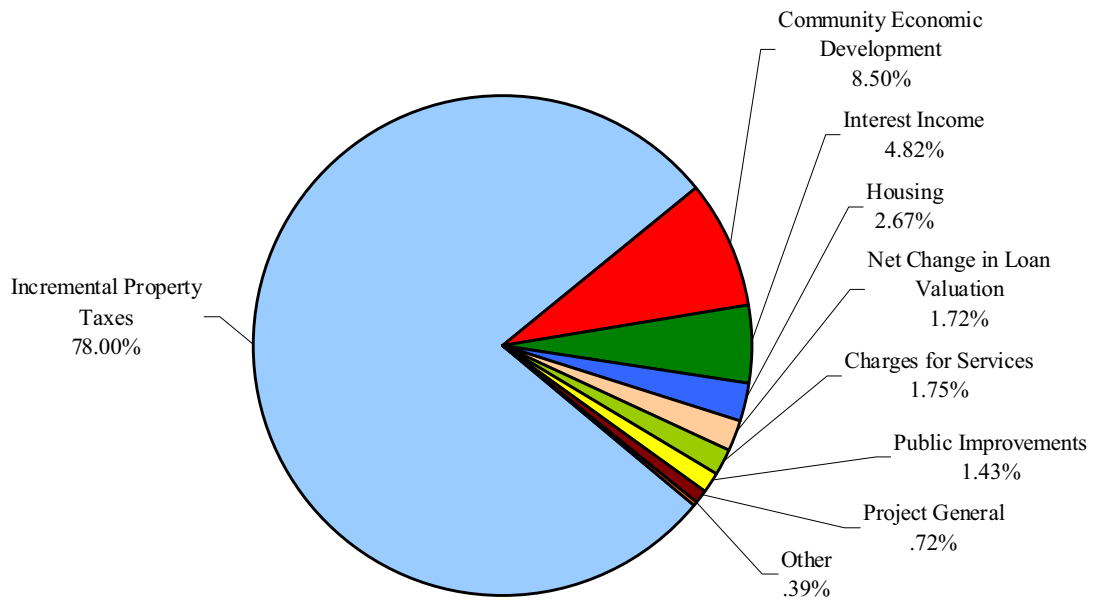
Management's Discussion and Analysis - (Continued)

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**Expenses and Program Revenues - Governmental Activities
Fiscal Year Ended June 30, 2009**



**Revenues by Source - Governmental Activities
Fiscal Year Ended June 30, 2009**



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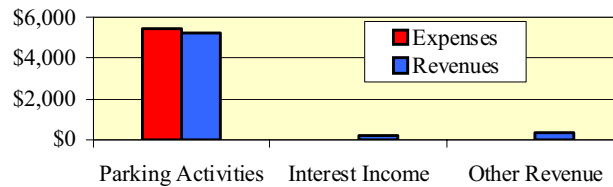
June 30, 2009

Business-type activities. A public parking garage financed with parking revenue bonds started operations in March 2002. At the end of the fiscal year, the garage showed a change in net assets of \$279,000 reducing the deficit from \$5,943,000 to \$5,664,000 from the prior year. The positive net change can be accounted mainly from the increase in total revenues of the garage, primarily due to increased traffic. The following summarizes the operating results of the CRA/LA's enterprise fund for the year ended June 30, 2009 (dollars in thousands):

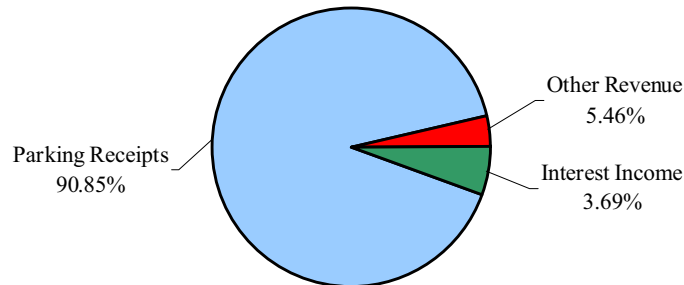
CRA/LA's Changes in Net Assets - Business-type Activities

	Fiscal Year Ended	
	June 30, 2009	June 30, 2008
Revenues:		
Parking receipts	\$ 5,214	\$ 4,714
Interest income	212	271
Other	313	288
Total revenues	5,739	5,273
Expenses:		
Parking activities	5,460	5,223
Change in net assets	279	50
Deficit - beginning of year	(5,943)	(5,993)
Deficit - end of year	\$ (5,664)	\$ (5,943)

**Expenses and Program Revenues - Business-type Activities
Fiscal Year Ended June 30, 2009**



**Revenues by Source - Business-type Activities
Fiscal Year Ended June 30, 2009**



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FINANCIAL ANALYSIS OF THE CRA/LA'S FUNDS

As noted earlier, CRA/LA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the CRA/LA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the CRA/LA's financing requirements. In particular, the unreserved fund balance serves as a useful measure of the CRA/LA's net resources available for spending at the end of the fiscal year. Individual fund information of governmental funds reported by CRA/LA include the capital projects fund, debt service fund, housing fund, and special revenue fund, which are all considered major funds.

As of June 30, 2009, the CRA/LA's governmental funds reported a combined ending fund balance of \$588,013,000, a decrease of \$22,268,000 in comparison with the prior year. Of the \$588,013,000, a total amount of \$283,528,000 is reserved for debt service, low and moderate-income housing activities, advances to other funds, and encumbrances. The remaining \$304,485,000, which is approximately 51.8 percent of the total fund balance, constitutes the unreserved fund balance. This amount is available for spending and has been appropriated in the CRA/LA's fiscal year 2010 budget.

Capital Projects Fund. The capital projects fund is used to account for redevelopment expenditures from tax increment, bond proceeds, federal grants, and project program income. The balance of this fund at the end of the current fiscal year amounted to \$340,356,000, a decrease of \$4,300,000 from prior year's fund balance. The decline of \$13,610,000 in total revenues is offset primarily by the net proceeds from a limited recourse obligation involving Section 108 funds of \$9,710,000 which are reflected in the other financing sources (uses) of the fund's statement of revenues, expenditures, and changes in fund balances. Tax increment revenues showed an increase of \$6,377,000 or three percent from last year's tax increment revenues despite recent real estate weakness. This slight increase is likely due to the effect of the lag in assessed valuation adjustments. However, continued weakness in the real estate market may result in significant retroactive tax increment revenue adjustments in the future.

Interest income in the current year decreased by \$4,086,000 from last year's interest income due to the drop in the average interest yield on CRA/LA's investments from 2.40 percent to 1.76 percent and the decrease in investments. Other factors contributing to the drop in fund balance were a net increase in expenditures of \$16,412,000 of which \$16,832,000 was incurred for real estate acquisition resulting from the CRA/LA's proactive land acquisition program. In addition, transfers for the tax increment pledges for debt service came from the current year's tax increment revenues.

Debt Service Fund. The debt service fund is used to accumulate resources to pay for principal, interest, and other related costs on the CRA/LA's long-term debt. As of June 30, 2009, the debt service fund had a total balance of \$92,209,000 all of which is reserved for debt service. This fund balance showed an increase of \$9,180,000 from the prior year's amount due to the added transfers into the trustee accounts to meet required pledges for debt service.

Housing Fund. The housing fund primarily accounts for the portion of tax increment and related revenue designated for low and moderate-income housing. State law requires redevelopment agencies to set aside at least 20 percent of tax increment for low and moderate-income housing projects. The entire fund balance is reserved for low and moderate-income housing projects. At the end of the fiscal year, the housing fund balance decreased by \$25,855,000 to a total of \$117,560,000. The decrease in the fund balance was due to a decrease in revenues by

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\$10,945,000 caused by lower loan repayments and lower interest income, increase in expenditures of \$25,993,000 mainly from real estate acquisition and development loans, and a decrease in the housing set-asides because of non-issuance of tax allocation bonds during the year.

Special Revenue Fund. The special revenue fund is used to account for revenues and expenditures from specific sources such as developer contributions, City participation, art fund contributions, and local grants. In fiscal year 2009, the special revenue fund balance decreased by \$1,293,000 to \$37,888,000 as a result of lower developer participation revenues by \$8,741,000. A decline in the fund's total current year revenues resulted in the use of the fund's available balance from prior years to fund increase in program expenditures of \$5,887,000.

Proprietary funds. The CRA/LA's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of June 30, 2009, the CRA/LA-owned parking garage showed a deficit of \$5,664,000. Other factors concerning the operation of the CRA/LA-owned parking garage have already been addressed in the discussion of the CRA/LA's business-type activities.

CAPITAL ASSETS

The CRA/LA's investments in capital assets net of accumulated depreciation and amortization for its governmental and business-type activities as of June 30, 2009 totaled \$65,385,000 and \$31,396,000, respectively. The CRA/LA's capital assets include land, building and improvements, equipment, and a multi-level public parking facility. This 1,725-car public parking facility located in the Hollywood Redevelopment Project area, which was financed by the issuance of \$44,235,000 of parking revenue bonds, was opened for business in March 2002.

Additional information on the CRA/LA's capital assets can be found in note 2-C on pages 45 and 46 of this report.

DEBT ADMINISTRATION

At June 30, 2009, the CRA/LA's long-term debt of \$817,091,000, net of unamortized bond premium/discount and deferred amounts on refunding is summarized as follows (dollars in thousands):

CRA/LA's Long-Term Liabilities

	Governmental Activities	Business-type Activities	Total
Tax allocation bonds	\$ 667,683	\$ -	\$ 667,683
Parking revenue bonds	-	38,841	38,841
Notes payable	28,593	4,037	32,630
Payable to the City	77,937	-	77,937
Total	\$ 774,213	\$ 42,878	\$ 817,091

As of June 30, 2009, CRA/LA had 65 tax allocation bonds and one parking revenue bond outstanding, totaling \$706,524,000, net of unamortized bond premiums, discounts, and related items of \$1,491,000. Of the 65 tax allocation bond issues, 49 are insured. This equates to 88.08 percent of the original principal amount of bonds having been issued with insurance. Due to the current state of the economy, and its impact on financial markets, ratings of municipal bond insurers have fluctuated drastically. Investors with insured CRA/LA bonds are

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encouraged to contact their respective investment advisor to obtain the latest rating(s) on their insured bonds. The remaining bonds are uninsured and have investment grade ratings.

Additional information on the CRA/LA's long-term liabilities can be found in note 2-F on pages 49 through 58 of this report.

ECONOMIC FACTORS AND FUTURE YEARS' BUDGET AND RATES

The following economic factors were considered in preparing the CRA/LA's budget for fiscal year 2010 and will impact the CRA/LA's assessment of its future resources and expenditures beyond 2010.

- *Employment.* According to the Los Angeles County Economic Development Corporation (LAEDC), the 2008 average non-farm unemployment rate for Los Angeles County was at 7.5 percent. The County's unemployment rate during 2009 moved up to 11.7 percent. The LAEDC is projecting non-farm unemployment rate to move up higher to 12.8 percent in 2010.
- *Personal income growth.* LAEDC projected total personal income for Los Angeles County to decline by -1.6 percent in 2009, before regaining a little momentum in 2010 (+1.0 percent).
- *Inflation rate.* The LAEDC estimated the inflation rate for the Southern California area, as measured by the consumer price index, will be down by -0.7 percent in calendar year 2009.

Given the overall slowdown in economic activity, CRA/LA may experience over the next two to three years, a double digit decline from its net tax increment revenues, which currently constitutes 78.0 percent of its total revenues.

As of June 30, 2009, the CRA/LA's governmental funds showed an unreserved fund balance of \$304,485,000. As part of the CRA/LA's budget process as described in the note to required supplementary information on page 74, this amount was appropriated in the fiscal year 2010 budget.

OTHER MATTERS

School transfers. In July 2009, the California State legislature passed and the Governor signed AB 26 4X requiring California redevelopment agencies to participate proportionately in a shift of a total \$2.05 billion in property tax increment revenues to the county Supplemental Educational Revenue Augmentation Fund (SERAF) in fiscal years 2010 and 2011. The California Redevelopment Association has filed a lawsuit challenging the constitutionality of AB 26 4X, however, until AB 26 4X has been judicially determined to be unconstitutional, it is the law and redevelopment agencies have to comply with its terms and deadlines set for SERAF payments. CRA/LA's total contribution for deposit into the Los Angeles County's SERAF is \$85,081,125 with payments of \$70,900,939 for fiscal year 2010 due on May 10, 2010 and \$14,180,186 for fiscal year 2011 due on May 10, 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the CRA/LA's finances for all those with an interest in such information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, The Community Redevelopment Agency of the City of Los Angeles, 354 South Spring Street, Los Angeles, California 90013.