City of Santa Barbara
California

Redevelopment Agency

A Component Unit of the City of Santa Barbara

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2006

Redevelopment Agency of the City of Santa Barbara, California

A Component Unit of the City of Santa Barbara

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2006

ROBERT D. PEIRSON, AGENCY TREASURER

SEAL OF THE CITY OF SANTA BARBARA
CALIFORNIA

Introductory Section

Introductory Section

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Fiscal year ended June 30, 2006

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September 8, 2006

The Honorable Chairperson and the Members
of the Redevelopment Agency Board:

The Comprehensive Annual Financial Report (CAFR) of the Redevelopment Agency of the City of Santa Barbara (Agency) for the Fiscal year Ended June 30, 2006, is herewith submitted. This report was prepared by the Finance Department of the City of Santa Barbara (City) on behalf of the Agency. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Agency. To the best of our knowledge and belief, the information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Agency. All disclosures necessary to enable the reader to gain an understanding of the Agency's financial position have been included.

The CAFR is presented in five sections: the introductory section, which includes the transmittal letter; the financial section, which includes management's discussion and analysis and the basic financial statements; the statistical section; the compliance and internal control section; and the Agency's Annual Program Report and Work Program section. The financial section of this report has been audited by the firm of Caporicci & Larson, Certified Public Accountants, whose opinion thereon is included as an integral part of this report.

ECONOMIC CONDITION AND OUTLOOK

Local property tax revenues, the primary revenue source of the Redevelopment Agency, continue to increase. The residential real estate market in Santa Barbara has been very strong during the last several years, attributable primarily to low interest rates and, in part, to a housing demand based on wealth and not current income. The median price of residential real estate on the South Coast, which includes Goleta, Santa Barbara, Montecito and Carpinteria, continues to hover around $1,000,000, while non-residential real estate valuations remain solid. Increasing property tax revenues are expected to continue as homes are sold and the properties are assessed at higher values.

As the Redevelopment Agency moves into its final eight years of operation, numerous operational challenges await it. In fiscal year 2006, the Redevelopment Agency made significant headway on implementing the Agency's capital program which consists of over 30 capital projects. The capital improvement program will be used as a guide for the Agency in its efforts to maximize financial and physical impacts over the next eight years and to create programs to succeed the Redevelopment Agency.

MAJOR INITIATIVES

LOUISE LOWRY DAVIS CENTER RESTORATION

In fiscal year 2002, $350,000 was budgeted to fund interior and exterior improvements to the Louise Lowry Davis Center located at 1232 De La Vina Street. The Center hosts many senior citizen activities including card-playing, bingo, informational lectures, tax and insurance counseling, stroke rehabilitation, yoga, and tai chi. One of the project's main goals was to bring the Center up to ADA (Americans with Disabilities Act) standards. A fully compliant exterior ramp was constructed to provide handicapped access via a well-defined entrance and reception

area leading from the parking lot. The interior improvements created fully compliant accessible men's and women's restrooms and an accessible drinking fountain. The kitchen was relocated and completely remodeled with new appliances and cabinetry. New flooring was installed throughout the building. All new heating, plumbing and electrical systems were installed. The exterior also received a new roof, lighting and landscaping. Although the Agency Board increased funding to $798,000 in January 2005, the project came in under budget at $618,000. The reopening ceremony was held on March 29, 2006.

GRANADA GARAGE

The City Council approved the development of the Granada Garage in March 2001 after a study determined that State Street businesses above Carrillo Street were not as robust as those below. The Granada Garage is a six-level parking structure (two levels below ground) and includes offices for the Downtown Parking Operations and Environmental Services staff, as well as a bike station for commuters who use their bicycles. The architecture of the garage is Spanish mission in style and features include new paseos and a grand stairway leading to the top level of the structure. The garage has intricate plaster work, wrought-iron railings, terra cotta vases and planters, wrought-iron information and direction signs, copper gutters and downspouts, and drought-tolerant landscaping. An electronic scorecard to inform incoming vehicles about the number of spaces available on each floor was installed in the garage. An express ramp provides fast vehicle circulation. The garage is located at the former site of the Lot 6 parking lot (corner of Anacapa and Anapamu) and provides 570 parking spaces for the local businesses located north of Carrillo Street. Construction began in September 2004 and was scheduled to last 15 months, but with discovery of a large volume of contaminated soil and several very rainy months, an accelerated work schedule was necessary in order to have the garage available for the 2005 Holiday Season. On November 25, 2005, the parking structure portion of the project was opened for use. Then on March 24, 2006, the entire parking structure was opened completely. Eventually, one exterior wall will feature a mural celebrating Santa Barbara's Summer Solstice and Fiesta. The exterior wall along Anacapa Street is planned as a backdrop for future affordable housing. Notice of completion was accepted by Council on June 27, 2006. The final cost capitalized was $25,982,911.

WEST DOWNTOWN IMPROVEMENT PROGRAM

The West Downtown area is that portion of the Central City Redevelopment Project area bordered by Carrillo Street on the north, Highway 101 on the west and south, and Chapala Street on the east. In November 2002, the RDA held two widely noticed public meetings that included about 40 participants from the community. The purpose of the meetings was to present and solicit suggestions for capital improvements that would improve the West Downtown neighborhood and to get feedback and a sense of priority. A report summarizing these suggestions was forwarded to the Redevelopment Agency Board and will be used as a reference for future improvements to the area. The project scope is being developed by the City's Transportation Planning Division with a primary focus on the Anapamu Street and Ortega Street pedestrian corridor improvements. The firm of Conceptual Motion was selected in April 2005 to provide design services. The scope of work will include landscape design that will create a consistent theme in a walkable corridor between the Westside and downtown. The top priorities of the project include pedestrian street lighting, sidewalk improvements including bulbouts at intersections, and landscaping. By the end of fiscal year 2006, the design was 90% complete and will be reviewed by the Architectural Board of Review for preliminary approval in October 2006. Construction is scheduled to begin in February 2007. Also included in the project are improvements to the Westside Park, located adjacent to the 101 Freeway. Improvements to this heavily used park will include new landscaping, fencing, and a re-orientation of the park facilities to better serve the local neighborhood. The Agency has allocated $3.5 million from the proceeds of its 2003A tax allocation bonds for this program.

CARRILLO-CHAPALA MIXED USE PROJECT

The Agency and the Metropolitan Transit District have been working to develop the northeast corner of Carrillo and Chapala Streets. The project site covers more than half of an entire City block and is composed of the 164-space City Parking Lot #3 and the MTD Transit Center. The intersection of Carrillo and Chapala Streets has seen major improvements in recent years, with the construction of the Hotel Andalucia and Ralph's Supermarket. The property owners have identified an opportunity to consider a joint mixed-use redevelopment project on the property. A Downtown Transit Village is envisioned for this prime gateway site, incorporating public and private parking, a mix of affordable and market-rate housing, a new MTD transit center, and various commercial uses. The Agency and MTD approved a Participation Agreement in October 2005, identifying deal points and the terms of participation in producing a Planning Strategy and Feasibility Analysis. In April 2006, after a Request for Proposal process, Urban Studio and their sub-consultants, Allan D. Kotin and Associates and Patti Post and Associates, were chosen based on their experience with similar feasibility analyses, local knowledge, and expertise in advising public agencies on real estate deal structuring. Urban Studio will identify and evaluate various potential redevelopment scenarios for the project site. The analysis will also include economic feasibility analyses for up to four conceptual mixed-use redevelopment scenarios on the project site.. The Agency has allocated $2,000,000 towards this effort.

AGENCY'S AFFORDABLE HOUSING PROGRAM

315 WEST CARRILLO STREET (EL CARRILLO)

On September 15, 2006 the City's Housing Authority will complete 61 small (254 square foot) studio apartment rental units (plus one 2-bedroom manager's unit) for the homeless, near homeless, and very low income downtown workers. The Housing Authority manages the project in partnership with the experienced social services organization, Work Training Programs, Inc (WTP). Two full-time WTP case workers are on site through funding provided by Santa Barbara County Alcohol, Drug & Mental Health Services. The Agency loaned the Housing Authority $1,775,000 for acquisition of the half-acre site located adjacent to their award-winning Casa de Las Fuentes "Downtown Worker" affordable rental housing project. The Agency also provided a $300,000 predevelopment loan. The project received over $8 million in low income housing tax credits and has received $1 million in below market rate construction loan funds from the newly established Santa Barbara County Housing Trust Fund. El Carrillo is the 1st project to be completed under the County's Ten Year Plan to End Chronic Homeless.

4200 CALLE REAL (ST. VINCENT'S GARDENS & VILLA CARIDAD)

Mercy Housing California, a State-wide nonprofit housing developer, currently has two low income rental housing projects under construction on the site of the former St. Vincent's School, a 19-acre site recently annexed by the City near Highway 154 and Calle Real. One is a 75-unit project for families (St Vincent's Gardens), and the other is a 95-unit project for seniors (Villa Caridad). The Agency has spent a total of $17.4 million on the two projects, and the County of Santa Barbara has spent $4.4 million on the family project. Funding also includes HUD Section 202 funds for the senior project, low income housing tax credits for the family project, and funds from the Daughters of Charity. Both projects are expected to be completed in 2007, with completion of the family project preceding that of the senior project.

OTHER INFORMATION

Component Unit Reporting

Under reporting requirements prescribed by generally accepted accounting principles adopted by the Governmental Accounting Standards Board, the Agency's results of operations are also reported in the City of Santa Barbara's CAFR. This treatment is due to the requirement that municipal organizations include in one report all operations controlled by the same governing body. Specific interpretation for redevelopment agencies requires their inclusion in the City's CAFR. No express or implied assumption of any of the Agency's liabilities by the City, either at

present or in the future, is made by the inclusion of the Agency's financial results in the City's CAFR. The Agency remains separate for all legal purposes. Accordingly, the accompanying basic financial statements are issued as a separate component unit report of the Agency.

Internal Controls

The Agency's management is responsible for establishing and maintaining a system of internal controls designed to ensure that the Agency's assets are protected from loss, theft or misuse. The internal controls must also ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles. The Agency's system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe that the Agency's system of internal accounting controls adequately safeguards assets and provides reasonable assurance as to the proper recording of financial transactions. The Agency's internal controls are subject to periodic evaluation by the Agency's management.

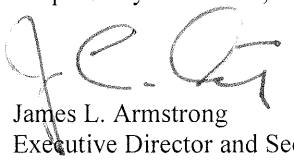
Independent Audit

The City requires an annual audit of the financial statements of the Agency by an independent certified public accountant. The Agency is in compliance with this requirement and the independent auditor's report has been included in this report on page 1 at the beginning of the financial section.

Acknowledgments

The preparation of this CAFR could not have been accomplished without the hard work and team effort of the City's Finance Department. Special recognition and thanks are due to the entire staff for their efficient and dedicated efforts.

Respectfully Submitted,



James L. Armstrong
Executive Director and Secretary

Robert D. Peirson
Agency Treasurer

REDEVELOPMENT AGENCY
OF THE
CITY OF SANTA BARBARA

Directory of Agency Officials

June 30, 2006

Marty Blum
Chairperson

Grant R. House
Member

Helene Schneider
Member

Roger L. Horton
Member

Das Williams
Member

Iya G. Falcone
Member

Brian B. Barnwell
Member

James L. Armstrong
Executive Director and Secretary

Paul A. Casey
Deputy Director

Stephen P. Wiley
Agency Counsel

Robert D. Peirson
Agency Treasurer

David K. Gustafson
Housing & Redevelopment Manager

SEAL OF THE CITY OF SANTA BARBARA
CALIFORNIA

Financial Section

C&L
Caporicci & Larson
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Redevelopment Agency of the City of Santa Barbara
Santa Barbara, California

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

We conducted our audit in accordance with generally accepted auditing standards in the United States 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 1 to the basic financial statements, the Agency adopted the Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, No. 44, *Economic Condition Reporting: The Statistical Section* (an amendment of NCGA Statement 1), and No. 46, *Net Assets Restricted by Enabling Legislation*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 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 grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis and budgetary comparison information, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Introductory, Statistical, and Annual Program Report/Work Program sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Caporicci & Larson

Irvine, California
September 8, 2006

Redevelopment Agency of the City of Santa Barbara
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

This section of the Comprehensive Annual Financial Report of the Redevelopment Agency of the City of Santa Barbara presents an overview of the Agency's financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have included in our letter of transmittal, which can be found on pages iii-vi of this report.

FINANCIAL HIGHLIGHTS

- Total assets of the Agency were $176.9 million at June 30, 2006, a decrease of approximately $5.1 million from the prior year.

- Net assets (assets over liabilities) of the Agency at June 30, 2006 totaled $94.2 million, an increase of $1.7 million from the prior year. Of the total, $4.1 million is unrestricted and, thus, available to meet the Agency's ongoing obligations to citizens and creditors.

- Revenues of the Agency for the year ended June 30, 2006 totaled $19.9 million and expenses totaled $18.2 million.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to present financial information about the Agency as a whole, in a manner similar to the private sector, including the use of accrual-based accounting to recognize revenues and expenses. Government activities typically include those traditionally associated with local government, such as public safety (fire and police), community development, public works, library, parks and recreation, and general government (administrative) functions. However, the activities of redevelopment agencies, which are governed by State Law, primarily include capital improvements designed to eliminate blight in the community, financed from the sale of bonds. The debt service costs associated with the bonds are funded from the incremental property taxes ("tax increment") generated from the improvements made.

The Statement of Net Assets presents all Agency assets, including capital assets, and all related liabilities, including long-term debt obligations. The difference between total assets and total liabilities is presented as "Net Assets", which serves as a measure of the financial health of the Agency. Over time, an increase in net assets generally indicates that the financial health of the Agency is improving. The Statement of Activities provides the details of how the Agency's net assets changed during the fiscal year. Decreases in net assets are presented as "Expenses"; increases in net assets are presented as "Program Revenues" or "General Revenues".

The government-wide financial statements can be found on pages 12 and 13 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. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental in nature.

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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains 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 General Fund, Special Revenue Fund, Capital Projects Fund, and Debt Service Fund.

The Agency adopts an annual appropriated budget for its General and Special Revenue Funds. A budgetary comparison statement has been provided for both funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14 and 16 of this report.

Notes to 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 the financial statements can be found on pages 18 through 28 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency has presented its financial statements under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34. The following includes a comparative analysis between current year and prior year results of operations and year-end balances.

Statement of Net Assets

Table 1 below provides a summary of the Statement of Net Assets as of June 30, 2006 and 2005, which can also be found on page 12 of this report.

Table 1
REDEVELOPMENT AGENCY
OF THE CITY OF SANTA BARBARA
Summary of Net Assets
As of June 30, 2006 and 2005

	2006	2005
Current and other assets	$ 96,932,581	$ 115,010,870
Capital assets	79,959,920	67,158,557
Total assets	176,892,501	182,169,427
Current liabilities	2,511,900	10,169,769
Long-term liabilities	80,210,000	79,460,000
Total Liabilities	82,721,900	89,629,769
Net assets:		
Invested in capital assets, net of related debt	48,895,221	46,530,371
Restricted	41,153,696	45,299,389
Unrestricted	4,121,684	709,898
Total Net Assets	$ 94,170,601	$ 92,539,658

As of June 30, 2006, assets for the Agency totaled $176.9 million, a decrease of approximately $5.2 million from prior year. Capital assets increased $12.8 million, primarily due to construction of the Granada Garage. Cash and investments decreased from $24.3 million in fiscal year 2005 to $18.9 million in fiscal year 2006. This $5.4 million decrease in cash and investments is primarily the result of additional loans that were made during the year and debt service payments, offset by tax revenues in excess of expenses during the year. Restricted cash with fiscal agents decreased $14.3 million, primarily due to a $7.1 million grant to the St. Vincent's Senior Housing project and costs to finish construction of the Granada Garage.

Liabilities at year-end totaled approximately $82.7 million, a $6.9 million decrease from the prior year. The largest factors contributing to the change are: The $5.2 million principal retirement on outstanding tax allocation bonds and a $1.4 million decrease in accounts payable at year-end.

Net assets as of June 30, 2006, totaled $94.2 million. Of this total, $48.9 million is invested in capital assets; $41.2 million is restricted, of which $33.5 million is restricted for low and moderate-income housing activities; and $4.1 million is unrestricted. In total, net assets increased by approximately $1.7 million. This is primarily due to a $1.3 million increase in incremental property tax revenues.

Statement of Activities

Table 2 provides a summary of the Statement of Activities for the Agency for the fiscal years ended June 30, 2006 and 2005. As shown in Table 2, revenues for the year ended June 30, 2006, totaled $19.9 million, an increase of $3.6 million. Of this total, $15.2 million (76%) consists of property tax increment revenues. As previously discussed, the nature of redevelopment agencies is such that they are created for the purpose of eliminating blight, through capital improvements, where needed in the community. The improvements are financed by the issuance of bonds that are repaid from the incremental property tax revenues generated from the improvements. Therefore, incremental property tax revenues are generally the largest and primary source of revenues for redevelopment agencies. Tax increment revenues grew by approximately $1.3 million (9.5%) from prior year.

Table 2
REDEVELOPMENT AGENCY
OF THE CITY OF SANTA BARBARA
Statement of Activities
Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
General Revenues:		
Property Tax Increment	$ 15,179,250	$ 13,857,766
Interest Revenue	1,977,778	2,115,446
Program Revenue	639,970	238,142
Other Revenue	2,056,198	85,882
Total Revenues	19,853,196	16,297,236
Expenses:		
General Government	3,940,554	4,390,094
Housing	2,584,948	672,611
Debt Service - Interest	3,823,348	3,885,655
Capital Improvements	7,873,403	135,532
Total Expenses	18,222,253	9,083,892
Increase in net assets	1,630,943	7,213,344
Net Assets, beginning of year	92,539,658	85,234,025
Prior Period Adjustment (Note 10)	-	92,289
Net Assets, end of year	$ 94,170,601	$ 92,539,658

The other significant revenues are from investment earnings, which totaled $2.6 million, and a one-time $1.1 million overnight accommodation mitigation fee (see discussion on page 9). Investment revenue consists of interest income on RDA loans, pooled investments, and investments held by fiscal agents. Interest on pooled cash and investments increased by $264,000 as interest rates have started to climb and we are finally starting to see some upward movement in earnings.

Interest on RDA loans is not affected by the interest rate environment, but by loans outstanding and the interest rate contracted when the loans were made. The accounting adjustment required by Governmental Accounting Standards Board Statement 31 resulted in a $5,666 decrease in interest income compared to $10,334 decrease in the prior year. Expenses totaled $18.2 million, which included $3.8 million for interest on outstanding bonds and $3.9 million for general government, which includes a $1.2 million payment to the Educational Revenue Augmentation Fund (ERAF). This was the second, and final, year of increased ERAF payments to the State pursuant to a deal with the Governor in fiscal year 2004 to ease the State's budget difficulties.

Net assets increased during the year as property tax increment and other revenues exceeded expenditures by $1.6 million. This increase shows continuing strength in the financial condition of the Agency. In total, the Agency received $19.9 million in operating revenues, and incurred $18.2 million in operating expenditures. This surplus, however, was used to retire outstanding long-term bonds and fund the additional investment in capital assets, neither of which affects net assets.

ANALYSIS OF FUND FINANCIAL STATEMENTS

As previously noted, the fund financial statements are prepared using the modified accrual basis of accounting, where the focus is short-term (i.e., "spendable") financial resources. As such, the balance sheets of governmental funds present current assets and liabilities, and fund balance (assets over liabilities) represents amounts available to fund current operations. Unlike the balance sheets of the Government-wide Statements, the fund statements do not include capital assets or long-term debt.

Table 3
Redevelopment Agency of the City of Santa Barbara
Combined Balance Sheet
As of June 30, 2006 and 2005

	2006	2005*
Assets		
Cash and investments	$ 18,936,977	$ 24,303,959
Accrued interest receivable	155,155	1,058,881
Due from other agencies	-	100,639
Due from City	99,264	192,909
Loans receivable	33,006,299	30,084,253
Properties held for resale	433,325	433,952
Cash and investments with fiscal agents	42,110,610	56,372,457
Total Assets	94,741,630	112,547,050
Liabilities		
Accounts payable	338,453	1,781,642
Deposits	168,108	226,608
Deferred revenue	99,264	192,909
Total Liabilities	605,825	2,201,159
Fund Balance		
Reserved for:		
Encumbrances	1,658,757	13,786,116
Non-current assets	33,006,299	30,615,299
Debt service	696,386	690,316
Redevelopment activities	51,699,993	56,331,706
Low and moderate income housing	7,074,370	8,922,454
Total Fund Balance	94,135,805	110,345,891
Total Liabilities and Fund Balance	$ 94,741,630	$ 112,547,050

*** Restated for prior period adjustment (see Note 10)**

Table 3 summarizes the balance sheet of all governmental funds as of June 30, 2006, and June 30, 2005. Assets at June 30, 2006, totaled $94.7 million.

The largest asset, at $42.1 million, is cash and investments with fiscal agents in connection with outstanding bonds of the Agency. The majority of the cash and investments with fiscal agent represent bond proceeds which will be used for downtown redevelopment projects. The balance represents funds held in reserve pursuant to related bond indenture provisions for the benefit of bondholders. Cash and investments with fiscal agents decreased by approximately $14.3 million from prior year as these funds were disbursed for the related capital projects, including

construction of the Granada Garage. This decrease was compounded by a net decrease of $5.4 million in pooled cash and investments (i.e. not held by fiscal agents). The decrease is attributable to two main factors: 1) Disbursement of the 2004 Series A bond proceeds to the St. Vincent's Senior Housing project; and 2) Disbursement of housing set-aside funds of $4.2 million to Mercy Housing for the St. Vincent's Senior and Family projects.

Loans receivable, which increased $2.9 million from prior year, primarily include loans provided to low and moderate-income households from the 20% of tax increment set aside for housing pursuant to State law. It also includes loans provided to non-profit developers for purposes of increasing the number of affordable housing units in the City. As these loans are repayable over more than one year and therefore are not currently available for appropriation, a corresponding amount of fund balance is "Reserved for non-current assets" as shown in Table 3.

Total liabilities decreased by almost $1.6 million. The decrease was entirely due to the timing of expenditures for the Granada Garage construction. Last year, accounts payable were higher than normal due to construction costs incurred around June 30, 2005 but not paid until fiscal year 2006.

Overall, fund balance decreased $16.2 million, from $110.3 million to $ 94.1 million at June 30, 2006 with varying differences among the categories of fund balance. Amounts reserved for encumbrances decreased by $12.1 million due to completion of the Granada Garage construction. The increase in reserve for non-current assets corresponds to the $2.4 million increase in long-term loans receivable, as previously discussed. The $10.1 million decrease in the reserve for redevelopment activities is the result of the consumption of bond funds for capital projects, either as direct expenditures or encumbrances, and the grant payment to the St. Vincent's Senior Housing project. Low and Moderate Housing (Low Mod) reserves increased $3.6 million due to increased tax revenues without a corresponding increase in expenditures for Low Mod housing.

GENERAL FUND HIGHLIGHTS

Table 4 below recaps the budgeted and actual results of operations of the Agency's General Fund for the fiscal year ended June 30, 2006, including the originally adopted and final amended budget amounts.

Table 4
Redevelopment Agency of the City of Santa Barbara
Statement of Revenues, Expenditures and Changes in Fund Balance
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budget			Variance with Final Budget
	Original	Final	Actual	Postive (Negative)
Revenues				
Property tax increment	$ 11,520,000	$ 11,520,000	$ 12,218,316	$ 698,316
Interest revenue	223,000	223,000	604,706	381,706
Other revenue	-	-	1,855,844	1,855,844
Total Revenues	11,743,000	11,743,000	14,678,866	2,935,866
Expenditures				
Supplies and services	1,571,677	1,596,196	1,435,475	160,721
Projects	1,812,500	2,527,282	2,495,609	31,673
Other	77,000	77,009	9,470	67,539
Total Expenditures	3,461,177	4,200,487	3,940,554	259,933
Excess of revenues over expenditures	8,281,823	7,542,513	10,738,312	3,195,799
Operating transfers out	(8,252,300)	(8,252,300)	(8,212,828)	39,472
Net change in fund balance	29,523	(709,787)	2,525,484	3,235,271
Fund balance, beginnng	3,132,390	3,132,390	3,132,390	-
Fund balance, ending	$ 3,161,913	$ 2,422,603	$ 5,657,874	$ 3,235,271

As shown in Table 4, the adopted budget for revenues remained unchanged during the year at $11.7 million. This included an $11.5 million estimate for property tax increment revenues and $223,000 for interest revenue. Actual revenues for the year were $14.7 million, resulting in a variance of $2.9 million. Because property tax revenues represent 98% of total budgeted revenues, amounts are budgeted conservatively and thus generally show a favorable variance at year-end. The $1.9 million variance in other revenues is due to a one-time payment of $1.1 from a developer for an overnight housing mitigation fee and a legal settlement related to the Granada Garage project that netted the RDA $715,000. The overnight accommodation mitigation fee was imposed by the California Coastal Commission as mitigation for the removal of waterfront area low-cost visitor accommodations that were a part of local hotel. The developer of the property was required to pay the fee to the RDA due to the resulting reduction in low-income accommodations in the waterfront area. The Redevelopment Agency has not yet determined the appropriate use of the mitigation fee; however the funds must be used to increase low-income accommodations in the waterfront area.

Expenditures (excluding transfers) were budgeted at $3.5 million on July 1, 2006, with the final budget increasing to $4.2 million. The additional appropriations of $739,310 consist of the carryover of appropriations from the prior year's budget. As shown in Table 4, $3.9 million was expended during the year, resulting in a favorable expenditure variance of approximately $260,000. The $8.2 million in transfers out represents amounts transferred to debt service funds to cover principal and interest payments on outstanding bonds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets include those acquired or constructed by the Agency in connection with redevelopment projects. Table 5 below provides a summary of capital assets, net of accumulated depreciation, as of June 30, 2006 and 2005.

Table 5
Redevelopment Agency of the City of Santa Barbara
Summary of Capital Assets
As of June 30, 2006 and 2005

	2006	2005
Land	$ 39,305,641	$ 38,871,689
Equipment	176,761	189,854
Buildings	25,962,204	313,023
Infrastructure	2,269,523	2,268,285
Improvements other than buildings	10,614,394	11,533,762
Construction in progress	1,631,397	13,889,655
Total	$ 79,959,920	$ 67,066,268

Total capital assets (net of $15.6 million in accumulated depreciation) at June 30, 2006, were $80 million, an increase of approximately $12.9 million from prior year. As shown in Note 4 to the financial statements, the increase was the net of $12.4 million in additions and $1.6 million of depreciation expense during the year. A prior period adjustment to capital assets related to parking lots increased net capital assets $92,000 at June 30, 2005. As shown in Table 5, construction in progress decreased by $12.3 million from the prior year. This decrease is primarily the costs for the Granada Garage parking structure totaling that was in progress at June 30, 2005 and finished this fiscal year. The completion of this project also accounted for the $25.6 million increase in "Buildings" this fiscal year. When the project was finished, costs accumulated in construction in progress were transferred to buildings in the capital asset ledger.

Long-term Debt

As of June 30, 2006, the Agency had $79.5 million in outstanding tax allocation bonds and $750,000 in State Housing loans outstanding. The Agency issues tax allocation bonds to provide funds for the redevelopment activities of the RDA. No new debt was issued this fiscal year and the Agency made principal payments totaling $5.2 million. The Agency's outstanding debt is currently rated AAA by Moody's Investors Service and by Standard & Poor's Rating Services.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary economic factor affecting the Redevelopment Agency is the real estate market, which has a direct bearing on the level of property tax increment revenues generated. The Agency has been fortunate that the strong real estate market over the last five years has resulted in continued and substantial growth in revenues and, thus, has allowed for the funding of important projects and activities during that period. The local real estate market has been

cooling; however, a decrease in the median housing prices may not necessarily result in a drop in the property tax base or a reduction in property tax revenues. Because of Proposition 13 that was enacted in the 1970s, increases in assessed property values are limited significantly until a property is sold or major improvements result in a reassessment. Therefore, even though prices are declining slightly, the effect on property taxes could be an increase if homes that have not changed ownership in several years are sold and reassessed at the higher property tax value. Accordingly, the Agency budgeted a 6.9% growth in tax increment revenues for fiscal year 2006, bringing the budgeted total to $15.4 million.

The most significant factor affecting the Agency over the past two years was the State's increased shifting of revenues from redevelopment agencies to schools via the Educational Revenue Augmentation Fund (ERAF). By so doing, the State reduced its funding requirements to schools pursuant to Proposition 98. During these years, the State shifted approximately $2.5 million from the Agency. This ERAF shift was for two years so the Agency will not have this ERAF shift in future years.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Redevelopment Agency's finances for all those with an interest. Questions concerning the information provided in this report or requests for additional financial information should be directed to:

Mr. Robert Samario, Assistant Finance Director
or Mr. Rudolf Livingston, Accounting Manager
City of Santa Barbara – Department of Finance
P.O. Box 1990
Santa Barbara, CA 93102-1990
Phone: 805-564-5334
BSamario@SantaBarbaraCa.gov
RLivingston@SantaBarbaraCa.gov

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities
ASSETS	
Cash and investments	$ 18,936,977
Accrued interest receivable	155,155
Due from City of Santa Barbara	99,264
Loans receivable	33,006,299
Properties held for resale	433,325
Deferred charge -issuance costs, net	1,839,453
Deferred charge - discount, net	351,498
Restricted assets:	
Cash and investments with fiscal agents	42,110,610
Capital assets (net of accumulated depreciation):	
Land	39,305,641
Buildings	25,962,204
Improvements other than buildings	10,614,394
Equipment	176,761
Construction in progress	1,631,397
Infrastructure	2,269,523
Total assets	176,892,501
LIABILITIES	
Accounts payable	338,453
Accrued interest payable	917,521
Deposits	168,108
Unamortized debt premium	1,087,818
Bonds payable:	
Due within one year	5,350,000
Due in more than one year	74,860,000
Total liabilities	82,721,900
NET ASSETS	
Invested in capital assets, net of related debt	48,895,221
Restricted for:	
Capital projects	6,957,377
Low and moderate income programs	33,499,933
Debt service	696,386
Unrestricted	4,121,684
Total net assets	$ 94,170,601

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

Functions/Programs	Expenses	**Program Revenues** Operating Grants and Contributions	**Net Revenue (Expense) and Changes in Net Assets**
Governmental activities:			
General government	$ 3,940,554	$ -	$ (3,940,554)
Housing	2,584,948	639,970	(1,944,978)
Redevelopment capital	7,873,403	-	(7,873,403)
Debt service:			
Interest	3,823,348	-	(3,823,348)
Total governmental activities	$ 18,222,253	$ 639,970	(17,582,283)
General revenues:			
Property taxes			15,179,250
Investment earnings			1,977,778
Other revenue			2,056,198
Total general revenues			19,213,226
Change in net assets			1,630,943
Net assets, beginning of year (restated)			92,539,658
Net assets, end of year			$ 94,170,601

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Balance Sheet
Governmental Funds
June 30, 2006

Assets	General	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
Cash and investments	$ 5,730,730	$ 6,248,870	$ 6,957,377	$ -	$ 18,936,977
Accrued interest receivable	100,013	55,142	-	-	155,155
Due from City General Fund	99,264	-	-	-	99,264
Loans receivable	-	33,006,299	-	-	33,006,299
Properties held for resale	-	433,325	-	-	433,325
Restricted assets:					
Cash and investments with fiscal agent	-	537,621	40,876,603	696,386	42,110,610
Total assets	$ 5,930,007	$ 40,281,257	$ 47,833,980	$ 696,386	$ 94,741,630
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 4,761	$ 144,170	$ 189,522	$ -	$ 338,453
Deposits	168,108	-	-	-	168,108
Deferred revenue	99,264	-	-	-	99,264
Total liabilities	272,133	144,170	189,522	-	605,825
Fund Balances:					
Reserved for:					
Encumbrances	215,552	56,418	1,386,787	-	1,658,757
Non-current assets	-	33,006,299	-	-	33,006,299
Debt service	-	-	-	696,386	696,386
Redevelopment activities	5,442,322	-	46,257,671	-	51,699,993
Low and moderate income housing	-	7,074,370	-	-	7,074,370
Total fund balances	5,657,874	40,137,087	47,644,458	696,386	94,135,805
Total liabilities and fund balances	$ 5,930,007	$ 40,281,257	$ 47,833,980	$ 696,386	$ 94,741,630

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS
For the Fiscal Year Ended June 30, 2006

Total governmental fund balances (page 14)	$ 94,135,805
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	79,959,920
Costs incurred to refund bonds are an expenditure in the governmental fund but they must be reported as deferred issuance costs in the government-wide financial statements.	265,901
Deferred issuance costs on a bond refunding must be amortized in the statement of activities over the life of the new bond issue.	(19,084)
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(80,210,000)
Interest on long-term debt is reported as an expenditure of the governmental funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred.	(917,521)
Government funds debt costs such as issuance costs, discounts, and losses on advance refunding are reported as an expenditure when those costs are first incurred because they require the use of current financial resources. However, debt issuance costs must be included as a deferred charge in the government-wide financial statements.	714,613
Governmental funds premium received on the issuance of debt is recorded as revenue when received because the premium provides current financial resources. However, the premiums are amortized over the life of the bond issue in the government-wide financial statements.	141,703
Certain special assessment revenues are earned but unavailable to pay for current period expenditures, and, therefore, are deferred in the funds.	99,264
Net assets of governmental activities (page 12)	$ 94,170,601

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
Fiscal Year ended June 30, 2006

	General	Special Revenue	Capital Projects	Debt Service	Total Governmental Funds
Revenues:					
Incremental property taxes	$ 12,218,316	$ 3,054,579	$ -	$ -	$ 15,272,895
Use of money and property	604,706	865,410	1,123,330	24,302	2,617,748
Other revenues	1,855,844	354	200,000	-	2,056,198
Total revenues	14,678,866	3,920,343	1,323,330	24,302	19,946,841
Expenditures:					
Current:					
Supplies and services	1,435,475	630,830	-	-	2,066,305
Projects	2,495,609	1,480,093	21,144,766	-	25,120,468
Other expenditures	9,470	4,025	-	-	13,495
Debt service:					
Principal	-	470,000	2,145,000	2,575,000	5,190,000
Interest	-	255,375	2,997,984	513,300	3,766,659
Total expenditures	3,940,554	2,840,323	26,287,750	3,088,300	36,156,927
Excess (deficiency) of revenues over (under) expenditures	10,738,312	1,080,020	(24,964,420)	(3,063,998)	(16,210,086)
Other financing sources (uses):					
Transfers in	-	-	5,142,760	3,070,068	8,212,828
Transfers out	(8,212,828)	-	-	-	(8,212,828)
Total other financing sources (uses)	(8,212,828)	-	5,142,760	3,070,068	-
Net change in fund balances	2,525,484	1,080,020	(19,821,660)	6,070	(16,210,086)
Fund balances, beginning of fiscal year, restated	3,132,390	39,057,067	67,466,118	690,316	110,345,891
Fund balances, end of fiscal year	$ 5,657,874	$ 40,137,087	$ 47,644,458	$ 696,386	$ 94,135,805

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances - total governmental funds (page 16)		$ (16,210,086)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for general capital assets, infrastructure, and other related capital	14,393,938	
Less current year depreciation	(1,592,575)	12,801,363
Deferred charges on a bond refunding must be amortized in the statement of activities over the life of the new bond issue.		(19,084)
Governmental fund revenues deferred in prior year due to unavailability were received in the current year but already booked in the statement of activities last year.		(93,645)
Repayment and refunding of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.		5,190,000
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(60,057)
Governmental funds report interest on long-term debt as expenditures when paid, whereas these amounts are accrued and reported in the period when the liability exists in the statement of activities.		22,452
Net change in net assets of governmental activities (page 13)		$ 1,630,943

See accompanying notes to the basic financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Redevelopment Agency of the City of Santa Barbara (Agency) conform to accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the Agency's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

The Agency was created by the City Council of the City of Santa Barbara (City) by Ordinance 32-7, adopted March 5, 1968. Ordinance Number 3906, issued on May 24, 1977, declared the City Council to be the Agency's governing body.

The Agency was established pursuant to Section 33200 of the State of California Health and Safety Code. As such, the Agency acts as a legal entity, separate and distinct from the City, even though the City Council of the City serves as the Agency's governing board.

The actions of the Agency are binding. All business, including the issuance of long-term debt, is routinely transacted in the Agency's name by its appointed representatives. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development of property in those areas of the City determined to be in a declining condition.

The Redevelopment Agency does not have any employees. The City provides all support staff and performs all administrative functions for the Agency under the terms of a written agreement with the Agency.

Under reporting requirements prescribed by generally accepted accounting principles adopted by the GASB, the Agency's financial activity is also reported in the City of Santa Barbara's comprehensive annual financial report. This treatment is due to the requirement that municipal organizations include in one report all operations significantly controlled by the same governing body. Specific interpretation for redevelopment agencies requires their inclusion in the City's comprehensive annual financial report. No express or implied assumption of any of the Agency's liabilities, either at present or in the future, is made by the inclusion of the Agency's financial results in the City's annual financial report. The Agency remains separate for all legal purposes. Accordingly, the accompanying combined financial statements are issued as a separate report of the Redevelopment Agency.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report on the Agency as a whole. The statement of activities demonstrates the degree to which the direct expenses of the Agency's functions are offset by program revenues. Direct expenses are those that are clearly identifiable with the Agency's function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Agency's programs. Other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for the governmental funds of the Agency (balance sheet and the statement of revenues, expenditures and changes in fund balance).

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements

The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest income associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

The Agency reports the following major governmental funds:
General Fund – Used to account for all financial resources of the Agency, except for those required for debt service, construction and housing activity.

Special Revenue Fund – The Agency has one special revenue fund, the Housing Fund, which is used to account for the financial resources available for low and moderate-income loan and grant programs.

Capital Projects Fund – The Capital Projects Fund is used to account for the proceeds of the Agency's 1995, 2001, 2003, and 2004 Tax Allocation Bonds which are being used to fund major capital improvement projects of the Agency, and the debt service, including principal, interest, and related costs of the 2001, 2003, and 2004 Tax Allocation Bonds.

1995 Tax Allocation Bond Debt Service Fund – The Debt Service fund is used to account for the accumulation of resources for and the payment of the 1995 Tax Allocation Bond general long-term debt, including principal, interest and related costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

D. Investments

Investments are reported in the accompanying basic financial statements within the "cash and investments" classification. The Agency has developed a formal investment policy that exceeds the minimum requirements established by the State of California. The Agency believes that it has adhered to established policies for all investment activities. All investments are stated at market value.

E. Incremental Property Tax

Incremental property taxes are considered as revenues by the Agency when they become both measurable and available for financing the Agency's redevelopment activities during the year. Incremental property tax revenues represent property taxes collected from the excess of taxes levied and collected each year on a redevelopment project over that amount which would have been levied and collected on the base year property tax assessment. A property tax base year is determined to be the year prior to the establishment of a redevelopment project area.

Property taxes are levied on March 1, are due on November 1 and March 1, and become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is November 1.

F. Properties Held for Resale

Properties held for resale by the Agency are recorded in the Agency's General Fund at the lower of cost or estimated net realizable value. Realizable value is determined by an agreed-upon sale price with a developer. Prior to the

establishment of such a development agreement, the properties are maintained at cost. Capitalized costs include all moneys expended in the redevelopment process that can be properly attributable to properties to be resold to developers.

G. Self-Insurance

For purposes of general liability, the Agency is self-insured. As of June 30, 2006, management is not aware of any outstanding claims that would require accrual.

H. Low and Moderate Income Housing

In accordance with state law, the Agency is required to set aside twenty percent (20%) of the taxes received for low and moderate income housing programs. Historically, the Agency has complied with this requirement. These resources are accounted for in the special revenue fund.

I. Capital Assets

Capital assets which include land, buildings, improvements other than buildings, construction in progress, and infrastructure (e.g., sidewalks, and similar items), are reported in the government-wide financial statements. The Agency defines capital assets as assets with an estimated useful life in excess of one year and an initial individual cost of more than $25,000 for building improvements and other improvements, more than $50,000 for buildings, and more than $100,000 for infrastructure. Such assets are recorded at historical cost if purchased, or estimated historical cost if constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are charged to operations when incurred. Capital assets, except land and construction in progress, of the Agency are depreciated using the straight-line method using the estimated useful lives below:

Assets	Years
Buildings	40-50
Improvements other than Buildings	25-50
Infrastructure	10-100

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

K. Net Assets

Net assets represent the difference between assets and liabilities. In the Government-wide financial statements, net assets are classified as the following:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.
- *Restricted Net Assets* – this category presents all external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the categories of Capital Projects, and Specific Projects and Programs as established by the City Council.

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

The Agency's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Implementation of New Accounting Pronouncements

The Agency adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.
- GASB Statement No. 44 *Economic Condition Reporting: The Statistical Section* (an amendment of NCGA Statement 1) guides the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government.
- GASB Statement No. 46 *Net Assets Restricted by Enabling Legislation* addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.

NOTE 2. DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 18,936,977
Cash and investments with fiscal agents	42,110,610
Total cash and investments	$ 61,047,587

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	$ 75
Deposits with financial institutions	3,465,022
Investments	57,582,490
Total cash and investments	$ 61,047,587

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio *	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	15%	3%
Repurchase Agreements	1 year	20%	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	3%
US Government Money Market Mutual	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	$40 million	N/A

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity its fair value will be to changes in market interest rates. In accordance with its investment policy, the Agency manages its exposure to declines in fair value by limiting the weighted average maturity to 2 ½ years. In addition, the Agency employs a "buy and hold" investment strategy whereby investments are held to maturity at which time the investment is redeemed at par. This strategy limits the Agency's exposure to declines in fair value to unforeseen emergencies when the need for cash beyond that which is planned and anticipated may arise.

Portfolio diversification is also employed as a way to control risk, including those associated with market changes or issuer default. To control market price risks, volatile investments are avoided, and to control risks of illiquidity, a minimum of 10% of the total portfolio is held in highly marketable U.S. Treasury Bills and Notes and/or the State of California Local Agency Investment Fund (LAIF) and/or Money Market Funds and/or securities maturing within 90 days. Non-marketable instruments with maturities beyond one year and a liquidity factor of greater than 5 (out of 8) shall not exceed 30% of the portfolio.

Investment Type		Weighted Avg. Maturity (in years)
State Local Agency Investment	$15,471,880	N/A
Held by bond trustee:		
Money market funds	1,234,331	N/A
Investment contracts	40,876,279	N/A
Total	$57,582,490	

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

None of the Agency's investments (including investments held by bond trustees) are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, 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 minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

Investment Type		Minimum Legal Rating	Rating as of Year End	
			AAA	Unrated
LAIF	$15,471,880	N/A	$ -	$ 15,471,880
Held by fiscal agents:				
Money market funds	1,234,331	A	1,234,331	-
Investment contracts	40,876,279	N/A	-	40,876,279
Total	$57,582,490		$1,234,331	$ 56,348,159

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Agency's investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: None of the Agency's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2006, no Agency investments were held by the safekeeping department of the broker-dealer (counterparty) used by the Agency to buy the securities.

Investment in Local Agency Investment Fund

The Agency is a voluntary 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 fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Disclosures by Reporting Unit

None.

NOTE 3. PROPERTIES HELD FOR RESALE

A summary of changes in properties held for resale follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Properties held for resale	$ 433,952	$ 433,325	$ 433,952	$ 433,325

NOTE 4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

	Beginning Balance July 1, 2005	Prior Period Adjustments (Note 10)	Restated Balance July 1, 2005	Increases	Decreases	Ending Balance June 30, 2006
Governmental activities:						
Capital assets, not being depreciated:						
Land	$ 38,871,689	$ -	$ 38,871,689	$ 433,952	$ -	$ 39,305,641
Construction in progress	13,889,655	-	13,889,655	1,560,979	13,819,237	1,631,397
Total capital assets, not being depreciated	52,761,344	-	52,761,344	1,994,931	13,819,237	40,937,038
Capital assets being depreciated:						
Building	357,741	-	357,741	25,982,911	-	26,340,652
Improvements other than buildings	24,980,792	-	24,980,792	187,270	-	25,168,062
Equipment	196,401	-	196,401	-	-	196,401
Infrastructure	2,573,213	340,131	2,913,344	48,063	-	2,961,407
Total capital assets being depreciated	28,108,147	340,131	28,448,278	26,218,244	-	54,666,522
Less accumulated depreciation for:						
Buildings	(44,718)	-	(44,718)	(333,730)	-	(378,448)
Improvements other than buildings	(13,447,030)	-	(13,447,030)	(1,106,638)	-	(14,553,668)
Equipment	(6,547)	-	(6,547)	(13,093)	-	(19,640)
Infrastructure	(304,928)	(247,842)	(552,770)	(139,114)	-	(691,884)
Total accumulated depreciation	(13,803,223)	(247,842)	(14,051,065)	(1,592,575)	-	(15,643,640)
Total capital assets, being depreciated, net	14,304,924	92,289	14,397,213	24,625,669	-	39,022,882
Governmental activities capital assets, net	$ 67,066,268	$ 92,289	$ 67,158,557	$ 26,620,600	$ 13,819,237	$ 79,959,920

Depreciation expense of $1,592,575 was charged to the General Governmental Function of the Agency.

The Agency has active construction projects as of June 30, 2006. The projects include design, engineering and construction of a public parking structure, improvements and replacement of sidewalks, and construction of public restrooms. At year-end the Agency's commitments with contractors were as follows:

Project	Spent To Date	Remaining Commitment
Plaza Vera Cruz	$ 17,213	$ 45,833
State Street Sidewalks	212,380	133,931
State Street Public Restrooms	238,573	271,929
Louise Lowry Davis Center Renovation	689,168	-
Mission Creek Flood Control Channel	6,500	-
Fire Station #1 Remodel	166,300	-
Cabrillo Blvd Sidewalks-Wharf/Milpas	27,173	61,706
Chapala St. Improvements	72,754	77,422
West Beach Pedestrian Improvements	35,724	257,249
Plaza De La Guerra Infrastructure	11,477	-
West Downtown Improvements	154,135	198,464
Total	$ 1,631,397	$ 1,046,534

NOTE 5. DUE FROM CITY OF SANTA BARBARA AND TRANSFERS

As of June 30, 2006, the Agency had an outstanding receivable for reimbursement due in connection with the improvements made to the State Street sidewalks. The Agency advanced a portion of the costs, and the City is reimbursing these costs from the collective assessments levied against property owners along State Street. The outstanding balance of $99,264 is offset by corresponding deferred revenue as the funds will not be received within 60 days.

The Due from City of Santa Barbara on the Statement of Net Assets in the amount of $99,264 is due from the City of Santa Barbara General Fund. In November 1998, the Redevelopment Agency authorized an advance to the City's General Fund for the purpose of funding capital costs for the State Street Sidewalk Improvement Project. This advance is being repaid with funds generated from an assessment district.

	Fund Transferred To		
Fund Transferred From	Agency Capital Projects	Agency Debt Service Fund	Total
Agency General Fund	$ 5,142,760	$ 3,070,068	$ 8,212,828

On the Statement of Activities Inter-fund transfers have been eliminated. The inter fund-transfers result from transfers from the Agency general fund to the capital projects fund and debt service fund related to debt service payments on behalf of the Agency.

NOTE 6. LOANS RECEIVABLE

Loans receivable in the governmental funds, totaling $33,006,299 at June 30, 2006, consist of loans provided to low- and moderate-income households, and developers of low- and moderate-income housing, with interest ranging from 3% to 8% and maturities up to 20 years.

NOTE 7. LONG-TERM DEBT

The Agency issues tax allocation bonds to provide funds for the acquisition of land or property and restoration or rehabilitation construction of existing buildings or improvements to eliminate blight in central downtown Santa Barbara. The Agency pledges tax increment revenues to pay debt service of the tax allocation bonds. The Agency also has a loan due to the California Housing Finance Agency (CHFA) used for the Agency's revolving loan program to facilitate the development of affordable multifamily rental housing projects in the City's downtown area.

Long-term debt outstanding at year-end is as follows:

	Interest Rate %	Date of Issue	Maturity	Amount of Original Issue	Outstanding Balance June 30, 2006
Tax allocation bonds:					
1995 Senior Series A	3.65 - 6.00%	12/01/95	03/01/08	$ 28,170,000	$ 5,300,000
1995 Subordinate Series B	4.375 - 6.35%	12/01/95	03/01/07	6,845,000	680,000
2001 Series A	4.125 - 5.00%	07/25/01	03/01/19	38,855,000	38,305,000
2003 Series A	4.000 - 5.00%	12/18/03	03/01/19	34,810,000	28,495,000
2004 Series A	2.000 - 5.00%	07/01/04	07/01/19	7,150,000	6,680,000
CHFA Loan	3.00%	10/19/99	10/19/09	750,000	750,000
Total				$ 116,580,000	$ 80,210,000

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance 07/01/05	Additions	Retirements	Balance 06/30/06	Due Within One Year	Due in More Than One Year
Tax allocation bonds:						
1995 Senior Series A	$ 7,235,000	$ -	$ 1,935,000	$ 5,300,000	$ 2,035,000	$ 3,265,000
1995 Subordinate Series B	1,320,000	-	640,000	680,000	680,000	-
2001 Series A	38,305,000	-	-	38,305,000	-	38,305,000
2003 Series A	30,640,000	-	2,145,000	28,495,000	2,205,000	26,290,000
2004 Series A	7,150,000	-	470,000	6,680,000	430,000	6,250,000
CHFA Loan	750,000	-	-	750,000	-	750,000
Total	$ 85,400,000	$ -	$ 5,190,000	$ 80,210,000	$ 5,350,000	$ 74,860,000

Annual debt service requirements to maturity for long-term debt are as follows:

Fiscal Year Ending	Principal Payments: 1995 Senior Series A	1995 Subordinate Series B	2001 Tax Allocation	2003 Tax Allocation	2004 Tax Allocation	CHFA Loan	Total
2007	$ 2,035,000	$ 680,000	$ -	$ 2,205,000	$ 430,000	$ -	$ 5,350,000
2008	3,265,000	-	-	1,140,000	440,000	-	4,845,000
2009	-	-	2,785,000	1,860,000	455,000	-	5,100,000
2010	-	-	2,895,000	1,920,000	470,000	750,000	6,035,000
2011	-	-	3,015,000	1,975,000	480,000	-	5,470,000
2012 - 2016	-	-	17,195,000	11,290,000	2,615,000	-	31,100,000
2017 - 2019	-	-	12,415,000	8,105,000	1,790,000	-	22,310,000
Princpal payments outstanding	$ 5,300,000	$ 680,000	$ 38,305,000	$ 28,495,000	$ 6,680,000	$ 750,000	$ 80,210,000

Fiscal Year Ending	Interest Payments						Total
2007	$ 318,000	$ 40,800	$ 1,764,854	$ 1,190,230	$ 208,125	$ -	$ 3,522,009
2008	195,900	-	1,764,854	1,146,130	195,075	-	3,301,959
2009	-	-	1,764,854	1,106,230	181,650	-	3,052,734
2010	-	-	1,649,973	1,050,430	168,950	220,370	3,089,723
2011	-	-	1,530,554	1,050,430	156,595	-	2,737,579
2012 - 2016	-	-	5,563,990	3,516,400	552,090	-	9,632,480
2017 - 2019	-	-	1,257,560	764,215	101,498	-	2,123,273
Interest payments outstanding	513,900	40,800	15,296,639	9,824,065	1,563,983	220,370	27,459,757
Net Debt Service Obligation	$ 5,813,900	$ 720,800	$ 53,601,639	$ 38,319,065	$ 8,243,983	$ 970,370	$ 107,669,757

Prior Year's Defeasance of Debt
In prior years, the City defeased certain debt issues by placing the proceeds of new debt in irrevocable trusts to provide for all future debt service payments on the defeased debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements.

The Agency has complied with all significant bond covenants.

NOTE 8. LITIGATION

The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. Agency management believes, based upon consultation with the Agency's Counsel, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency.

NOTE 9. OTHER REQUIRED DISCLOSURES – CERTIFICATES OF PARTICIPATION

In 1984, the Agency issued certificates of participation in order to finance the acquisition and construction of certain harbor improvements to the Santa Barbara Harbor. These improvements were leased to the City of Santa Barbara for the benefit of the Tidelands Trust Fund, which is now known as the Waterfront Fund, an enterprise fund of the City. These certificates were refunded in 1986, 1992, and through the issuance of the 2002 $19,405,000 Refunding Certificates of Participation. Pursuant to an agreement dated July 2, 2002, the rights to the lease payments from the Waterfront Fund have been assigned to the Redevelopment Agency, a trustee for the benefit of the registered owners of the Certificates. Accordingly, the liability

associated with the obligations under the Certificates of Participation have been recorded within the Waterfront Fund and are therefore not included as a liability of the Agency. As of June 30, 2006, the Refunding Certificates of Participation have an outstanding balance of $17,190,000.

NOTE 10. PRIOR PERIOD ADJUSTMENT

The following prior period adjustments were recorded in the financial statements:

A. The government-wide financial statements were revised to adjust capital assets pursuant to an infrastructure and capital asset inventory that was performed in the Fiscal Year Ended June 30, 2006. The Agency was required by GASB 34 to report all infrastructure asset additions effective July 1, 2001. The Agency reported infrastructure assets on a prospective basis. The retroactive reporting is subject to an extended implementation period and final implementation was required by fiscal year ending June 30, 2006. The adjustments to beginning capital asset balances have been presented in Note 4.

B. The Agency reclassified loans payable in the amount of $750,000 due to the long-term nature of the account.

The following schedule summarizes the resulting adjustment to net assets and fund balance at June 30, 2006:

	Net Assets at June 30, 2005	Prior Period Adjustment - Capital Assets	Net Assets, as Restated June 30, 2005
Government-Wide Activities:			
Governmental activities	$ 92,447,369	$ 92,289	$ 92,539,658

	Fund Balance at June 30, 2005	Prior Period Adjustment - Loans Payable	Fund Balance as Restated June 30, 2005
Governmental Funds:			
Special Revenue Fund	$ 38,307,067	$ 750,000	$ 39,057,067

Notes to the Required Supplementary Information

BUDGETARY INFORMATION

The Agency follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- Prior to May 1, the Executive Director submits to the Agency Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain public comments.
- Prior to June 30, the budget is legally adopted through the passage of a resolution.
- Expenditures may not legally exceed appropriations at the fund level.

Formal operating budget integration is employed as a management control device during the year for the General Fund and Housing Special Revenue Fund. Formal budgetary integration is not employed for the Agency's Debt Service Fund because effective budgetary control is alternatively achieved through the provisions of the Agency's bond indentures. While budgets are prepared for the Agency's capital projects fund, capital projects generally span more than one fiscal year and are effectively controlled at the project level. The Housing Special Revenue Fund budget also includes appropriations for certain multi-year capital projects. As such, variances between actual and budget may not be meaningful. Budget appropriations lapse at year-end with the exception of special projects, capital programs, and funds encumbered by contract or purchase order.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Housing Fund. Encumbrances outstanding at year-end are reported as a reservation of fund balance since they represent financial obligations for goods and services received through June 30, 2006, but not yet paid.

Except for the General Fund, individual amendments were not material in relation to the original appropriations.

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2006

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
For the Year Ended June 30, 2006

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Incremental property tax	$ 11,520,000	$ 11,520,000	$ 12,218,316	$ 698,316
Use of money and property	223,000	223,000	604,706	381,706
Other Revenue	-	-	1,855,844	1,855,844
Total Revenues	11,743,000	11,743,000	14,678,866	2,935,866
EXPENDITURES				
Current:				
Supplies and services	1,571,677	1,596,196	1,435,475	160,721
Projects	1,812,500	2,527,282	2,495,609	31,673
Other expenditures	77,000	77,009	9,470	67,539
Total Expenditures	3,461,177	4,200,487	3,940,554	259,933
Excess of revenues over expenditures	8,281,823	7,542,513	10,738,312	$ 3,195,799
Other Financing Sources (Uses)				
Transfers out	(8,252,300)	(8,252,300)	(8,212,828)	39,472
Total other financing sources (uses)	(8,252,300)	(8,252,300)	(8,212,828)	39,472
Net change in fund balance	29,523	(709,787)	2,525,484	3,235,271
Fund balance, beginning of fiscal year	3,132,390	3,132,390	3,132,390	-
Fund balance, end of fiscal year	$ 3,161,913	$ 2,422,603	$ 5,657,874	$ 3,235,271

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
Required Supplementary Information
June 30, 2006

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (GAAP)
For the Year Ended June 30, 2006

	Special Revenue Housing Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Incremental property tax	$ 2,880,000	$ 2,880,000	$ 3,054,579	$ 174,579
Use of money and property	435,000	435,000	865,410	430,410
Other Revenue	-	-	354	354
Total Revenues	3,315,000	3,315,000	3,920,343	605,343
EXPENDITURES				
Current:				
Supplies and services	633,752	686,513	630,830	55,683
Projects	-	8,073,507	1,480,093	6,593,414
Other expenditures	56,500	20,268	4,025	16,243
Debt Service:				
Principal	-	470,000	470,000	-
Interest	-	164,338	255,375	(91,037)
Total Expenditures	690,252	9,414,626	2,840,323	6,574,303
Excess of revenues over expenditures	2,624,748	(6,099,626)	1,080,020	7,179,646
Net change in fund balance	2,624,748	(6,099,626)	1,080,020	7,179,646
Fund balance, beginning of fiscal year, restated	39,057,067	39,057,067	39,057,067	-
Fund balance, end of fiscal year	$ 41,681,815	$ 32,957,441	$ 40,137,087	$ 7,179,646

SEAL OF THE CITY OF SANTA BARBARA
CALIFORNIA

Statistical Section

STATISTICAL SECTION

This part of the Redevelopment Agency of the City of Santa Barbara'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 government's overall financial health.

Contents **Page**

Financial Trends 34

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity 40

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity 44

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information 49

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information 51

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Redevelopment Agency of the City of Santa Barbara
Net assets by Component
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
	2002	**2003**	**2004**	**2005**	**2006**
Governmental activities					
Invested in capital assets, net of related debt	$31,019	$33,161	$40,454	$45,688	$48,895
Restricted	36,902	39,013	37,010	45,299	41,154
Unrestricted	5,221	6,424	7,770	1,460	4,122
Total governmental activities net assets	$73,142	$78,598	$85,234	$92,447	$94,171

Redevelopment Agency of the City of Santa Barbara
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year				
Expenses	**2002**	**2003**	**2004**	**2005**	**2006**
Governmental activities:					
General government	$ 2,780	$ 4,976	$ 3,893	$ 4,390	$ 3,941
Housing	376	703	1,232	673	2,585
Redevelopment capital	918	976	992	136	7,873
Interest on long-term debt	3,352	3,133	2,519	3,886	3,823
Total governmental activities expenses	7,426	9,788	8,636	9,085	18,222
Program Revenues					
Governmental activities:					
Operating grants and contributions	441	403	316	238	640
Total governmental activities program revenues	441	403	316	238	640
Net (expense)					
Governmental activities	(6,985)	(9,385)	(8,320)	(8,847)	(17,582)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property	11,853	12,774	12,862	13,858	15,179
Investment income	2,566	2,056	2,092	2,116	1,978
Other revenue	4	11	2	86	2,056
Total governmental activities	14,423	14,841	14,956	16,060	19,213
Change in Net Assets					
Governmental activities	$ 7,438	$ 5,456	$ 6,636	$ 7,213	$ 1,631

Redevelopment Agency of the City of Santa Barbara
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Property Tax
1997	$7,745
1998	8,040
1999	9,235
2000	9,624
2001	11,183
2002	11,853
2003	12,774
2004	12,862
2005	13,858
2006	15,179

Redevelopment Agency of the City of Santa Barbara
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
General Fund										
Reserved	$ 3,847	$ 3,540	$ 3,848	$ 3,359	$ 4,498	$ 5,332	$ 3,956	$ 3,716	$ 3,132	$ 5,658
All other governmental funds										
Reserved	33,982	32,976	32,301	36,635	35,337	73,583	77,039	105,987	106,464	88,478
Total Fund Balance	$ 37,829	$ 36,516	$ 36,149	$ 39,994	$ 39,835	$ 78,915	$ 80,995	$109,703	$109,596	$ 94,136

Redevelopment Agency of the City of Santa Barbara
Change in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Revenues										
Incremental property taxes	$7,745	$8,040	$9,235	$9,624	$11,183	$11,853	$12,851	$12,945	$13,946	$15,273
Use of money and property	1,700	1,757	1,274	1,406	1,991	2,570	2,460	2,408	2,354	2,618
Other revenues	5	-	1,491	1,412	17	4	11	2	120	2,056
Total revenues	9,450	9,797	12,000	12,442	13,191	14,427	15,322	15,355	16,420	19,947
Expenditures										
Supplies and services	968	839	880	889	929	1,366	1,474	1,627	1,820	2,066
Projects	5,772	4,769	6,004	2,213	6,938	4,589	4,508	4,120	13,206	25,120
Other expenditures	72	29	22	28	16	75	36	38	19	14
Debt service										
Principal	2,970	3,085	3,225	3,410	3,600	4,345	3,985	5,210	4,535	5,190
Interest	2,500	2,374	2,236	2,058	1,868	2,777	3,239	3,109	3,792	3,767
Other charges	-	-	-	-	-	-	-	941	305	-
Total expenditures	12,282	11,096	12,367	8,598	13,351	13,152	13,242	15,045	23,677	36,157
Excess of revenues over (under) expenditures	(2,832)	(1,299)	(367)	3,844	(160)	1,275	2,080	310	(7,257)	(16,210)
Other financing sources (uses)										
Transfers in	5,334	5,893	6,230	7,398	7,486	14,420	8,315	9,502	9,015	8,213
Transfers out	(5,334)	(5,893)	(6,230)	(7,398)	(7,486)	(14,424)	(8,315)	(9,502)	(9,015)	(8,213)
Proceeds from bond issuance						37,810		28,398	7,150	
Total other financing sources (uses)	-	-	-	-	-	37,806	-	28,398	7,150	-
Net change in fund balances	($2,832)	($1,299)	($367)	$3,844	($160)	$39,081	$2,080	$28,708	($107)	($16,210)
Debt service as a percentage of noncapital expenditures	84.0%	86.3%	85.8%	85.6%	85.3%	83.2%	82.7%	83.3%	81.9%	81.2%

Redevelopment Agency of the City of Santa Barbara
General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Incremental property taxes	$7,745	$8,040	$9,235	$9,624	$11,183	$11,853	$12,851	$12,945	$13,946	$15,273

Redevelopment Agency of the City of Santa Barbara
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Total Direct Tax Rate
1997	$721,145	$158,300	($36,937)	$842,508	1.00%
1998	740,216	162,486	(37,913)	864,789	1.00%
1999	828,526	181,872	(42,437)	967,961	1.00%
2000	863,742	189,602	(44,240)	1,009,104	1.00%
2001	1,022,931	215,719	(52,137)	1,186,513	1.00%
2002	1,094,347	227,297	(54,310)	1,267,334	1.00%
2003	1,164,940	237,653	(55,639)	1,346,954	1.00%
2004	1,218,914	248,409	(77,833)	1,389,490	1.00%
2005	1,303,295	250,008	(82,652)	1,470,651	1.00%
2006	1,415,448	256,338	(93,142)	1,578,644	1.00%

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Sources: Santa Barbara County Auditor-Controller

Redevelopment Agency of the City of Santa Barbara
Direct and Overlapping Property Tax Rates
(Rate per $100 of assessed value)
Last Ten Fiscal Years

	Direct Rates	Overlapping Rates		
Fiscal Year	**General**	**City Bonds**	**Schools Bonds**	**Total**
1997	$1.000	$0.011	$0.001	$1.012
1998	1.000	-	0.011	1.011
1999	1.000	-	0.022	1.022
2000	1.000	-	0.019	1.019
2001	1.000	-	0.027	1.027
2002	1.000	-	0.028	1.028
2003	1.000	-	0.027	1.027
2004	1.000	-	0.025	1.025
2005	1.000	-	0.021	1.021
2006	1.000	-	0.026	1.026

Sources: Santa Barbara County Auditor-Controller

Redevelopment Agency of the City of Santa Barbara
Principal Property Tax Payers
Current Year and Nine Years Ago
(amounts expressed in thousands)

	Fiscal Year 2006		Fiscal Year 1997	
Taxpayer	**Taxable Net Assessed Value**	**Percentage of Total Taxable Net Assessed Value**	**Taxable Net Assessed Value**	**Percentage of Total Taxable Net Assessed Value**
Paseo Nuevo Association[(1)]	$85,174	5.40%	$51,395	6.10%
Fess Parker Doubletree Hotel	74,983	4.75%	57,000	6.77%
ESJ Centers	25,352	1.61%	-	0.00%
Chapala Street Investors	23,977	1.52%	-	0.00%
Hotel Carrillo, LP	20,825	1.32%	-	0.00%
Ampersand Publishing, LLC	14,885	0.94%	-	0.00%
1129 State Street	14,253	0.90%	-	0.00%
State Street Properties	12,038	0.76%	-	0.00%
SIMA El Paseo LP	10,439	0.66%	-	0.00%
Heiner Gerald A Trustee	10,163	0.64%	-	0.00%
Balboa Building Company, LLC	9,602	0.61%	-	0.00%
First States Investors 5000A, LLC	8,976	0.57%	-	0.00%
Southern Pacific Transportation Company	-	0.00%	16,738	1.99%
Old Town Mall	-	0.00%	11,910	1.41%
El Paseo of Santa Barbara	-	0.00%	9,257	1.10%
Beach Motel Partners	-	0.00%	8,311	0.99%
	$504,592	31.96%	$187,208	22.22%

(1) The City's Redevelopment Agency owns the property and leases the property to the Paseo Nuevo Mall Association which is responsible for the payment of property taxes related thereto.

Sources: Santa Barbara County Auditor-Controller

Redevelopment Agency of the City of Santa Barbara
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	$7,745	$7,745	100%	$ -	$7,745	100%
1998	8,040	8,040	100%	-	8,040	100%
1999	9,235	9,235	100%	-	9,235	100%
2000	9,624	9,624	100%	-	9,624	100%
2001	11,183	11,183	100%	-	11,183	100%
2002	11,853	11,853	100%	-	11,853	100%
2003	12,774	12,774	100%	-	12,774	100%
2004	12,862	12,862	100%	-	12,862	100%
2005	13,858	13,858	100%	-	13,858	100%
2006	15,197	15,197	100%	-	15,197	100%

Redevelopment Agency of the City of Santa Barbara
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities: Tax Allocation Bonds	Governmental Activities: Loans	Total	Percentage of Personal Income[1]	Per Capita[1]
1997	$42,470	$ -	$42,470	0.42%	$473
1998	39,385	-	39,385	0.38%	435
1999	36,160	-	36,160	0.32%	397
2000	32,750	-	32,750	0.28%	356
2001	29,150	-	29,150	0.23%	319
2002	63,660	-	63,660	0.49%	702
2003	59,675	-	59,675	0.46%	660
2004	82,035	-	82,035	0.60%	906
2005	84,650	750	85,400	0.59%	943
2006	79,460	750	80,210	0.52%	896

Note: Details regarding the agency's outstanding debt can be found in the notes to the financial statements.

[1] See the Schedule of Demographic and Economic Statistics on page 49 for personal income and population data.

Redevelopment Agency of the City of Santa Barbara
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Tax Allocation Bonds	Loans	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value[1] of Property	Per Capita[2]
1997	$ 42,470	$ -	$ 4,875	$ 37,595	4.46%	$ 419
1998	39,385	-	4,898	34,487	3.99%	381
1999	36,160	-	4,892	31,268	3.23%	344
2000	32,750	-	4,872	27,878	2.76%	303
2001	29,150	-	4,917	24,233	2.04%	265
2002	63,660	-	4,812	58,848	4.64%	649
2003	59,675	-	4,767	54,908	4.08%	607
2004	82,035	-	687	81,348	5.85%	898
2005	84,650	750	690	84,710	5.76%	936
2006	79,460	750	696	79,514	5.04%	888

Note: Details regarding the agency's outstanding debt can be found in the notes to the financial statements.

[1] See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 40 for property value data.

[2] Population data can be found in the Schedule of Demographic and Economic Statistics on page 49.

Redevelopment Agency of the City of Santa Barbara
Direct and Overlapping Governmental Activities Debt
as of June 30, 2006
(amounts expressed in thousands)

2005-06 Redevelopment Agency Incremental Valuation $1,671,786

Overlapping Debt Repaid with Property Taxes	**Debt Outstanding**	**Estimated Percentage Applicable[1]**	**Estimated Share of Overlapping Debt**
Santa Barbara School Districts	$28,480	13%	$3,761
Total overlapping debt repaid with property taxes	$28,480		$3,761
Direct and Overlapping General Obligation Debt			
Santa Barbara County General Fund Obligations	$52,890	3%	$1,787
City of Santa Barbara Certificates of Participation	4,985	13%	658
Total direct and overlapping general obligation debt	$57,875		$2,445
Total direct and overlapping debt			$6,206
Ratio to 2005-06 Redevelopment Incremental Valuation			
Total direct and overlapping debt			0.37%

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Agency. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the Agency. This process recognizes that, when considering the Agency's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

[1] Assessed valuation estimates for the Agency, City and County were used to calculate the estimated percentage applicable of the overlapping debt. Assessed valuation (in millions) for the City is $12,660; County is $49,492. The same estimated percent applicable to the City is used for the School District.

Sources: County of Santa Barbara

Redevelopment Agency of the City of Santa Barbara
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Assessed valuation	$ 879,445	$ 902,702	$1,010,398	$1,053,344	$1,238,650	$1,321,644	$1,402,593	$1,467,323	$1,553,303	$1,671,786
Coverage percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	219,861	225,676	252,600	263,336	309,663	330,411	350,648	366,831	388,326	417,947
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	32,979	33,851	37,890	39,500	46,449	49,562	52,597	55,025	58,249	62,692
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	$ 32,979	$ 33,851	$ 37,890	$ 39,500	$ 46,449	$ 49,562	$ 52,597	$ 55,025	$ 58,249	$ 62,692
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Redevelopment Agency of the City of Santa Barbara
Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

	Tax Allocation Bonds			
Fiscal Year	**Tax Increment**	**Debt Service**		
		Principal	**Interest**	**Coverage**
1997	$7,745	$2,970	$2,438	1.43
1998	8,040	3,085	2,374	1.47
1999	9,235	3,225	2,235	1.69
2000	9,624	3,410	2,058	1.76
2001	11,183	3,600	1,868	2.05
2002	11,853	4,345	2,739	1.67
2003	12,851	3,985	3,239	1.78
2004	12,945	5,210	3,075	1.56
2005	13,946	4,535	3,701	1.69
2006	15,273	5,190	3,511	1.76

Note: Details regarding the agency's outstanding debt can be found in the notes to the financial statements.

Redevelopment Agency of the City of Santa Barbara
Demographic and Economic Statistics
Last Four Fiscal Years

Fiscal Year	City Population [1]	Personal Income (in millions) [2]	Per Capita Personal Income [2]	June 30 Unemployment Rate [3]
1997	89,700	$10,007	$25,918	4.3%
1998	90,500	10,377	26,520	3.8%
1999	91,000	11,301	28,629	3.4%
2000	92,100	11,890	29,957	4.1%
2001	91,429	12,911	32,302	3.8%
2002	90,696	13,107	32,709	4.8%
2003	90,464	13,059	32,519	4.9%
2004	90,569	13,638	33,851	4.6%
2005	90,518	14,493	36,079	4.1%
2006	89,548	15,342	38,282	4.0%

Notes:
(2) (3) Data shown is for the metropolitan statistical area of Santa Barbara-Santa Maria.

Sources:
(1) California Department of Finance, Demographic Research Unit
(2) U.S. Department of Commerce, Bureau of Economic Analysis
(3) California Employment Development Department

Redevelopment Agency of the City of Santa Barbara
Principal Employers
Current Year and Nine Years Ago

	Fiscal Year 2006		Fiscal Year 1997	
Employer (3)	**Number of Employees [1]**	**Percentage of Total City Employment [2]**	**Number of Employees [1]**	**Percentage of Total City Employment [2]**
University of California, Santa Barbara	9,578	17.38%	8,740	17.84%
County of Santa Barbara	4,144	7.52%	4,065	8.30%
Santa Barbara Cottage Hospital	2,464	4.47%	1,679	3.43%
Santa Barbara City Community College	2,241	4.07%	1,221	2.49%
Raytheon/ E-Systems	1,923	3.49%	900	1.84%
Santa Barbara High School District	2,800	5.08%	1,006	2.05%
Sansum-Santa Barbara Medical Foundation Clinic	1,170	2.12%	N/A	N/A
City of Santa Barbara	1,061	1.93%	995	2.03%
U. S. Postal Service	1,005	1.82%	1,039	2.12%
Santa Barbara Bank & Trust	820	1.49%	N/A	N/A
	27,206	49.38%	19,645	40.09%

Notes:
(2) Data is for the month of June.
(3) Information is for the City of Santa Barbara. Information on employers located only in the redevelopment project area is not available.

Sources:
(1) Santa Barbara Chamber of Commerce
(2) California Employment Development Department

Redevelopment Agency of the City of Santa Barbara
Full-time Equivalent Employees by Function
Last Ten Fiscal Years

None

Redevelopment Agency of the City of Santa Barbara
Operating Indicators by Function
This Fiscal Year

Function	Fiscal Year 2006	
General government	Number	Amount
Number and amount of grants issued to local nonprofit agencies	4	$ 381,072
Housing		
Number and amount of loans or grants issued to nonprofit housing developers for construction of low income rental units	3	$ 4,176,703
Capital		
Number and amount of grants issued to nonprofit housing developers for construction of low income senior housing	1	$ 7,054,614

Redevelopment Agency of the City of Santa Barbara
Capital Asset Statistics by Function
This Fiscal Year

Function	Fiscal Year 2006
General government	
Number of Redevelopment Agency-owned property parcels	49
Total combined square footage	1,719,748

Source: Redevelopment Agency of the City of Santa Barbara

Compliance and Internal Control Section

C&L
Caporicci & Larson
Certified Public Accountants

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

To the Board of Directors
of the Redevelopment Agency of the City of Santa Barbara
Santa Barbara, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Santa Barbara (Agency), a component unit of the City of Santa Barbara, California (City) as of and for the year ended June 30, 2006 and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Agency Board, management, and the California State Controller's office. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Irvine, California
September 8, 2006

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Annual Program Report/ Work Program

Annual Program Report/Work Program

INTRODUCTION

This report, covering Fiscal Year ending June 30, 2006, was prepared with the most recent guidelines issued by the California Department of Housing and Community Development. This report includes a general narrative that describes the Agency's activities during Fiscal Year 2006.

CENTRAL CITY REDEVELOPMENT PROJECT AREA

CARRILLO-CHAPALA MIXED USE PROJECT (2003A BOND)

The Agency and the Metropolitan Transit District have been working to develop the northeast corner of Carrillo and Chapala Streets. The project site covers more than half of an entire City block and is composed of the 164-space City Parking Lot #3 and the MTD Transit Center. The intersection of Carrillo and Chapala Streets has seen major improvements in recent years, with the construction of the Hotel Andalucia and the Ralph's Supermarket. The property owners have identified an opportunity to consider a joint mixed-use redevelopment project on the property. A Downtown Transit Village is envisioned for this prime gateway site, incorporating public and private parking, a mix of affordable and market-rate housing, a new MTD transit center, and various commercial uses. The Agency and MTD approved a Participation Agreement in October 2005, identifying deal points and the terms of participation in producing a Planning Strategy and Feasibility Analysis. In April 2006, after a Request for Proposal process, Urban Studio and their sub-consultants, Allan D. Kotin and Associates and Patti Post and Associates, were chosen based on their experience with similar feasibility analyses, local knowledge, and expertise in advising public agencies on real estate deal structuring. Urban Studio will identify and evaluate various potential redevelopment scenarios for the project site. The analysis will also include economic feasibility analyses for up to four conceptual mixed-use redevelopment scenarios on the project site. A joint meeting between the Agency and the MTD board to review the analysis is anticipated for October 2006. The Agency has allocated $2,000,000 towards this effort.

914 STATE STREET PUBLIC RESTROOMS (2001A BOND)

In June 2004, the Agency Board directed City staff to: proceed with a modified 914 State Street restroom design, facilitate the expansion of the Visitor Restroom Program, produce a brochure/map of all public restrooms, and pursue a construction cost analysis for a remodel and expansion of the Parking Structure #10 restroom. In November 2004, the City hired Poirier and David Architects to redesign the 914 State Street restroom with a more cost-efficient design. City staff presented a comprehensive public restroom report at a joint meeting of the City Council and Agency Board on July 19, 2005 at which it was decided not to pursue the remodel of the restroom in Parking Structure #10. In a subsequent joint meeting on March 21, 2006, W.T. Thomson, Inc. was awarded the $314,214 restroom construction contract. Poirier and David Architects were awarded the construction phase design services contract, and Pacific Materials Laboratory the contract for materials testing. Construction was begun in the fourth quarter of the fiscal year. The anticipated date of completion is mid-September 2006. Once completed, this 350 square foot ADA accessible restroom will be the first standalone City-owned public restroom on State Street, the downtown retail corridor.

City staff, working with the Downtown Organization, has recruited three downtown businesses in the 700, 1000 and 1100 blocks of State Street to join the Visitor Restroom Program. After a status report on the Visitor Restroom Program, the Program agreements were approved. The agreements included an increase in the monthly compensation to be paid by the City. New signage has been approved and installed at the participating downtown businesses. A comprehensive downtown map showing all the City-owned public restrooms has been provided to both the Santa Barbara Regional Chamber of Commerce and the Downtown Organization. Both organizations have incorporated information from the map in their publications: "Welcome to Santa Barbara" (Chamber of Commerce) and "Downtown – Santa Barbara's Historic Arts District". Between the two organizations, more than 500,000 brochures are distributed annually to assist tourists and other downtown visitors.

GRANADA GARAGE (2001A BOND)

The City Council approved the development of the Granada Garage in March 2001 after a study had determined that State Street businesses above Carrillo Street were not as robust as those below. The Granada Garage is a six-level parking structure (two levels below ground) and includes offices for the Downtown Parking Operations and Environmental Services as well as a bike station for commuters who use their bicycles. The architecture of the garage is Spanish mission in style and features include new paseos and a grand stairway leading to the top level of the structure. The garage has intricate plaster work, wrought-iron railings, terra cotta vases and planters,

wrought-iron information and direction signs, copper gutters and downspouts, and drought-tolerant landscaping. An electronic scorecard to inform incoming vehicles about the number of spaces available on each floor. An express ramp provides fast vehicle circulation. The garage is located at the former site of the Lot 6 parking lot (corner of Anacapa and Anapamu) and will provide 570 parking spaces for the local businesses located north of Carrillo Street. Construction began in September 2004 and was scheduled to last 15 months, but with discovery of a large volume of contaminated soil and several very rainy months, an accelerated work schedule was necessary in order to have the garage available for the 2005 Holiday Season. On November 25, 2005, the parking structure portion of the project was opened for use. Then on March 24, 2006, the entire parking structure was opened completely. Eventually, one exterior wall will feature a mural celebrating Santa Barbara's Summer Solstice and Fiesta. The exterior wall along Anacapa Street is planned as a backdrop for future affordable housing. Notice of completion was accepted by Council on June 27, 2006. The final cost was $21,499,086.

STATE STREET SIDEWALKS PHASE IV – 400 & 500 BLOCKS (2003A BOND)

Phases I through III of the State Street Sidewalk Improvement Project have brought significant streetscape improvements to the 600 through 1200 blocks of State Street. In each phase, the Agency Board appropriated funds for the "Basic Project," which included replacement of the existing sidewalks with colored and patterned concrete, along with other enhancements that would improve pedestrian access and safety, diversify landscaping, and increase storefront visibility. In each phase, property owners expressed their preference for a more expensive brick sidewalk, enhanced pedestrian amenities, and the addition of a holiday lighting system. Property owners in each phase have voted for a benefit assessment district to pay for the upgrade. The Agency has allocated $2 million for the design and construction of Phase IV of the State Street Sidewalks Improvement Project which includes the 400 and 500s block of State Street between Gutierrez and Cota Streets. Like the three previous phases, Phase IV has included a comprehensive public outreach program throughout the duration of the project design. At a joint meeting of the Council and Agency Board, staff recommended the rejection of the sole construction bid, as the construction would extend into the busy summer months and impact downtown businesses. Construction has been rescheduled to begin in January 2007, and will be completed by May 2007. The construction bid will be opened on October 11, 2007.

STATE STREET SIDEWALKS PHASE I MODIFICATIONS (2003A BOND)

The Agency will be improving certain items related to Phase I (1000-1200 blocks) of the Sidewalk Improvement Project completed in 1999. These improvements will focus primarily on handicap ramp improvements, relocation of traffic signal pull boxes and related conduit work, replacing vault lids, adding concrete borders to some planter beds, and the addition of wiring to existing art pads. The Agency has allocated $225,000 for the modification. The modifications will be included in the Phase IV contract.

WEST DOWNTOWN IMPROVEMENT PROGRAM (2003A BOND)

The West Downtown area is that portion of the Central City Redevelopment Project area bordered by Carrillo Street on the north, Highway 101 on the west and south, and Chapala Street on the east. In November 2002, the RDA held two widely noticed public meetings that included about 40 participants from the community. The purpose of the meetings was to present and solicit suggestions for capital improvements that would improve the West Downtown neighborhood and to get feedback and a sense of priority, including improvements to the two primary pedestrian corridors of Ortega Street and Anapamu Street. A report summarizing these suggestions was forwarded to the Redevelopment Agency Board and will be used as a reference for future improvements to the area. The project scope is being developed by the City's Transportation Planning Division with a primary focus on the Anapamu Street and Ortega Street pedestrian corridor improvements. The firm of Conceptual Motion was selected in April 2005 to provide design services. The scope of work will include landscape design that will create a consistent theme in a walkable corridor between the Westside and downtown. The top priorities of the project include pedestrian street lighting, sidewalk improvements including bulbouts at intersections, and landscaping. By the end of Fiscal Year 2006, the design was 90% complete and will be reviewed by the Architectural Board of Review for preliminary approval in October 2006. Construction is scheduled to begin in February 2007. Also included in the project are improvements to the Westside Park, located adjacent to the 101 freeway. Improvements to this heavily used park will include new landscaping, fencing, and a re-orientation of the park facilities to better serve the local neighborhood. The Agency has allocated $3.5 million from its 2003A bond proceeds for this program.

CHAPALA STREET STREETSCAPE IMPROVEMENTS (2001A BOND)

While the majority of development in downtown Santa Barbara has been focused on State Street over the last 30 years, Chapala Street south of Carrillo Street is quickly emerging as a focus of private redevelopment. Agency staff, in collaboration with the Planning Division and Transportation Division of Public Works, completed a design process involving local developers, merchants, and other stakeholders to identify what elements along Chapala Street should be preserved and what needed improvement. The result of this extensive process was the Chapala Street Streetscape Design Guidelines. These guidelines will assist developers, merchants, city staff and various design boards in improving street frontages along this section of Chapala Street. In future development proposed on properties adjacent to intersections, private developers will incorporate outdoor areas, natural features and landscaping to contribute to the overall openness of the pedestrian experience. The Agency is pursuing improving two intersections with bulbouts on the Chapala Street corridor, at Gutierrez and De la Guerra streets, as private developments are being constructed adjacent to these intersections. In June 2005, the design firm of Penfield and Smith was awarded the design contract for these improvements. By the end of Fiscal Year 2006, the final design was complete and the construction is scheduled to begin in October 2006. The Agency has allocated funding of $835,000 for the public right-of-way improvements.

LOUISE LOWRY DAVIS CENTER RESTORATION (2001A BOND)

In Fiscal Year 2002, $350,000 was budgeted to fund the Parks and Recreation Department's interior and exterior renovation improvements to the Louise Lowry Davis Center located at 1232 De La Vina Street. The Center hosts many senior citizen activities including card-playing, bingo, informational lectures, tax and insurance counseling, stroke rehabilitation, yoga and tai chi. One of the project's main goals was to bring the Center up to ADA (Americans with Disabilities Act) standards. A fully compliant exterior ramp was constructed to provide handicapped access via a well-defined entrance and reception area leading from the parking lot. The interior improvements created fully compliant accessible men's and women's restrooms and an accessible drinking fountain. The kitchen was relocated and completely remodeled with new appliances and cabinetry. New flooring was installed throughout the building. All new heating, plumbing and electrical systems were installed. The exterior also received a new roof, lighting and landscaping. Although the Agency Board increased funding to $798,000 in January 2005, the project came in under budget at $618,000. The reopening ceremony was held on March 29, 2006.

CULTURAL ACTIVITIES

GRANADA THEATRE (2001A AND 2003A BOND)

The Granada Theatre is currently being renovated and expanded to become a first-class performing arts venue and an anchor for the City's cultural district on upper State Street. The Santa Barbara Center for the Performing Arts (SBCPA) acquired the historic Granada Theatre and adjacent commercial spaces in 2003, and has been working toward making it a large-scale, year-round venue for theatre, dance, orchestra, recitals, opera, musicals, film series, lectures, and conferences. The Agency awarded the project $4.5 million in grants and the community has demonstrated its strong support through donations totaling over $30 million towards the renovation project. The project will add approximately 10,000 square feet to the theatre footprint. Combined with the newly acquired commercial spaces adjacent to the theatre, a significant portion of the new floor area would be created in a large basement level complex, providing an array of new and upgraded public amenities and expanded backstage areas. The audience will notice a return to the theatre's original design details and décor, expansion of the stage depth and width, 1,600 new seats, and an enlarged orchestra pit. Technical improvements will include acoustical refinements; upgrading the theatre's structure to modern earthquake and life-safety standards, an improved lighting system; a new, state-of-the-art box office; computerized stage and sound equipment; and new projection and film audio facilities. A new basement level will provide performers' dressing rooms, patron lounges, and restrooms. The improvements proposed by the SBCPA would enable the Granada Theatre to accommodate large touring companies that would use the venue as a natural stop between Los Angeles and San Francisco. An endowment fund will also allow the SBCPA to make the Granada Theatre available to local arts organizations at affordable levels. The renovation project is expected to be complete in Fiscal Year 2008.

PLAZA DE LA GUERRA MASTER PLAN (2003A BOND)

The Santa Barbara Trust for Historic Preservation, with Redevelopment Agency grant funds, produced a book entitled "Plaza de la Guerra Reconsidered," which compiles the history and past plans for this prominent downtown plaza. Over the last several years, stakeholders in the Plaza have determined that simple, people-

oriented improvements to the infrastructure would complement the surrounding businesses and facilities and promote its use by community organizations. A City Council Steering committee, plus surrounding business owners and City staff, convened and drafted an Infrastructure Design Intent Statement to help guide the improvements: installation of new ADA ramps, replacement or upgrade of benches, trash/recycling receptacles, bike racks, newspaper cabinets, and redesign of the roadway and interior lawn to improve safety of pedestrians during large community events.

Staff developed a Request for Proposals based on these items, which was mailed to more than fifty design firms. Seven proposals were reviewed and interviews were held mid-May. The design firm of Campbell and Campbell was selected and received Agency approval for their design services contract for $86,665 in June 2005. Campbell and Campbell have teamed with Penfield and Smith for civil engineering support; John Maloney, P.E. for electrical engineering; and Clearview Studios for graphic concepts. The design process is expected to take six months. The final products will include recommendations for construction phasing based on the consultant's estimate of costs, available project funding and appropriate progression of improvements. The Agency has allocated $1 million of the 2003A Tax Allocation Bond proceeds toward design and construction.

SANTA BARBARA TRUST FOR HISTORIC PRESERVATION - EL PRESIDIO 2003 (CAPITAL FUND)

In a long standing agreement to assist Santa Barbara Trust for Historic Preservation efforts to reconstruct the original Spanish garrison, El Presidio, the Redevelopment Agency granted funds for reconstruction of the northwest corner, including a Visitor Center. The architect, M. Wayne Donaldson, was engaged to draw the plans and prepare them for bidding. Since the Presidio is listed on the National Register of Historic Places and the Trust had received a matching federal grant, the Trust was obligated to prepare a Section 106 Study, which identifies the effects that the reconstruction would have on the historic property and identifies ways to avoid adverse effects. The Trust received State Historic Preservation approvals in May 2004 on their plans for the El Presidio Visitor Center, and City Building Division approval at the end of Fiscal Year 2005. Meanwhile, the California Conservation Corps made over 5,000 bricks for the project. The Trust contracted with Channel Coast Construction to build the Visitor Center. Construction began in late February 2006 and an opening ceremony was held on June 10, 2006. The Agency granted $250,000 for the completion of this phase of El Presidio's reconstruction.

SANTA BARBARA TRUST FOR HISTORIC PRESERVATION - CASA DE LA GUERRA (CAPITAL FUND)

The $144,000 grant for Casa de la Guerra from Fiscal Year 2002 was used for roof work on the East and West Wing, new entrance steps, historic door handles, repair of the stone foundation on the Street in Spain side, and finish work on rooms one, two, three and four to complete the restoration. The completely restored Casa de la Guerra will serve as the foundation for Plaza de la Guerra, historically the City's cultural center. To date, the Trust has completed the roof restoration on the East wing and North side, which included replacing rafters with round beams with leather strapping and caning. "Room One" needed extensive renovation after a wall was replaced. "Room Two" received custom cabinets along with other kitchen amenities for volunteers' facilities. "Room Three" is now an ADA-compliant restroom, the entrance steps have been made hazard-free, and the stone foundation has been restored along the Street in Spain. All areas required archaeological monitoring and a report has been printed. The final room, "Room One," was finished in March of this fiscal year. The walls of "Room One" were hung with historically accurate, specially printed wallpaper.

WATERFRONT AREA

STATE AND CABRILLO RESTROOM (2001A BOND)

In recent years the City has been mounting an effort to provide new restrooms and upgrade all existing public restrooms in the downtown and waterfront. Agency funds were allocated to renovate a centrally located public restroom at the base of Stearns Wharf at Cabrillo Boulevard. A complete interior remodel has redesigned the restroom layout to bring it to full compliance with ADA and California Accessibility standards. The facility now uses reclaimed water for the toilets and has graffiti-resistant stall partitions. The restroom has new exterior doors and has been completely painted. The project was completed by Lash Construction in five weeks, one week ahead of schedule and right before the holiday construction moratorium in November 2005. The total project cost was $188,936 under budget.

WEST BEACH PEDESTRIAN IMPROVEMENTS (2003A BOND)

The goal of the West Beach Pedestrian Improvement Project is to enhance the pedestrian linkage between Stearns Wharf and the Harbor. In March 2006, the Agency approved the conceptual design of Phase I of the project. Phase I will consist of a number of capital improvements from Stearns Wharf to the Sea Landing area including construction of enhanced pedestrian crossings and signals across Cabrillo Boulevard at Castillo Street, Bath Street, Ambassador Park and Chapala Street to the beach front; repair of the existing sidewalk from the wharf to Sea Landing; design and construction of viewing plazas on the beach across from Ambassador Park and Chapala Street; improved signage; possible placement of landscaping between the existing beach way and seawall from the wharf to Sea Landing; and various improvements to Sea Landing, including an improved sidewalk intersection at Cabrillo Boulevard, the viewing 'node' near the boat launch area: and possible non-structural improvements such as relocating the Sea Shell sheds, outrigger canoes, and the dredge equipment storage area. Phase II improvements would build upon those constructed as part of Phase I and could include improvements to the Sea Landing area. Specific improvements are being identified through a process of additional conceptual design and analysis and review with stakeholders through a contract with Conceptual Motion Company. The original funding amount was $2 million. Conceptual Motion was awarded the contract for the original concept study and in May 2006 the Agency approved additional concept design and a Phase I preliminary design contract in the amount of $259,856.

EAST CABRILLO BOULEVARD SIDEWALK REPLACEMENT (2001A BOND)

This Agency project will repair and replace existing sidewalks from Stearns Wharf to Milpas Street. Cabrillo Boulevard, considered one of the City's more scenic routes, is the primary thoroughfare along the City's beachfront east of State Street and is flanked by tourism-related businesses, hotels and recreational public parks. On weekends, the sidewalk is heavily used by visitors to the Sunday Arts and Crafts show. A Historic Resources Report was prepared at the request of the City's Historic Landmarks Commission, as there is a Preservation Covenant stemming from the transfer of ownership in 1996 from the California Department of Transportation, stating that the City cannot alter the historic fabric of this district without approval from the State Office of Historic Preservation. The research consultants, Post/Hazeltine, provided a Conceptual Design Guidance Report, which outlined the area's history and the significance of being designated a State Historic District. Cabrillo Boulevard was the main component in the 1924 Olmsted/Cheney Plan that provided guidance for development of this beachfront recreational area. Improvements anticipated for this mile-long promenade include new concrete sidewalks and enhancement of the parkways. In July 2005, following a Request for Proposals process, the engineering firm of Penfield and Smith was awarded the preliminary design contract for $73,282. Construction is anticipated to begin in the early part of 2007 and occur over a four-month period. The Agency has allocated $3.1 million for the project.

OTHER ACTIVITIES

TRANSPORTATION MANAGEMENT PROGRAM

The Agency contributed $300,000 this fiscal year for the operation of the City's Transportation Management Program (TMP). The TMP is a comprehensive traffic and parking management program that combines disincentives for single occupant automobile use with incentives for alternative modes of transportation. This program constitutes required mitigation for traffic impacts from private development and Agency downtown revitalization activities. Two commuter parking lots (Cota/Santa Barbara Streets and Carrillo/Castillo Streets)

allow employees in the area to park on the fringes of the central business district and ride shuttle buses to workplaces. The annual contribution is used to underwrite the downtown and cross-town shuttle buses.

EDUCATION REVENUE AUGMENTATION FUND (ERAF)

With the approval of the State budget for Fiscal Year 2005, a provision was included that shifted state redevelopment agency monies to the Education Revenue Augmentation Fund using formulas that governed the similar shift in the early 1990s. Redevelopment agencies would be required to shift property tax revenues to K-12 schools and community colleges. The City of Santa Barbara Redevelopment Agency met its approximately $1,177,824.40 ERAF obligation for Fiscal Year 2006.

AGENCY'S AFFORDABLE HOUSING PROGRAM

315 WEST CARRILLO STREET (EL CARRILLO)

On September 15th, the City's Housing Authority just completed 61 small (254 square foot) studio apartment rental units (plus one 2-bedroom manager's unit) for the homeless, near homeless, and very low income downtown workers. The Housing Authority manages the project in partnership with the experienced social services organization, Work Training Programs, Inc (WTP). Two full-time WTP case workers are on site, through funding provided by Santa Barbara County Alcohol, Drug & Mental Health Services. The Agency loaned the Housing Authority $1,775,000 for acquisition of the half-acre site located adjacent to their award-winning Casa de Las Fuentes "Downtown Worker" affordable rental housing project. The Agency also provided a $300,000 predevelopment loan. The project received over $8 million in low income housing tax credits and has received $1 million in below market rate construction loan funds from the newly established Santa Barbara County Housing Trust Fund. El Carrillo is the 1st project to be completed under the County's Ten Year Plan to End Chronic Homeless.

4200 CALLE REAL (ST. VINCENT'S GARDENS & VILLA CARIDAD)

Mercy Housing California, a State-wide nonprofit housing developer, currently has two low income rental housing projects under construction on the site of the former St. Vincent's School, a 19-acre site recently annexed by the City near Highway 154 and Calle Real. One is a 75-unit project for families (St Vincent's Gardens), and the other is a 95-unit project for seniors (Villa Caridad). The Agency has spent a total of $17.4 million on the two projects, and the County of Santa Barbara has spent $4.4 million on the family project. Funding also includes HUD Section 202 funds for the senior project, low income housing tax credits for the family project, and funds from the Daughters of Charity. Both projects are expected to be completed in 2007, with completion of the family project preceding that of the senior project.

617 GARDEN STREET (BUILDING HOPE)

The Mental Health Association in Santa Barbara County is expected in fall 2007 to commence construction on a large mixed-use project directly across the street from the Agency's Garden Street offices. The project features administrative offices, program space, and 51 units of affordable rental housing for low income Mental Health Association (MHA) clients and downtown workers. The Agency is contributing land (the parking lot for its employees) and spending $5.1 million on the project. The Agency has already provided MHA with $385,000 for predevelopment.

21 EAST ANAPAMU STREET (GRANADA GARAGE HOUSING)

The Agency selected Peoples' Self-Help Housing Corporation (Peoples) through a Request for Proposals process to develop affordable housing adjacent to the new Granada Garage parking structure. Peoples Self-Help Housing is a large nonprofit housing organization based in San Luis Obispo, with a local office in Santa Barbara. The Agency provided a $60,000 predevelopment grant, and Agency staff secured City HOME funds for the project in the form of a $90,000 predevelopment loan and $1,581,000 permanent loan. With the recent completion of the Granada Garage, the 12-unit project is expected construction in fall 2006.

3965 VIA LUCERO (HABITAT FOR HUMANITY)

Habitat for Humanity (Habitat) has 3 new low income ownership units under construction using Habitat's well-tested formula that includes donated materials and technical assistance from the local development community, volunteer labor, future homeowners' labor (sweat equity), and grant funds and donations from an array of foundations and local churches. In fiscal year 2004, the City provided $240,000 of federal HOME funds to Habitat for site acquisition. Construction is expected to be completed in 2007.

421-425 EAST COTA STREET (MOM'S PROPERTY)

In fiscal year 2000, the Agency provided Transition House with a $320,000 loan for the acquisition of 421-425 E. Cota Street which consists of two mixed-use buildings located to the rear of their homeless shelter on East Ortega Street. In addition, Transition House raised over $1 million in private donations for this acquisition as part of major effort to relocate and expand its office and program space, expand its shelter space, and create new affordable housing for its clientele. The building at 425 East Cota has nine residential units over ground floor commercial space. Transition House placed their clients in the residential units as vacancies arose and moved its office and program space from the shelter into the ground floor commercial space. The building at 421 East Cota (it once housed the old Mom's restaurant) has structural issues that limit development options. Transition House plans to demolish the structure and build new affordable housing over space dedicated to child care, but will not start this project until after the upcoming extensive reconstruction of the East Ortega Street Shelter is completed. The Housing Authority recently acquired property across the street (Haagen Printing) for land banking. Transition House and the Housing Authority are considering joint development plans for the two properties. In the meantime, Transition House leases out the former restaurant space in order to help cover carrying costs.

416-424 COTA STREET / 517 OLIVE STREET (HAAGEN PRINTING PROPERTY)

The Agency has provided the City's Housing Authority with a loan of $2,000,000 for the acquisition of property at 416-424 East Cota Street and 517 Olive Street. The Housing Authority is land-banking the site for future affordable housing development. It is a relatively large site of nearly 40,000 square feet that is currently improved with two industrial buildings (totaling 20,850 square feet) that are currently under lease to a printing business and a telemarketing call center. The property is zoned Commercial Manufacturing (CM) which allows for residential development to R-4 standards under the City's pyramid zoning. The most likely project would be a mixed-use low-income rental project that could be developed in conjunction with the Transition House property across the street, as mentioned above.

309 – 327 SOUTH VOLUNTARIO STREET (PASEO VOLUNTARIO)

The Agency and City provided a total of $2 million in grant and loan funds to the City's Housing Authority for the construction of 20 new affordable housing units immediately adjacent to one of their existing seven-unit housing projects. The 20 new units have been completed and are now fully occupied. The existing units then underwent extensive renovation which matched the design of the new units, resulting in one unified 27-unit affordable housing project.

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
ANNUAL WORK PROGRAM REPORT – FISCAL YEAR 2007
(NOT COVERED IN AUDITOR'S REPORT)

INTRODUCTION

This report, covering the projected program year for the fiscal year ending June 30, 2007 was prepared in accordance with the most recent guidelines of the California Department of Housing and Community Development. The report includes a description of the work program for the 2007 Fiscal Year. Funds for these projects are contained in the Redevelopment Agency City of Santa Barbara budget for Fiscal Year 2007, including appropriations from prior year balances.

FISCAL YEAR 2007 WORK PROGRAM

HOUSING PROGRAMS FUND PROJECTS

Housing Revolving Fund: *$500,000*

Funds available for the development of affordable housing projects, including land-banking, site improvements, interim financing, rehabilitation, and new construction of multi- or single-family properties per State statute.

REDEVELOPMENT AGENCY GENERAL FUND PROJECTS

Funds have been appropriated in the Agency's General Fund (Fund 111) for the following projects in the approximate amounts shown (amounts include encumbered funds):

Property Management: *$164,900*

Miscellaneous improvements to Agency-owned properties and property management obligations.

Transportation Management Program Shuttle Bus Contract: *$300,000*

Funding contribution to shuttle program that mitigates traffic and parking impacts resulting from Agency development projects.

Hazardous Materials: *$131,995*

Funds to investigate, characterize, and clean up toxic contaminants on Agency-owned properties. Funds are being used to mitigate groundwater contamination under Agency-owned Parking Lot 12 and Agency property at 629 Garden Street.

Downtown Organization Cultural Promotions 2005: *$63,315*

Funds used to reimburse the Downtown Organizations' efforts to promote the historic/cultural downtown area.

Old City College Site Rehabilitation: *$1,500,000*

Grant funds to the Santa Barbara Trust for Historic Preservation for use in rehabilitation of the Alhecama Theatre to be leased to the Ensemble Theater and the rehabilitation of onsite buildings for use by the Trust for administrative offices.

Appropriated Operating Reserves: *$50,000*

REDEVELOPMENT CAPITAL FUND PROJECTS

Integrated Pest Management – Sustainable Park Improvements: *$55,000*
Funds for the Parks and Recreation Department to use for sustainable improvements that reduce the use of hazardous materials in City parks within the Central City Redevelopment Project area and for signage towards educating the public about this program.

Opportunity Acquisition Fund: *$2,366,000*
Funds for opportunity purchases of property in the Project Area. Properties would be used for public benefit development consistent with the Redevelopment Plan.

Mental Health Association of Santa Barbara County: *$2,300,000*
Funds for a proposed 51-unit affordable housing project in a mixed-use development that includes the Mental Health Association of Santa Barbara County offices and program facilities. Half of the units would be for Mental Health clients, and half would be for low-income downtown workers.

Redevelopment Project Contingency Account: *$1,291,000*
Funds to be used to cover project cost overruns due to increases in construction costs during the period between project appropriation and project construction.

Housing Fund Contingency Account: *$1,965,500*
Additional funds to be used for purpose of funding new, as yet unspecified, projects or for making up shortfalls in funding for approved but not constructed projects.

State Street Sidewalks – 400 & 500 Blocks: *$500,000*
Funds for State Street Sidewalks Assessment District. A Benefit Assessment District is the means by which the enhanced sidewalks and amenities were funded as in the previous phases of this improvement project.

SERIES 2001A TAX ALLOCATION BOND CAPITAL PROJECTS

Chapala Street Improvements: *$762,300*
Various streetscape improvements to be made in conformance with Chapala Street Streetscape Design Guidelines. Bulbouts of the sidewalk to shorten the distance to cross and new crosswalks at two intersections - Gutierrez and De la Guerra Streets. Construction is to begin in early October on the De la Guerra intersection.

Thompson Avenue Improvements: *$200,000*
Funds for improvements to be made in conjunction with improvements being made by Brooks Institute at the Lyons Building: sidewalk repair and replacement, landscaping, trash enclosure expansion, paseo improvements and general street improvements. Construction plans will be in plan check early September 2006. A cost sharing agreement is being finalized.

Granada Theatre: *$3,000,000*
Funds requested by the Santa Barbara Center for Performing Arts in order to renovate the Granada Theatre. Waiting for building codes issues to be resolved. Grant agreement has been finalized and expected to be executed by mid-September 2006.

Downtown Public Restrooms – 914 State Street: *$347,500*
Funds for the development of a downtown public restroom on at 914 State Street. Construction is scheduled to be completed by mid-September 2006.

SERIES 2003A TAX ALLOCATION BONDS CAPITAL PROJECTS

Integrated Pest Management – Sustainable Park Improvements: *$101,000*
Additional funds for the Parks and Recreation Department to use for sustainable improvements that reduce the use of hazardous materials in City parks within the Central City Redevelopment Project area and for signage towards educating the public about this program.

Mission Creek Flood Control Enhancement: *$2,443,000*
Funds to augment the Army Corps of Engineers-funded flood control project for Mission Creek. Enhancements could include acquisition of property for creek open space and pocket parks, landscaping, aesthetic treatment of historic bridges and pedestrian paths. Appraisal and relocation services have been contracted for the acquisition of land for a pocket park.

Fire Station #1 Remodel: *$3,782,000*
Funding for a thorough renovation of the interior of Fire Station #1. Renovation to include: renovate and separate dormitory and bathrooms, seismic retrofit, upgrade windows, doors, lighting, security, and overall energy-efficiency of the building. Architect is developing a project master plan. The Agency provided additional funding of $1 million in fiscal year 2007 budget.

Opportunity Acquisition Fund: *$1,625,000*
Funds for opportunity purchases of property in the Project Area to be used for public-benefit development consistent with the Redevelopment Plan.

West Beach Pedestrian Improvements: *$3,214,300*
Funds for sidewalk and landscape improvements from the Wharf to the Santa Barbara Harbor. Phase I Design is proceeding. The Agency provided additional funding of $1.25 million in fiscal year 2007 budget.

Carrillo/Chapala Mixed-Use Project: *$2,000,000*
Funding towards a Downtown Mixed-Use Project in a prime gateway site, incorporating public and private parking, a mix of affordable and market-rate housing, a new MTD transit center, and various commercial uses. Consultant is working on several development alternatives.

Visitor Center Condominium Purchase: *$500,000*
Funds for the purchase of Ritz-Carlton Club condominium space as part of conditions of approval. Visitor Center to be leased by the Chamber of Commerce and to include public restrooms.

Plaza de la Guerra Infrastructure: *$989,000*
Funds for infrastructure improvements: new ADA ramps, replacement/upgrade of benches, trash/recycling receptacles, bike racks, newspaper racks, roadway redesign to function with lawn area in a safer manner. Planning consultant contracted for design.

Lower State Street Sidewalks: *$250,000*
Funds for improvements to the 00 block of State Street to compliment the Ritz-Carlton Club development sidewalk improvements.

State Street Underpass Improvements: *$200,000*
Funds to be used by the Public Works Department to improve pedestrian safety in the State Street underpass at 101 Freeway. Improvements to include enhanced lighting and the application of graffiti-resistant clear coating to the walls.

Anapamu Open Space Enhancement: *$150,000*
Funds to provide temporary improvements at the Anapamu open space located adjacent to the Granada Garage and the Casas de Granadas affordable housing project. The improvements would include basic landscape design until a community-wide design process could take place.

Waterfront Property Development: *$1,497,000*
These funds are to be used to fund future development of the Agency-owned property at 125 Calle Cesar Chavez. A biological study was submitted to the California Coastal Commission staff and their response to be reviewed.

Artist Workspace: *$895,000*
Funds are being used to develop an artist workspace in the former recycling building on Garden Street. Conceptual design contract has been approved. A survey of property is expected in early September 2006.

Plaza Vera Cruz: *$352,000*
Funds for Parks and Recreation are being used to renovate a downtown City park with vehicle and handicap accessibility improvements.

Granada Theatre: *$1,500,000*
Additional funding for the restoration of the historic theater.

Historic Railroad Car Acquisition: *$46,000*
Funds for the acquisition of a vintage rail car for static display at the Railroad Depot on an historic rail spur adjacent to the Moreton Bay fig tree. A rail car has been located and is being appraised.

West Downtown Improvements: *$3,153,000*
Funding for a series of capital improvements, including two primary projects: the Anapamu and Ortega corridor improvements. Proposed corridor improvements include upgrading pedestrian amenities such as sidewalk replacement where necessary (uplifted sidewalk sections due to tree roots, cracked and degraded sidewalk sections that cause trip hazards. etc.), general landscaping improvements where appropriate, the possibility of additional pedestrian lighting where appropriate and improvements to the Westside Center park are being reviewed.

Spencer Adams Parking Lot and Site Improvements: *$186,300*
Funds to assist the Park and Recreation Department with various parking lot and site improvements at the lawn bowling center adjacent to the Louise Lowry Davis Center.

Fig Tree Park Improvements: *$166,200*
Funds to extend the existing sidewalk around the park fronting Montecito Street and around the entrance to the Railroad Station and for additional signage and ADA accessibility compliance. Consulting arborist has performed a study of condition of historic Moreton Bay fig tree.

State Street Sidewalks- Phase I – Modifications *$225,000*
Funds for a number of items that were either not included because of budget constraints or not consistent with the subsequent phases: replacement of existing patterned concrete handicap ramps with ADA compliant ramps in brick, upgraded electrical system, and

reinforcement of a number of planter edges with concrete base. This project will be completed with the fourth phase of the State Street Sidewalks Improvement project.

Carrillo Recreation Center Restoration: *$3,484,000*
Funding for interior and exterior renovation of the heavily-used Carrillo Recreation center. Upgrades to electrical, plumbing, structural and numerous aesthetic improvements. Facility assessment has been completed. A Request for Proposal for design services to go out September 2006.

State Street Sidewalks – 400 & 500 Blocks: *$2,593,000*
Funding for the continuation of the first three phases of the State Street Sidewalk Improvement Project. The project will include replacement of the existing tile sidewalks with brick sidewalks, various landscape improvements, and the inclusion of pedestrian amenities such as benches, trash cans, drinking fountains, and holiday lighting. Construction was delayed to early 2007 due to scheduling conflicts. Specimen palms have been purchased. Construction contract expected to be approved in November 2006.

Teen Center Remodel: *$200,000*
Funds for Parks and Recreation Department for the conversion of 1235 Chapala Street into a recreation facility for teens. The center will include such amenities as a game room, study room, internet café, arcades, lounge and recording studio.

Chase Palm Park Wisteria Arbor: *$835,000*
Funds allocated in the Fiscal Year 1999-2000 budget for the construction of a Wisteria Arbor at Chase Palm Park. Construction awaits the development of Fess Parker's Waterfront Hotel.

Unappropriated – Reserved for Future Projects: *$1,466,400*
Funds available for future projects and programs.

COMMUNITY GRANTS

El Presidio Northwest Corner - Final Phase: *$200,000*

Street in Mexico: *$50,000*

Media Arts Center: *$1,000,000*

Alhecama Theater Restoration: *$1,500,000*

Historical Society - Collections Vault: *$100,000*

Arts Alive! – Gallery Enhancement: *$20,825*

Center Stage Theater Upgrade: *$8,465*

State of the Art Gallery: *$69,000*

Lobero Theatre Acoustic Upgrades: *$105,734*