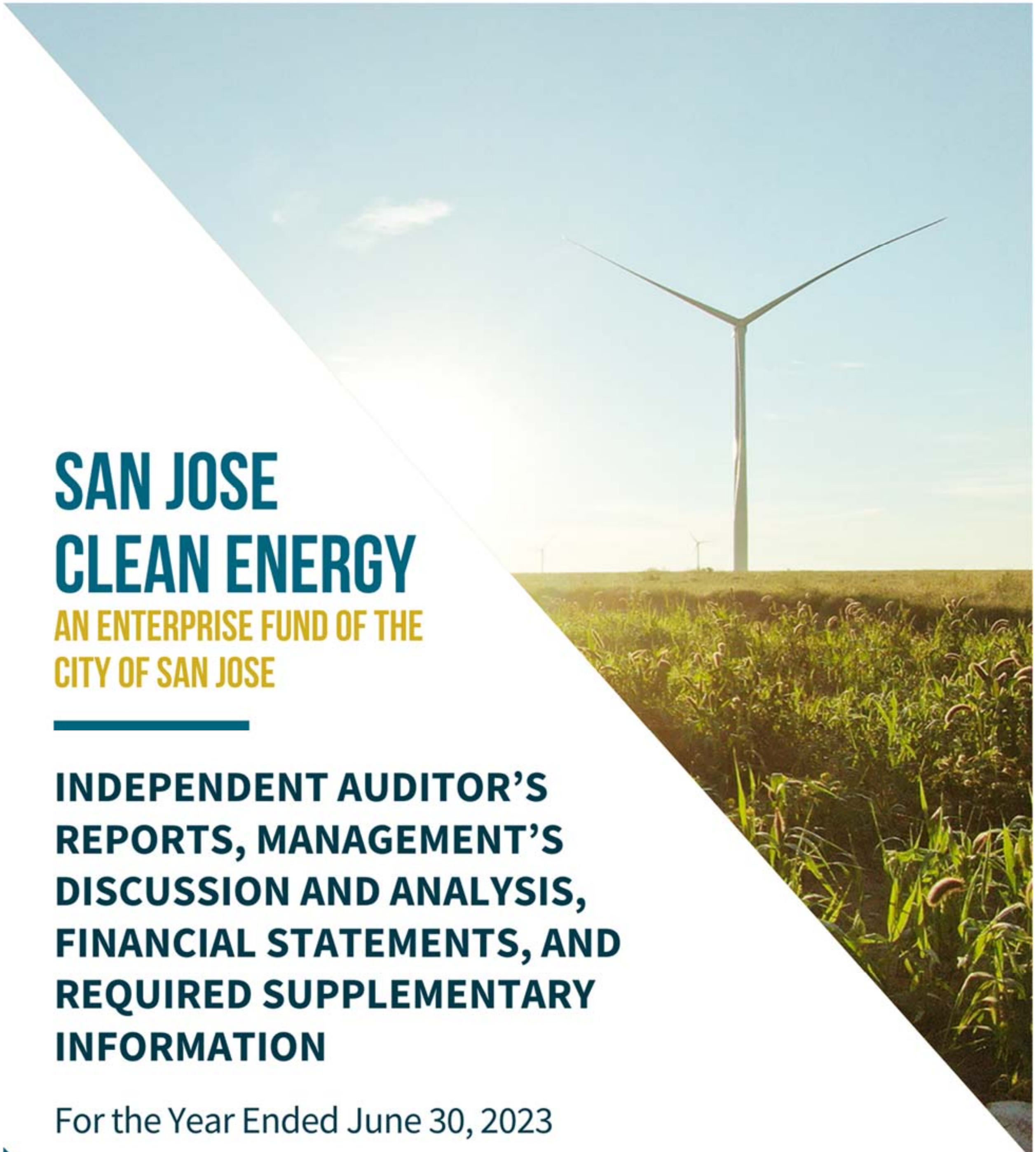

SAN JOSE CLEAN ENERGY

AN ENTERPRISE FUND OF THE CITY OF SAN JOSE

INDEPENDENT AUDITOR'S REPORTS, MANAGEMENT'S DISCUSSION AND ANALYSIS, FINANCIAL STATEMENTS, AND REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2023

SAN JOSE CLEAN ENERGY

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
For the Year Ended June 30, 2023

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Independent Auditor's Report

Honorable City Council
San José Clean Energy
San José, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San José Clean Energy (SJCE), an enterprise fund of the City of San José, California (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the SJCE's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the SJCE as of June 30, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the SJCE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements of the SJCE are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and major enterprise fund of the City that is attributable to the transactions of the SJCE. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SJCE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the proportionate share of the net pension liability (asset), the schedule of employer contributions – defined benefit pension plan, the schedule of the proportionate share of the net OPEB liability (asset), and the schedule of employer contributions – postemployment healthcare plan identified as required supplementary information in the accompanying table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2023 on our consideration of the SJCE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the SJCE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SJCE's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 9, 2023

The following discussion and analysis of San José Clean Energy's ("SJCE") financial performance provides an overview of its financial activities for the year ended June 30, 2023. Please review in conjunction with SJCE's audited financial statements. The Community Energy Department of the City of San José ("City") serves as the administrator of the SJCE community choice aggregation program. To the best of our knowledge and belief, the financial statements, as presented, are accurate in all material respects.

Financial Statements

SJCE's financial statements are those of a proprietary enterprise fund engaged in purchasing wholesale energy and re-selling it to consumers in the San José service territory. Under Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* public entities like SJCE that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net position; (2) statement of revenues, expenses, and changes in net position; (3) statement of cash flows; and (4) notes to financial statements.

SJCE's financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). SJCE is reported as a single enterprise fund.

Financial Highlights

The following table indicates the net position on June 30, 2023 and 2022 (in thousands):

	2023	2022	Dollar Change
Assets	$ 251,525	$ 149,239 *	$ 102,286 *
Deferred Outflows	4,591	3,641	950
Liabilities	79,136	99,866 *	(20,730) *
Deferred Inflows	910	4,682	(3,772)
Net position	$ 176,070	$ 48,332	$ 127,738

*Balance on 6/30/2022, as restated due to implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

Statement of Net Position

SJCE's net position is $176.1 million as of June 30, 2023, an increase of 264.3% from $48.3 million in 2022.

Assets increased by 68.5% or $102.3 million for fiscal year 2023. This increase is due primarily to an increase in cash resulting from a rate increase that was implemented in January 2023 and a reduction in the Power Charge Indifference Adjustment ("PCIA") fee implemented by PG&E, as approved by the California Public Utilities Commission's ("CPUC"). SJCE consistently incorporates changes in the PCIA when setting customer rates.

Liabilities decreased by 20.8% or $20.7 million for fiscal year 2023. This reduction is a combination of three factors: (1) SJCE repaid $40.0 million of a $60.0 million Commercial Paper ("CP") liability; (2) Liabilities for accrued cost of electricity increased by approximately $16.4 million due to a difference in power purchase agreement ("PPA") counterparty and Renewable Portfolio Standards ("RPS") counterparty settlement timings year over year; (3) Unearned revenue liabilities increased by approximately $5.6 million due to the collection of contract delay damages that may ultimately be refunded to the developer if the delay is cured within a specified timeframe.

The following table indicates the changes in net position for the years ended June 30, 2023 and 2022 (in thousands):

	2023	2022	Dollar Change
Operating revenues, net	$ 515,503	$ 351,099	$ 164,404
Operating expenses	386,367	331,288	55,079
Operating income	129,136	19,811	109,325
Nonoperating revenues (expenses), net	(1,398)	2,180	(3,578)
Change in net position	127,738	21,991	105,747
Net position, beginning of year	48,332	26,341	21,991
Net position, end of year	$ 176,070	$ 48,332	$ 127,738

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position identifies various revenue and expense items which impact the change in net position. SJCE's operating revenues were materially comprised of sales of electricity to consumers. Other operating revenues include customer program funding originating from CPUC-directed customer fees that were reimbursed as program expenses were incurred. Revenues increased in 2023 by 46.8% or $164.4 million due primarily to the aforementioned increase in rates made in January 2023. Operating expenses were comprised primarily of energy purchases from wholesale energy suppliers. Operating expenses increased in 2023 by 16.6% or $55.1 million due to higher market prices in the California energy market.

Economic Outlook

SJCE serves approximately 350,000 residential and commercial customers in the San José service territory and expects to maintain a steady customer base in 2024. Third-party forecasts and California state regulations indicate significant statewide growth in electric load over the coming decade. SJCE forecasts that an increase in electric load will affect the SJCE territory in future years, however an increase in load for FY24 is not indicated in the forecasts. During FY24, SJCE expects to continue to provide an annual retail load of approximately 3.8 TWh. In December 2022, SJCE adopted a cost-of-service model for rate setting, which allows for increased flexibility in response to economic factors affecting operations and rates.

SJCE procures energy according to their Energy Risk Management Policy ("ERMP"), which was adopted by San José City Council in May 2018 and subsequently amended in May 2023. The ERMP outlines the objectives of the SJCE program and addresses key risks arising from participation in energy markets, and controls to mitigate such risks. SJCE minimizes risk by procuring a power portfolio diversified by contract length, power resources, counterparties, project locations, and size, and procures the bulk of their energy in the forward markets. As of June 30, 2023, SJCE has committed to eighteen long-term power purchase and energy storage service agreements. Long-term agreements assist SJCE in meeting CPUC directed Resource Adequacy ("RA") and RPS requirements and are consistent with modeling undertaken in the context of SJCE's 2022 Integrated Resource Plan. The long-term agreements will supply SJCE customers with approximately 2.5 TWh of energy annually, which is projected to meet approximately 60% of SJCE's energy consumption needs, once all are operational. Prices for these long-term agreements generally are lower than short-term agreements, so it is expected that SJCE's operational costs will decrease over time.

To address COVID-19 related arrearages, the San José City Council approved in the fiscal year 2023 budget to accept approximately $2.1 million in California Arrearage Payment Program ("CAPP") monies to address electric arrearages accrued during the pandemic relief period from March 4, 2020 to December 31, 2021 for those customers eligible under the CAPP guidelines. This funding is the second, and final, round of CAPP relief provided by the State of California through American Rescue Plan funds and is reported as a component of Program Grants in Nonoperating Revenues (Expenses) on the Statement of Revenues, Expenses, and Changes in Net Position.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed in writing to San José Clean Energy c/o City of San José, 200 East Santa Clara Street, San José, CA 95113, or to the Director of Finance, 200 E. Santa Clara Street, San José, CA 95113.

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Statement of Net Position
June 30, 2023
($000's)

ASSETS		
Current assets:		
Equity in pooled cash and investments held in City Treasury	$	165,147
Receivables, net of allowance		74,668
Prepaid expenses, advances and deposits		8,293
Total unrestricted current assets		248,108
Restricted assets:		
Equity in pooled cash and investments held in City Treasury		1,667
Total current assets		249,775
Noncurrent assets:		
Net OPEB asset		1,210
Right-to-use asset (net of accumulated amortization):		
Subscription asset		540
Total noncurrent assets		1,750
Total assets		251,525
DEFERRED OUTFLOWS OF RESOURCES		
Pension related items		3,070
OPEB related items		1,521
Total deferred outflows of resources		4,591
LIABILITIES		
Current liabilities:		
Accrued cost of electricity		41,607
Accounts payable		1,045
Accrued salaries, wages, and payroll taxes		153
Accrued vacation, sick leave and compensatory time		483
Subscription liability		185
User taxes and energy surcharges due to other governments		2,377
Advances and deposits payable		105
Community investment pass-through		595
Due to SJFA - commercial paper		20,000
Unearned revenue		11,666
Total current liabilities		78,216
Noncurrent liabilities:		
Net pension liability		529
Subscription liability		391
Total noncurrent liabilities		920
Total liabilities		79,136
DEFERRED INFLOWS OF RESOURCES		
Pension related items		174
OPEB related items		736
Total deferred inflows of resources		910
NET POSITION		
Net invested in capital assets		(36)
Restricted for net OPEB asset		1,210
Unrestricted		174,896
Total net position	$	176,070

The Notes to Financial Statements are an integral part of this statement.

SAN JOSE CLEAN ENERGY

(An Enterprise Fund of the City of San José)

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2023

($000's)

OPERATING REVENUES		
Power sales, net	$	513,269
Other revenues		2,234
Total operating revenues		515,503
OPERATING EXPENSES		
Power purchases		364,358
Operations and maintenance		8,055
General and administrative		13,774
Amortization		180
Total operating expenses		386,367
Operating income		129,136
NONOPERATING REVENUES (EXPENSES)		
Program grants		3,292
Investment loss		(1,315)
Interest expense		(1,895)
Letter of credit fees		(715)
Commercial paper fees		(439)
Intergovernmental payment to City of San José		(326)
Net nonoperating expenses		(1,398)
Change in net position		127,738
Net position - beginning		48,332
Net position - ending	$	176,070

The Notes to Financial Statements are an integral part of this statement.

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Statement of Cash Flows
For the Year Ended June 30, 2023
($000's)

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$	516,840
Payments of tax and surcharges net of receipts from customers		(1,767)
Payments to suppliers		(364,972)
Payments to employees		(8,716)
Other receipts		2,234
Net cash provided by operating activities		143,619
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to City of San José		(326)
Subsidies from operating grants		3,292
Advances and deposits received		5,362
Advances and deposits paid		(566)
Net cash provided by noncapital financing activities		7,762
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of principal on short-term commercial paper		(40,000)
Interest paid on debt		(2,010)
Letter of credit fees		(899)
Commercial paper fees		(344)
Subscription asset		(176)
Net cash used in capital and related financing activities		(43,429)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment loss		(1,944)
Net cash used in investing activities		(1,944)
Net change in cash and cash equivalents		106,008
Cash and cash equivalents - beginning		60,806
Cash and cash equivalents - ending	$	166,814

The Notes to Financial Statements are an integral part of this statement.

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Statement of Cash Flows
For the Year Ended June 30, 2023
($000's)
(continued)

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	129,136
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization		180
Other nonoperating expenses		34
Decrease (increase) in:		
Accounts receivable		4,194
Prepaid expenses		(2,872)
Increase (decrease) in:		
Accrued cost of electricity		16,369
Accounts payable		(98)
Accrued salaries, wages, and payroll taxes		(230)
Accrued vacation, sick leave and compensatory time		73
Net pension liability, deferred outflows/inflows of resources related to pension		(527)
Net OPEB asset, deferred outflows/inflows of resources related to OPEB		(252)
User taxes due to other governments		(1,767)
Customer reserve funds		(621)
Total adjustments		14,483
Net cash provided by operating activities	$	143,619
Reconciliation of cash and cash equivalents to the statement of net position:		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	$	165,147
Restricted		1,667
	$	166,814
Noncash noncapital, capital and related financing, and investing activities:		
Change in capital related payables	$	144
Change in fair value of investments		4,083
Amortization of SBITA assets		(180)
Interest expense on SBITA liabilities		(21)

The Notes to Financial Statements are an integral part of this statement.

NOTE 1 – DESCRIPTION OF OPERATIONS

Overview

On May 16, 2017, the City Council approved the establishment of SJCE, a Community Choice Aggregation program ("CCA") with the goals of providing City residents and businesses with a choice of electricity providers while progressing towards meeting greenhouse gas emissions reduction goals.[1] Under State law, the City may establish a CCA program to purchase electricity on behalf of its residents and businesses. If a local government chooses to form a CCA or join an existing CCA, all residents and businesses within the local government's jurisdiction are automatically enrolled in the program. Electric service customers may elect to remain with the incumbent utility, or to later leave CCA service ("opt-out"). CCAs determine the source of electricity offered, set customer rates for energy, retain revenue, and determine spending priorities locally. The incumbent Investor Owned Utility ("IOU") in the City, which is Pacific Gas and Electric ("PG&E"), continues to charge customers to maintain the transmission and distribution infrastructure and deliver the energy. For these continued services, PG&E charges CCA customers the same delivery rates as its remaining PG&E customers. PG&E also acts as the billing agent for SJCE, including SJCE charges as part of a single monthly customer bill. Customers make payments to PG&E, and PG&E remits the SJCE portion of payments to SJCE every business day.

CCAs provide many community benefits, including significant environmental and economic benefits. CCAs provide choice in electricity options, typically with a higher mix of renewable energy in their base power products than is available from the incumbent utility, at competitive rates. CCAs also allow local governmental entities to have more direct control over rates. As part of its approval to establish SJCE, the City Council directed staff to develop SJCE as a stand-alone enterprise fund to be operated as a new department and reliant on utility customer revenues to minimize the financial risk to the City's General Fund.

Governance

The City Council provides policy oversight and approves rates. At its August 15, 2017 meeting, the City Council adopted an ordinance amending Title 2 of the San José Municipal Code to establish the Community Energy Department ("CED").[2] The City Manager and the Director of Community Energy have overall responsibility for managing the program including day-to-day operations of SJCE, as outlined in Title 26 of the San José Municipal Code.

On October 24, 2017, the City Council adopted an ordinance to establish the Clean Energy Community Advisory Commission ("CECAC"). The CECAC is a public advisory committee that provides input on SJCE operations including policies and programs, rate setting, and community outreach efforts.[3] The CECAC provides policy guidance to the Mayor and City Council, City Manager, and Director of Community Energy. Comprised of community members with a wide range of professional and technical disciplines, the CECAC is a liaison to the community for advocacy and outreach. The CECAC reflects a CCA best practice, as effective public oversight helps to ensure the program is responsive to community needs, which in turn helps to minimize customer opt-outs. The CECAC convenes bi-monthly, and meetings are open to the public.

[1] May 16, 2017 San José City Council Agenda, Item 7.1
[2] August 15, 2017 San José City Council Agenda, Item 2.2
[3] October 24, 2017 San José City Council Agenda, item 2.2

On May 1, 2018, the City Council adopted the ERMP and created the Risk Oversight Committee ("ROC").[4] The ROC is a staff committee that serves as the highest level of organizational risk management and is responsible for overseeing compliance with risk management policies within SJCE. The ROC consists of seven voting members: The City Manager or their designee, the Director of Community Energy, the Director of Finance, the City Risk Manager, the Budget Director, the CED Deputy Director of Power Resources, and the CED Division Manager of Risk Management and Contracts Administration. The City Attorney provides legal advice to the ROC. The ROC convenes at least quarterly and is charged with managing and controlling risks associated with SJCE operations.

The ERMP addresses risks faced by SJCE arising from SJCE's procurement activities on behalf of its customers in energy and related markets. SJCE developed the Energy Risk Management Regulations ("ERMR") to guide procurement decisions, which include analysis of net open position and mark-to-market position. The purpose of the ERMR is to utilize the philosophies and objectives specified in the ERMP, and document and describe the roles, strategies, controls, and authorities that will govern SJCE's comprehensive energy risk management program. The ERMR are approved annually and are subject to yearly review by an independent third-party audit firm to ensure SJCE adheres to the specific risk management practices outlined in the ERMR.

On May 2, 2023, the City Council approved[5] an amendment to Title 26 in its entirety, which was adopted on May 16, 2023, as well as an amendment to SJCE's ERMP, which became effective on June 16, 2023. These amendments generally provided greater authority to the City Manager and Director of Community Energy to purchase power products, clarified the role of the ROC and its responsibility as an advisory committee, and authorized the City Manager or their designee to amend the ERMR.

Operations

SJCE began providing electric generation service to City facilities in September 2018 in Phase I (City of San José accounts), the first of three phases. The Phase II launch including residential and large commercial accounts began in February 2019; and Phase III launch for small commercial customers began in June 2019. As of June 30, 2023, SJCE serves approximately 350,000 customer accounts in San José with two electricity rate plans, as well as a special discount program for households that qualify for the California Alternate Rates for Energy ("CARE") or the Family Electric Rate Assistance ("FERA") state programs. These options are designed to best serve customer's financial needs while also providing programs with a range of renewable energy content. An opt-out rate reflects the percent of customer accounts that choose to decline CCA service. As of June 30, 2023, SJCE maintains an opt-out rate of approximately 2.5%. As the default energy provider for residents and businesses, SJCE provides the City with the ability to choose its sources of energy and to set power generation rates in the City.

To meet SJCE customer demands for renewable energy and balance the City's supply with real-time demand, SJCE procures energy from power generators and electric service providers, and purchases and sells power on the California Independent System Operator ("CAISO") day-ahead and spot markets. PG&E still provides the transmission and distribution of electricity to SJCE customers, sets rates for those services, and performs the monthly billing.

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[4] Actions Related to the San José Clean Energy Risk Management Policy
[5] May 2, 2023 San José City Council Agenda, Item 6.1

In January 2021, SJCE became a member of California Community Power ("CC Power"), a newly formed Joint Powers Authority ("JPA") consisting of ten CCAs. Membership in CC Power allows SJCE the option of participating in larger projects that are necessary to meet CPUC regulatory requirements while benefitting from economies of scale in purchasing.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The financial statements are prepared in accordance with GAAP. The GASB is responsible for establishing GAAP for state and local governments through its pronouncements. SJCE operations are accounted for as an enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized when liabilities are incurred. Enterprise fund-type operating statements present increases (revenues) and decreases (expenses) in total net position.

SJCE's financial statements are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and major enterprise fund of the City that is attributable to the transactions of SJCE. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

(b) Use of Estimates

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

(c) Equity in Pooled Cash and Investments Held in City Treasury

Most cash balances of the City's funds and some of its component units are pooled and invested by the City Treasurer (i.e., Director of Finance) unless otherwise dictated by legal or contractual requirements. Income and losses arising from the investment activity of pooled cash are allocated to the participating funds and component units on a monthly basis, based on their proportionate shares of the average weekly cash balance.

Pooled cash and investments in the City Treasury are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Pooled cash and investments represent deposits and investments held in the City's cash management pool. This cash management pool possesses the characteristics of a demand deposit account; therefore, investments in this pool are considered to be cash equivalents. SJCE also considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(d) Accounts Receivable

Accounts receivable reflects invoices issued by PG&E on behalf of SJCE to SJCE customers during the reporting period but not yet paid, and electricity estimated to have been delivered but not yet billed, net of an allowance for uncollectible accounts. As the billing agent for SJCE, PG&E collects payments from SJCE customers and remits the electricity generation portion of those payments to the City. PG&E undertakes activities to collect on delinquent SJCE balances until fifty-one (51) days after the final bill is sent to customer (i.e., after customer account is closed), at which time any outstanding SJCE balance is transferred to SJCE.

(e) Capital Assets

Capital assets include identifiable intangible assets that are used in operations and that have initial useful lives in excess of one year. Capital assets are reported in the statement of net position.

For Subscription-Based Information Technology Arrangements ("SBITA"), SJCE recognizes an intangible right-to-use software subscription asset when the applicable accounting criteria is met. The capitalization threshold is an initial cost of more than $250,000 per item at its net present value for software subscription. The subscription asset must also have an initial useful life of more than one year. In addition, a subscription asset should be at least 75% of fair value in order to qualify as an exchange-like transaction.

(f) Defined Benefit Plans

1. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the SJCE's participation in the Federated City Employees' Retirement System ("FCERS"), and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS' investments are reported at fair value. While the City reports its pension plan managed by FCERS as a single employer defined benefit pension plan, SJCE recognizes a proportionate share of its participation in FCERS based on the SJCE pension contributions relative to the total City pension contributions to FCERS. For more information regarding SJCE retirement benefits, please refer to Note 9 and the Required Supplementary Information ("RSI") section.

2. Other Postemployment Benefits

For purpose of measuring the net Other Postemployment Benefits ("OPEB") liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the SJCE's participation in the FCERS, and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS investments are reported at fair value. While the City reports its OPEB plan managed by FCERS as a single employer defined benefit OPEB plan, SJCE recognizes a proportionate share of its participation in the FCERS OPEB plan based on the SJCE OPEB contributions relative to the total City OPEB contributions to FCERS. For more information regarding SJCE OPEB benefits, please refer to Note 10 and the RSI section.

(g) Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets groups all capital assets less their capital liabilities into one component of net position. Accumulated depreciation/amortization reduces the balance in this category.
Restricted Net Position consists of the constraints placed on net asset use by external creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of the remaining balance of net position not subject to the aforementioned categorizations.

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

(h) Operating Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from nonoperating items. SJCE defines its operating revenues as charges for electric sales, which are earned when electricity is provided to customers. Other operating revenues include customer program funding originating from CPUC-directed customer fees reimbursed as program expenses are incurred, as well as liquidated damages from suppliers that fail to meet delivery commitments. Operating expenses are mainly incurred through the purchase of energy and other power resources and also include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

(i) Revenue Recognition

SJCE recognizes revenue on the accrual basis of accounting. This includes invoices issued by PG&E to customers on behalf of SJCE during the reporting period, and electricity estimated to have been delivered but not yet invoiced. Management estimates that a portion of the billed amounts will be uncollectible. An allowance for doubtful accounts has been assumed to reflect the amount of SJCE receivables that SJCE estimates will be uncollectible. This allowance ensures SJCE receivables are not overstated and that outstanding balances deemed uncollectible are accurately recorded in the correct period for financial reporting purposes. Efforts are made to pursue the timely collection of delinquent accounts.

(j) New Pronouncements

SJCE has adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for SBITA for government end users. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology ("IT") software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The subscription term includes the period during which a government has a noncancelable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option). Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. See Note 4 for effect of implementation.

(k) Operating Grants

SJCE has been awarded government funding from both the California state legislation and the California Public Utilities Commission for the primary purposes of customer debt relief and arrearage management. In FY 2023, the grant funds received were intended to subsidize prior period customer electric utility debt and are therefore recognized upon receipt. These subsidies are recognized as nonoperating revenue.

(l) Significant Agreements with Outside Parties

SJCE maintains several significant professional services agreements with the following outside parties:

- *Calpine Energy Solutions, LLC ("Calpine")*: Provides data management and security, reporting functions, management of a customer information system and call center, billing administration, and coordination with PG&E on behalf of SJCE. On February 27, 2018, City Council approved the original Professional Services Agreement for Data Management and Customer Call Center Services with Calpine for a period of two years from the date of execution in an amount not to exceed $5,783,800, and up to two (2) one-year agreement extension options, each for an additional $4,950,000 for a total contract amount not to exceed $15,683,800. On February 11, 2020, the Professional Services Agreement with Calpine was amended, reducing rates, and modifying service terms and increasing the maximum compensation to $22,000,000 through February 28, 2025.

- *Northern California Power Agency ("NCPA")*: Provides energy Scheduling Agent services to support SJCE operations. These services include power supply scheduling, control center services, portfolio management, and optimization services. On March 27, 2018, City Council approved the original Professional Services Agreement for Services with NCPA for a period of two years and five months and two (2) one-year agreement extensions, for a total contract amount not to exceed $2,725,000. Subsequent to the original agreement, on May 17, 2022, City Council approved a new Professional Services Agreement with NCPA for a period of three years in an amount not to exceed $2,267,070 and up to three (3) additional 2-year agreement extension options, for a total contract amount not to exceed $7,451,359.

- *PG&E*: The services that PG&E provides to SJCE, including customer switching, meter reading, and billing services, are delineated in PG&E Electric Schedule E-CCA. The recurring monthly charges are $0.35 per customer meter per month, or approximately $1.5 million annually for SJCE with 350,000 customer accounts.

NOTE 3 – EQUITY IN POOLED CASH AND INVESTMENTS HELD IN CITY TREASURY

SJCE's cash as of June 30, 2023 is classified in the financial statements as follows:

Unrestricted Equity in pooled cash and investments held in the City Treasury	$ 165,147,074
Restricted Equity in pooled cash and investments held in City Treasury	1,666,776
Total:	$ 166,813,850

(a) Nature of Cash Account

SJCE maintains all its funds as cash deposits in the City pooled cash and investments held in the City Treasury. The pool is managed by the City Treasurer, and SJCE has an equity share in the pool as reflected in the enterprise fund's accounting records. Funds from the operating account are used to disburse funds for operations and capital outlays, under the direction of SJCE. The receipts account is in the name of the City and is under the custodianship of the City. All revenues collected by SJCE are deposited into the operating account as received.

(b) Pooled Cash and Investments

The City Council adopted an investment policy ("Investment Policy") on April 2, 1985, related to the City cash and investment pool, which is subject to annual review and was reviewed and amended on March 14, 2023. The Investment Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Investment Policy, the investments conform to Sections 53600 et seq. of the California Government Code, and the applicable limitations contained within the Investment Policy.

SJCE invests funds subject to the Investment Policy. According to the Investment Policy, SJCE is permitted to invest in the City cash and investment pool, the State of California Local Agency Investment Fund ("LAIF"), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

SJCE maintains all of its cash in the City's cash and investment pool. As of June 30, 2023, SJCE's share of the City cash and investment pool totaled $166,813,850. It is not possible to disclose relevant information about SJCE's separate portion of the cash and investment pool, as there are no specific investments belonging to SJCE itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2023 Annual Comprehensive Financial Report ("ACFR"). A copy of that report may be obtained by visiting the City's website at www.sanjoseca.gov or by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

Interest Rate Risk – Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, debt investments with fixed coupons for longer periods are subject to more variability in their value as a result of changing interest rates. The City manages its exposure to interest rate risk by capping the average weighted maturity of the investment portfolio at 2.5 years (or 913 days). Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest maturity not to exceed five years.

In practice, the City purchases a combination of short-term and long-term investments and times the cash flows to meet liquidity needs for operations. The weighted average days to maturity of the City's pooled cash and investments at June 30, 2023, was approximately 530 days.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. When investing, the City applies the Prudent Investor Standard and acts with care, prudence, and diligence to safeguard the principal, maintain liquidity, and seek reasonable yields. The City's Investment Policy has strict rating requirements. The City manages credit risk by selecting high quality securities, diversifying the portfolio, and establishing monitoring procedures.

Concentration of Credit Risk – It is not possible to disclose relevant information about SJCE's separate portion of the cash and investment pool, as there are no specific investments in the City's cash and investment pool belonging to SJCE itself. The Investment Policy sets forth the policies regarding concentration of credit risk.

As of June 30, 2023, the City's pooled investments in the City Treasury have investments that represent 5% or more of the total pooled investments in the following:

Federal Home Loan Bank	24.18%
Federal Home Loan Mortgage Corporation	10.52%
Federal National Mortgage Association	7.75%
Federal Farm Credit Bank	6.79%

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2023, the City's Investment Policy does not permit investments in the pool to hold foreign currency. As such, the investments in the City's investment pool were not subject to foreign currency risk.

NOTE 4 – CAPITAL ASSETS

Capital assets are defined as assets with an initial individual cost of more than $5,000 for general capital assets and $100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Capital assets are carried at cost, with the exception of donated capital assets, donated works of art and similar items, and capital assets received in a service concession agreement, which are reported at acquisition value.

Intangible assets, which are identifiable, are recorded as capital assets. Intangible assets not having indefinite useful lives will be amortized over the estimated service capacity of the asset. Leased assets are amortized over the lease term. SBITA assets are amortized over the subscription term including periods covered by an option to extend where it is reasonably certain that the extension will be exercised.

SJCE recognizes an intangible right-to-use software subscription asset when the applicable accounting criteria is met. The capitalization threshold is an initial cost of more than $250,000 per item at its net present value for software subscription. The subscription asset must also have an initial useful life of more than one year. In addition, a subscription asset should be at least 75% of fair value in order to qualify as an exchange-like transaction.

In accordance with GASB Statement No. 96, SJCE recognizes a subscription liability and a subscription asset for software subscriptions SJCE categorizes as in-scope of GASB Statement No. 96. SJCE reported a total subscription liability and subscription asset of $720,000 at July 1, 2022. Amortization for the year ended June 30, 2023 is $180,000. The subscription asset value, net of accumulated amortization, as of June 30, 2023 is $540,000. The current subscription liability and noncurrent subscription liability as of June 30, 2023 are $185,000 and $391,000, respectively. Because the SBITA is amortized on a straight line basis and the asset payments increase over the life of the contract, the amortization rate was greater than the payment on the liability for the year. The net subscription asset is therefore less than the subscription liability and the net investment in capital assets at June 30, 2023 is negative as a result.

NOTE 5 – ACCOUNTS RECEIVABLE

The accounts receivable balance at June 30, 2023 was $74.7 million and is net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be $18.7 million at June 30, 2023, using its allowance calculation methodology based on historical experience and current market conditions.

NOTE 6 – ACCRUED COST OF ELECTRICITY

Accrued cost of electricity represents the amount due for electrical power delivered to SJCE during the fiscal year that has not yet been invoiced by June 30, 2023. The SJCE accrual of $41.6 million is primarily due to regular electrical power contracts, expected CAISO power market transaction expenses for June, and an accrued portion of the entirety of Renewable Energy Credits, which are attributed to calendar year 2023 as a whole, but not billed uniformly throughout the year.

NOTE 7 – NOTES PAYABLE TO THE CITY OF SAN JOSÉ FINANCING AUTHORITY

SJCE does not rely on contributions from other City funds to support ongoing operations. Funds for ongoing operations are provided by the sale of electricity to SJCE customers. On June 22, 2021, the City Council adopted a resolution authorizing the issuance of City of San José Financing Authority Lease Revenue Commercial Paper ("CP") Notes to finance the purchase of power and other operating costs of SJCE in an amount not to exceed $95.0 million, subject to the satisfaction of certain conditions.[6] On June 20, 2023, the City Council adopted a resolution reducing the amount of CP notes authorized to be issued to an amount not to exceed $75.0 million.[7] As of June 30, 2023, SJCE has repaid $40.0 million of their $60.0 million drawn on the CP, leaving an outstanding balance of $20.0 million. The most recent draw on CP notes occurred on December 21, 2021.

At the time of CP authorization and issuance, SJCE was contracting with Barclays Bank PLC to provide a Revolving Credit Agreement to provide standby Letters of Credit ("LC") in support of SJCE's power purchase contracts. On February 17, 2023, SJCE terminated the Revolving Credit Agreement with Barclays Bank PLC and entered into an agreement with JPMorgan Chase Bank, N.A. to provide a Revolving Credit Agreement to issue revolving loans and standby letters of credit. The JPMorgan Chase Revolving Credit agreement contractually stipulates the repayment terms for SJCE's CP issuance cannot occur until (i) the aggregate amount of Cash and Cash Equivalents available in the Clean Energy fund at the end of the fiscal quarter prior to repayment, and projected per pro forma effect to the fiscal

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[6] Issuance of City of San José Financing Authority ("Financing Authority") Commercial Paper Notes for San José Clean Energy Operations and Related Budget Actions
[7] June 20, 2023 meeting of the joint City of San José City Council and San José Financing Authority Agenda Item 2

quarter following projected repayment are equal to or in excess of $50 million, and (ii) the Debt Service Coverage Ratio is not less than 1.10 to 1.00 as of the fiscal quarter most recently ended, or, if the Debt Service Coverage ratio is below said threshold, the Days Liquidity on Hand for such fiscal quarter equals or exceeds 90 days, and no Event of Default (as defined in the Credit Agreement) has occurred and is continuing.

NOTE 8 – CLEAN ENERGY REVOLVING CREDIT AGREEMENT

In November 2018, the City entered into a Revolving Credit Agreement with Barclays Bank PLC ("Barclays") to finance start-up costs of the City of San José Clean Energy program, purchase power, and in the case of standby letters of credit, secure payments under power purchase agreements and other costs associated with the Community Energy implementation plan. In connection with the execution and delivery of the credit agreement described below, the City elected to terminate the credit facilities under the credit agreement with Barclays effective on February 17, 2023. As of June 30, 2023, an LC previously issued by Barclays under said credit agreement remained outstanding with a stated amount of $62,700, which LC was cash collateralized by the City in full at termination of said credit agreement. Said LC expired by its terms on July 31, 2023.

On December 13, 2022, the City Council adopted Resolution No. 80833 authorizing the City Manager, Director of Finance, Assistant Director of Finance, and their authorized designees to negotiate, execute, and deliver a Revolving Credit Agreement with JPMorgan Chase Bank, N.A. ("Bank") including loans and letters of credit for up to $250 million outstanding at one time. Effective February 17, 2023, the Bank and the City entered into a Revolving Credit Agreement ("Credit Agreement") under which the Bank has committed to provide the City with a credit facility consisting of : (i) a $50 million line of credit under which the Bank has committed to make loans to the City for working capital and other general operational purposes of SJCE, including without limitation, the purchase of power products, and to secure the City's payment obligations under one or more power purchase agreements; (ii) a $100 million standby LC facility providing for the issuance of standby letters of credit each with a term of two years or less to secure the City's payment obligations under one or more power purchase agreements; and (iii) a $100 million standby LC facility providing for the issuance of standby LC each with a term of more than two years to secure the City's payment obligations under one or more power purchase agreements.

As of June 30, 2023, the balance for the JPMorgan Chase Revolving Credit Agreement is as follows:

Credit Facility	Available Credit Sublimit	Less: Working Capital Loan[1] and Letters of Credit Commitments[2]	Remaining Available Credit as of 6/30/2023
Working Capital Loans[1]	$50,000,000	$-	$50,000,000
Standby Letters of Credit Facility[2,3]	200,000,000	(4,504,962)	245,495,038
		Remaining Aggregate Credit as of 6/30/23	**$245,495,038**

[1]Working Capital Loans are cash draws that SJCE can use to cover operating expenses and make cash collateral payments.
[2]Letters of Credits are issued by JPMorgan Chase as a commitment to pay collateral calls in the event of an SJCE default. The commitment does not become a liability of SJCE unless and until a collateral call is paid by JPMorgan Chase on behalf of SJCE, which has not yet occurred.
[3]The City can request the LC limit to be increased incrementally up to $250 million if needed. The $50 million dedicated to the working capital loan will be incrementally reduced if this request happens to maintain a total Aggregate Credit maximum of $250 million.

The City's obligations under the Credit Agreement are secured by SJCE's net revenues. The Bank's commitment under the Credit Agreement is currently scheduled to expire on February 17, 2028.

The table below shows the fees and interest rates payable by the City to the Bank with respect the credit facilities under the Credit Agreement.

Commitment Utilization	Undrawn Fee	Applicable Rate	
		Term Benchmark Borrowing	**ABR Borrowing**
≥ 25%	0.57%	Adjusted Term SOFR + 1.425%	Alternate Base Rate + 0.425%
<25%	0.60%	Adjusted Term SOFR + 1.500%	Alternate Base Rate + 0.500%

Loans made by the Bank to the City under the Credit Agreement will be bear interest at the Alternate Base Rate plus the Applicable Rate, the Adjusted Term SOFR Rate plus the Applicable Rate or Adjusted Daily Simple SOFR plus the Applicable Rate (as such terms are defined in the Credit Agreement). Interest computed by reference to the Term SOFR Rate or Daily Simple SOFR will be computed on the basis of a year of 360 days, and actual days elapsed. Interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate will be computed on the basis of a year of 365 days (or 366 days in a leap year), and actual days elapsed. In each case, interest will be payable for the actual number of days elapsed (including the first day but excluding the last day). Accrued interest on each Loan will be payable in arrears on each interest payment date for such Loan set forth in the Credit Agreement and upon termination of the Bank's commitment thereunder.

The City agrees to pay the Bank the fees (computed on the basis of 360 days and actual days elapsed) and other amounts set forth in the fee agreement at the time and in the manner set forth in the fee agreement, including, but not limited to, the undrawn fee, the LC facility fee, the termination fee and the reduction fee. All fees and other amounts payable under the fee agreement shall be paid in immediately available funds. Fees paid shall not be refundable under any circumstances.

Under the Credit Agreement, the City agrees that, so long as the Bank has any commitment thereunder or any amount payable thereunder remains unpaid, among other things, the debt service coverage ratio shall be not less than 1.10 to 1.00 as of the last day of the fiscal quarter most recently ended, commencing with the last fiscal quarter ended March 31, 2023; provided, however, in the event the debt service coverage ratio for any fiscal quarter is less than 1.10 to 1.00 but the days liquidity on hand for such fiscal quarter equals or exceeds 90 days (or, 75 days, so long as the long-term unenhanced rating by at least one rating agency on debt secured by net revenues shall be at or above "Baa3" (or its equivalent) with respect to Moody's, "BBB-" (or its equivalent) with respect to S&P or "BBB-" (or its equivalent) with respect to Fitch, respectively) then the City will be deemed to be in compliance for such period (the liquidity cure right); provided, further, that in no event will the City be permitted to exercise liquidity cure rights under the Credit Agreement more than three times during any four consecutive fiscal quarter periods. In addition, the Credit Agreement permits the City to make loans from any fund, including the General Fund, to SJCE, including from proceeds of CP issued by the Financing Authority, to finance the purchase of power and/or pay other operating costs of the SJCE in an amount not to exceed $95.0 million. Such loans are subordinate to the City's obligations to the Bank under the Credit Agreement. The City may incur additional debt with respect to SJCE that is payable on a basis subordinate to the City's obligations to the Bank under the Credit Agreement upon the satisfaction of certain conditions specified in the Credit Agreement.

The Credit Agreement prohibits repayment of loans and other debt payable from Revenues or Net Revenues of SJCE to the City or the Financing Authority, if any, unless, among other things,: (i) the aggregate amount of Cash and Cash Equivalents (as defined in the Credit Agreement) available in the Clean Energy Fund at the end of the fiscal quarter prior to repayment, and projected per pro forma effect to the fiscal quarter following projected repayment are equal to or in excess of $50 million, and (ii) no Event of Default (as defined in the Credit Agreement) has occurred and is continuing.

Events of default under the Credit Agreement include, among others: (i) any representation or warranty shall have been incorrect or untrue in any materially adverse respect when made or deemed to have been made, (ii) non-payment, (iii) breach of covenants, including failure to maintain the required debt service coverage ratio or days liquidity on hand, as applicable, not cured within applicable cure periods, if any (iv) any material provision of the Agreement or any other Basic Document (as defined in the Credit Agreement) at any time for any reason ceases to be valid and binding on the City as a result of any legislative or administrative action, or judgment, (v) bankruptcy, (vi) the default in the due performance or observance of any material term, covenant or agreement contained in the Credit Agreement and not cured within the applicable cure period, (vii) defaults on the payment of the principal of or interest on any Parity Debt or Subordinate Debt (as defined in the Credit Agreement) beyond the period of grace, if any, provided in the instrument or agreement under which such Parity Debt or Subordinate Debt was created or incurred, (viii) one or more final, unappealable judgments or orders for the payment of money in excess of $10.0 million where such judgment or order remains unsatisfied and unstayed for a period of 60 days and which is payable from revenues or net revenues of SJCE, (ix) the long-term, unenhanced ratings by any Rating Agency (as defined in the Credit Agreement) on any general-obligation bonded indebtedness of the City is withdrawn or suspended (but excluding withdrawals or suspensions if the applicable Rating Agency stipulates in writing that the rating action is being taken for non-credit related reasons) or reduced below “A1” (or its equivalent) by Moody’s, “A+” (or its equivalent) by S&P, or “A+” (or its equivalent) by Fitch, (x) any “event of default” under any Other Credit Agreement (as defined in the Credit Agreement) occurs, (xi) a debt moratorium, debt restructuring, debt adjustment, or comparable restriction is imposed on the repayment of any Parity Debt of the City, or (xii) the dissolution or termination of the existence of the City or SJCE.

Upon the occurrence and during the continuance of an event of default under the Credit Agreement, the Bank may exercise all of its rights and remedies available to it under the Credit Agreement and as otherwise permitted by law. The Bank’s rights and remedies include, among others, taking one or more of the following actions: (i) declare the commitment and the obligation of the Bank to make Credit Extensions (as defined in the Credit Agreement) to be terminated, (ii) by written notice to City, declare the outstanding amount of the obligations of the City under the Credit Agreement to be immediately due and payable, (iii) require the City to cash collateralize 105% of the LC Exposure (as defined in the Credit Agreement) (which generally include the amounts available to be drawn under any letters of credit plus any amounts drawn by beneficiaries under such letters of credit but which are not reimbursed by the City as required under the Credit Agreement, plus accrued and unpaid interest thereon, (iv) and at the expense of the City, cure any event of default; provided, however that the Bank shall have no obligation to effect such a cure, and (v) by written notice to the City, impose the Default Rate (as defined in the Credit Agreement) with respect to the City’s obligations under the Credit Agreement (which imposition may be retroactive to the date on which the event of default first occurred).

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN

(a) General Information

The City sponsors and administers a single employer defined benefit retirement system, FCERS, which, with the exception of certain unrepresented employees, covers all full-time and certain part-time employees of the City. The FCERS provides general retirement benefits under a single employer Defined Benefit Pension Plan, as well as the Postemployment Healthcare Plan. All full-time and certain part-time employees in the Community Energy Department participate in the FCERS.

The FCERS is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Board of Administration for the FCERS. The separately issued annual report of FCERS, together with various chapters in Title 3 of the City Municipal Code, provides more detailed information about the FCERS, and may be obtained from the City of San José Office of Retirement Services, 1737 North First Street, Suite 600, San José, California 95112 or at http://www.sjretirement.com. The SJCE presents the related defined benefit disclosures of FCERS as a participant in a cost-sharing arrangement with the City.

(b) Benefits Provided

FCERS provides general retirement benefits including pension, death, and disability benefits to members. FCERS benefits are based on average final compensation, years of service, and cost of living increases as specified by the City Municipal Code. The contribution and benefit provisions and all other requirements are established by the City Charter and the City Municipal Code. Information regarding disability and death benefits can be found in the annual reports of the FCERS and on the Office of Retirement Services website.

Effective June 18, 2017, the FCERS has several Tiers as follows:

FCERS Membership Tiers

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	• On or before September 29, 2012 • Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental(2)(4)
Tier 1 Rehire	• Former Tier 1 rehired on or after September 30, 2012 through June 17, 2017	Tier 1(1)	Medical/Dental(2)(4)(5)
Tier 1 Classic	• "Classic" membership with California Public Employees' Retirement System ("CalPERS")/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013	Tier 1(6)	Medical/Dental
	• "Classic" membership with CalPERS/reciprocal agency hired on or after September 27, 2013	Tier 1(6)	Not Eligible (3)(4)
Tier 2 (or Tier 2A)	• Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013	Tier 2	Medical/Dental(2)(4)
Tier 2B	• Hired/rehired/reinstated after September 27, 2013 and have not met City's eligibility for retiree healthcare	Tier 2	Not Eligible(3)(4)

(1) Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

(2) Employees in these tiers were provided a one-time irrevocable election to remain in the Federated Healthcare Plan or opt into the Federated Voluntary Employees' Beneficiary Association ("VEBA"). Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.

(3) Employees in these tiers were mandatorily placed into the Federated VEBA.

(4) Unrepresented employees were eligible to opt into the Federated VEBA but are not eligible to make ongoing contributions to the Federated VEBA.

(5) All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan on March 25, 2018.

(6) Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.

The following tables summarize the pension benefits for the members:

	FCERS			
	Tier 1 (1)	**Tier 1 Classic** (2)	**Tier 2A** (3)	**Tier 2B** (4)
Pension				
Service required to leave contributions in retirement system	5 years		5 years Federated City Service (Year of Service = 2080 hours worked in the applicable 12-month period)	
Service Retirement				
Age/Years of Service	55 with 5 years service 30 years service at any age		62 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
"Deferred Vested" retirement	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)		May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
Allowance	2.5% x Years of Service x Final Compensation (75.0% max) **Tier 1:** Final Compensation is the highest average monthly earnable pensionable salary during 12 consecutive months, capped at 108% of the second highest 12 comsecutive months. If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months **Tier 1 Classic:** If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months		2.0% x Years of Federated City Service x Final Compensation (70.0% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service Excludes premium pay or any other forms of additional compensation	
Disability Retirement (Service Connected)				
Minimum Service	None		None	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation (Minimum of 40.0% and maximum of 70.0% of Final Compensation)	

FCERS (continued)

	Tier 1 [(1)]	Tier 1 Classic[(2)]	Tier 2A [(3)]	Tier 2B [(4)]
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years		5 years	
Allowance	**Tier 1:** 20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of services. (Maximum 75% of Final Compensation) For those who entered the Retirement System on 8/31/98 or before, the calculation is as follows: 40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55 **Tier 1 Classic:** 40% of Final Compensation plus 2.5% years of service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55. For those who entered the System on 9/01/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 year of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70.0% of Final Compensation)	
Reciprocity				
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Final eligibility for reciprocity is determined at the time of retirement.			
Cost-of-Living Adjustments (COLA)				
Cost-of-Living adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each April. There is no prorating of COLA.		Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back loaded 2.0% COLA per fiscal year. The back loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year The first COLA will be prorated based on the numbers of months retired	

(1) *Federated Tier 1 applies to employees hired on or before September 29, 2012.*
(2) *Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San José, on or after June 18, 2017. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, AND 2. is hired by the City of San José after a break in service of less than six months AND 3. did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.*
(3) *Tier 2A applies to employees hired between September 30, 2012 and September 27, 2013.*
(4) *Tier 2B are employees who were newly hired after September 27, 2013.*

(c) Contributions

This subsection provides information related to contributions paid by SJCE for pension benefits provided by FCERS.

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plan are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution ("ADC") sufficient to provide adequate assets to pay benefits when due. The contribution requirements are established by City Charter Articles XV and XV-A, and Title 3 of the San José Municipal Code.

The contribution rates for the Defined Benefit Pension Plan for the City and the participating employees for the year ended June 30, 2023 were based on the actuarial valuation performed as of June 30, 2021. SJCE's contributions paid during the year ended June 30, 2023 were $2,450,000. The contribution rates in effect and the amounts contributed to the pension plan for the year ended June 30, 2023 are as follows:

	City		Participants (2)	
Defined Benefit Pension Plan	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**
Actuarial Rate:				
06/26/23-06/30/23	20.16%	8.01%	7.34%	8.01%
06/26/22-06/26/23 (1)	20.32% (3)	8.13%	7.41%	8.13%

(1) The actual contribution rates paid by the City for year ended June 30, 2023 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.
(2) Under Measure F, certain Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30183, which became effective January 4, 2019, amended the Municipal Code to reflect these changes. Effective March 24, 2019, reclassified Tier 1 members paid an additional 3.00% in contributions. Classic Tier 1 members paid an additional 1.09% effective August 12, 2018.
(3) Contributions are structured as a normal cost, plus a payment on the Unfunded Actuarial Liability (UAL). City contributions are administered as a contribution rate plus a minimum dollar amount based on actuarial payroll.

(d) Net Pension Liability

The City's net pension liability for FCERS Plan is measured as the total pension liability, less the pension plan fiduciary net position as of the measurement date of June 30, 2022. The City's net pension liability as of June 30, 2023 is measured as of June 30, 2022, using an annual actuarial valuation as of June 30, 2021 and rolled forward to June 30, 2022 using standard update procedures by the actuary. In summary, the SJCE's proportionate share of the City's net pension liability at June 30, 2023 is $0.529 million based on SJCE's share of 1.17%, which changed from 1.06% in FY 2022.

The discount rate used to measure the total pension liability was 6.625% for the valuation dated June 30, 2021. It is assumed that FCERS members' contributions and City's contributions will be made based on the actuarially determined rates based on the funding policy of the FCERS Board. Based on those assumptions, the FCERS' fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rates

The following presents the SJCE proportionate share of the net pension liability, calculated using the discount rate of 6.625% in effect as of the measurement date, as well as what the proportionate share of the net pension liability would be if it was calculated using discount rates that are one percentage point lower 5.625% or one percentage point higher 7.625% than the rate used for the FCERS plan (in thousands):

	Decrease	Discount Rate	Increase
FCERS sensitivity analysis	5.625%	6.625%	7.625%
Proportionate share of net pension liability	$ 699	$ 529	$ 389

Pension Expense and Deferrals – For the year ended June 30, 2023, SJCE recognized a negative pension expense of $0.527 million for FCERS. As of June 30, 2023, SJCE reported its proportionate share of the City's deferred outflows and inflows of resources related to pension from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 2,340	$ -
Differences between expected and actual experience	456	73
Changes in assumptions	274	8
Net difference between projected and actual earnings on pension plan investments	-	93
Total	**$ 3,070**	**$ 174**

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows (in thousands):

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2024	$ 74
2025	22
2026	(306)
2027	766
	$ 556

As of June 30, 2023, SJCE reported $2.340 million as deferred outflows of resources related to contributions subsequent to the measurement date for the FCERS will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense shown in the tables above.

Recognition of Deferred Outflows and Deferred Inflows of Resources for FCERS

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

One fifth of the net earnings is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on pension plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (5.0 years at June 30, 2022 measurement date)

Long-term Expected Rate of Return on Plan Investments

The assumption for the long-term expected rates of return on FCERS investments of 6.625% for the valuation dated June 30, 2021 was selected by estimating the median nominal rates of return based on long-term capital market assumptions adopted by the FCERS Board, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns.

Best estimates of geometric real rates of return for each major asset class included in the FCERS target asset allocation are summarized in the following table:

	FCERS	
	Target Asset Allocation	**Long-Term Expected Real Rate of Return**
Public equity	49.0%	5.1%
Private equity	8.0%	7.4%
Investment grade bonds	8.0%	0.2%
Core real estate	5.0%	3.8%
Immunized cash flows	5.0%	-0.5%
Venture / growth capital	4.0%	7.9%
Growth real estate	3.0%	6.3%
Emerging market bonds	3.0%	2.2%
Private debt	3.0%	5.0%
Market neutral strategies	3.0%	2.2%
Private real assets	3.0%	5.8%
Long-term government bonds	2.0%	0.6%
Treasury inflation-protected securities	2.0%	0.2%
High yield bonds	2.0%	2.2%
Cash and cash equivalent	N/A	-0.5%

The separately issued annual report of FCERS provides more information about the most recent long-term expected rates of return on plan investments.

(e) Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability as of June 30, 2022 are from the actuarial valuation report with a valuation date of June 30, 2021.

	FCERS
Description	**Method/Assumption**
Measurement date	June 30, 2022
Valuation date	June 30, 2021
Inflation rate	2.25%
Discount rate	6.625% The Board expects a long-term rate of return of 7.1% based on Meketa's 2021 20-year capital market assumptions and the Retirement System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.
Post-retirement mortality	
Healthy retirees:	0.995 for males and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010)
Disabled retirees:	1.051 for males and 0.991 for females, times the CalPERS 2009 Ordinary Disability Mortality Table
Rates of service retirement, withdrawal, death, disability retirements	Mortality is projected on a generational basis using the MP-2021 scale
Salary increases	
Wage Inflation	The base wage inflation assumption of 3.00%
Merit Increase	Merit/longevity increase based on years of service ranging from 3.75% at hire to 0.10% for members with 15 or more years of service
Cost-of-Living Adjustment	Tier 1 – 3.0% per year Tier 2 – 1.25% to 2.0% depending on years of service

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

(a) General Information

In addition to the FCERS Defined Benefit Pension Plan, the City also sponsors and administers a single employer FCERS Postemployment Healthcare Plan, which includes an Internal Revenue Code (IRC[8]) 115 Trust. The Postemployment Healthcare Plan covers eligible full-time and certain part-time employees of the City and are accounted for in the Pension Trust Funds of the City.

Generally, the defined benefit Postemployment Healthcare Plan provides medical and dental benefits to eligible retirees and their beneficiaries. Benefits are 100% of the premium cost for the lowest priced medical insurance plan available to an active City employee, and 100% of the premium cost for a dental insurance plan available to an active City employee.

[8] The IRC refers to Title 26 of the U.S. Code, the official "consolidation and codification of the general and permanent laws of the United States," as the Code's preface explains. Commonly referred to as the IRS code or IRS tax code, the laws in Title 26 are enforced by the Internal Revenue Service ("IRS").

Per the terms of the Framework discussed in Note 9, the City established a VEBA for retiree healthcare for the members of the FCERS in FY 2018. The City does not make contributions into the VEBA and the VEBA is not subject to the jurisdiction of the FCERS Board.

The Internal Revenue Service approved allowing eligible employees who are rehired by the City during calendar years 2018 through 2022 to opt into the applicable VEBA and transfer the retiree healthcare contributions from the Postemployment Healthcare Plan to their individual VEBA accounts.

(b) Contributions

Contribution amounts to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, ADC was calculated beginning with the year ended June 30, 2019.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to FCERS.

Subsequently, in October 2014, the Board of Administration of FCERS approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, FCERS reduces the City's incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the participating members to be paid by the City at the beginning of year ended June 30, 2020. However, the City elected to not prefund its ADC for Tier 1 members for the year ended June 30, 2020. Then, the City resumed to prefund for the year ended June 30, 2021 and forward.

The FCERS Board on February 15, 2018 approved a contribution policy for the respective Postemployment Healthcare Plan that sets the City's contribution as a flat dollar amount.

(c) Funding Policy

Historically, member and City contributions to the Postemployment Healthcare Plan were negotiated through collective bargaining and was not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions for the health and dental benefits for both the City and the participating employees of the Postemployment Healthcare Plan were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years for FCERS. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution ("ARC") for the retiree health and dental benefits provided by Postemployment Healthcare Plan as calculated pursuant to GASB Statement No. 43 and GASB Statement No. 45 then in effect. However, the contribution rates for the City and members of the Postemployment Healthcare Plan were capped before the full ARC was reached.

The annual contribution costs for the Postemployment Healthcare Plan benefits are allocated to both the City and the active employee members. Contributions to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, member contributions are fixed as a percentage of pay and the City's contribution toward the explicit subsidy (premium subsidy) is an ADC determined by the Postemployment Healthcare Plan. The ADC for the Postemployment Healthcare Plan is the normal cost plus the amortization payment on the unfunded actuarial liability, less expected member contributions. The City has an option to limit its ADC for the Postemployment Healthcare Plan to a fixed percentage of the payroll of all active members of the pension plan. The ADC for the Postemployment Healthcare Plan is calculated beginning with FY 2019.

The City will pay the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees, thereby resulting in a lowering of the premium paid for retirees under age 65. The implicit subsidy is included in the actuarial valuation of the Postemployment Healthcare Plan. The implicit subsidy is shown as both a contribution and payment from the Postemployment Healthcare Plan. However, the implicit subsidy is not actually contributed to or paid from the Postemployment Healthcare Plan. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The actuary for the Postemployment Healthcare Plan separately calculates the total unfunded actuarial liability being the aggregate unfunded actuarial liability for both implicit and explicit subsidies, and the unfunded actuarial liability for only the explicit subsidy. The unfunded actuarial liability for the explicit subsidy is used to calculate the City ADC to the Postemployment Healthcare Plan.

As of March 25, 2018, members remaining in the FCERS Postemployment Healthcare Plan contribute 7.5% of pay.

The contributions to the FCERS Postemployment Healthcare Plan for the SJCE and the participating employees for the year ended June 30, 2023 are shown below:

	City - Board Adopted		Member with Healthcare
	Tier 1	Tier 2	Tier 1 and Tier 2
Actuarial Rate:			
Postemployment Healthcare Plan:	*	*	
07/01/2022 - 06/30/2023			7.50%

*In February 2018, the Board approved the contribution policy that sets the City healthcare beginning with fiscal year 2019. The City's contribution for the Postemployment Health Plan during 2023 was a flat amount of $22,997,000, $18,318,000 in regular contributions and $5,370,000 in implicit subsidy, and ($691,000) in adjustments and accruals.

(d) Net OPEB Liability / (Asset)

The City’s net OPEB liability for the Postemployment Healthcare Plan is measured as the total OPEB liability, less the plan fiduciary net position as of the June 30, 2022 measurement date. The City’s net OPEB liability as of June 30, 2023 for FCERS Postemployment Healthcare Plan is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2021 and rolled forward to June 30, 2022 using standard update procedures by the actuary for the plan. The SJCE’s proportionate share of the City’s net OPEB liability at June 30, 2023 is a net OPEB asset of $1.21 million based on SJCE’s share of 1.38%, which changed from 1.24% in FY 2022.

Actuarial Methods and Assumptions

Description	FCERS Method/Assumption
Measurement date	June 30, 2022
Valuation date	June 30, 2021
Actuarial cost method:	Entry age normal, level of percentage of pay
Actuarial assumptions:	
Discount rate	6.00% per year. The Board expects a long-term rate of return of 6.1% based on Meketa's 20-year capital market assumptions and the System's current investment policy.
Inflation rate	2.25%
Merit Increase	Merit component added based on an individual's years of service ranging from 3.75% at hire to 0.10%
Wage Inflation Rate	3.00%
Rate of Mortality*	Mortality is projected on a generational basis using the MP-2021 scale
Pre-Retirement Turnover**	Please see below table
Healthcare Trend Rate – Medical	The valuation assumes that future medical inflation will be at a rate of 7.49% to 3.78% per annum graded down over a 55-year period for medical pre-age 65 and 4.15% to 3.78% per annum for medical post-age 65.
Healthcare Trend Rate – Dental	Dental inflation is assumed to be 3.5%

* Actuarial Methods and Assumptions – FCERS Mortality Rates

Category	Male	Female
Healthy Annuitant	0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table	0.991 times the CalPERS 2009 Ordinary Disability Mortality Table

** Rates of Pre-Retirement Turnover. Sample rates of termination are shown in the following table.

Rate of Termination

Year	Percent				
		5	8.75%	11	4.00%
0	15.00%	6	7.75%	12	3.75%
1	12.75%	7	6.50%	13	3.50%
2	11.75%	8	5.50%	14	3.25%
3	10.75%	9	4.75%	15	3.25%
4	9.75%	10	4.25%		

Terminations do not apply once a member is eligible for retirement.

The assumption for the long-term expected rate of return on OPEB plan investments of 6.0% for the valuation year ended June 30, 2021, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the FCERS Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in FCERS's target asset allocation as of June 30, 2022 measurement date are summarized in the following table.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	58.0%	5.0%
Investment grade bonds	14.0%	5.0%
Core real estate	12.0%	0.2%
Short-term investment grade bonds	6.0%	3.8%
Commodities	5.0%	-0.3%
Long-term government bonds	5.0%	2.3%

Discount Rate for FCERS

The discount rate used to measure the total OPEB liability was 6.00% for the measurement year ended June 30, 2022 and is based on the long-term expected rate of return on investments. It is assumed that FCERS member contributions remain fixed at 7.5% of pay for employees eligible to participate in the Postemployment Healthcare Plan and the City contributes the ADC toward the explicit subsidy up to a maximum of 14% of the total payroll. In addition, the City pays the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the FCERS' fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments for FCERS was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Asset to Changes in Discount Rates

The following presents SJCE's proportionate share of the City's net OPEB liability for FCERS, as well as what the SJCE's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the measurement date rate.

As of June 30, 2023, SJCE's share of the City's net OPEB liability was based on 1.38% of SJCE's proportion of the City's net OPEB liability for FCERS at the measurement date, June 30, 2022 (in thousands):

FCERS sensitivity analysis	1% Decrease 5%	Measurement Date Discount Rate 6%	1% Increase 7%
Net OPEB Asset	$ (925)	$ (1,210)	$ (1,561)

Sensitivity of the Net OPEB Asset to Changes in the Health Care Cost Trend Rates

The following presents SJCE's proportionate share of the City's net OPEB liability for FCERS, as well as what the SJCE proportionate share of the net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower or one percentage point higher than the measurement date rate.

As of June 30, 2023, SJCE's share of the City's net OPEB liability was based on 1.38% of the SJCE proportion of the City's net OPEB liability for FCERS at the measurement date, June 30, 2022 (in thousands):

FCERS sensitivity analysis	1% Decrease	Measurement Date Health Care Cost Trend Rates	1% Increase
Net OPEB Asset	$ (1,601)	$ (1,210)	$ (893)

OPEB Fiduciary Net Position

The City issues a publicly available financial report that may be obtained from the Office of Retirement Services, 1737 North First Street, Suite 600, San José, CA 95112-4505 or at https://www.sjretirement.com. The SJCE presents the related defined benefit disclosures of FCERS as a participant in a cost-sharing arrangement with the City.

Recognition of Deferred Outflows and Deferred Inflows of Resources for FCERS

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

One fifth of the net earnings is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on OPEB plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (5.0 Years at June 30, 2022 measurement date)

For the year ended June 30, 2023, SJCE recognized a negative OPEB expense of $252,000. As of June 30, 2023, SJCE reported deferred outflows and inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 317	$ -
Difference between expected and actual experience	-	736
Changes in assumptions	645	-
Net difference between projected and actual earnings on OPEB plan investments	559	-
Total	$ 1,521	$ 736

The $317,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2022 measurement date will be recognized as an addition to the net OPEB asset during the year ending June 30, 2024.

Other amounts reported as deferred outflows/(inflows) of resources related to OPEB will be recognized as expense as follows (dollar amounts in thousands):

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2024	$ 115
2025	69
2026	14
2027	270
	$ 468

NOTE 11– PURCHASE COMMITMENTS

In the ordinary course of business, SJCE enters into various power purchase agreements and energy storage services agreements of different duration (i.e., short-, medium-, and long-term) to acquire renewable and other power supply products, and RA. The price and volume of purchased resources may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity on the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind, and hydro-electric facilities.

The following table represents the expected, undiscounted, contractual commitments for energy storage, power, and electric capacity outstanding as of June 30, 2023 (in thousands):

Year ended June 30,	
2024	$ 366,000
2025	281,000
2026	214,000
2027	186,000
2028	192,000
2029-2045	1,839,000
Total	$ 3,078,000

NOTE 12 – CONTINGENCIES

Claims and Litigation

SJCE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; contractual delays and defaults by energy suppliers; and natural disasters. SJCE funds the costs of salaries and benefits, including the cost of workers' compensation coverage, for employees in the Community Energy Department.

COVID-19 Impacts

As a result of the negative economic impacts to many of SJCE residential and commercial customers due to COVID-19, SJCE collaborated with PG&E to offer flexible payment plan options to provide customers with financial relief as they grapple with the economic challenges that resulted from COVID-19.

The California 2021-2022 State Budget directed approximately $1.0 billion of the federal American Rescue Plan Act funding towards the California Arrearage Payment Program ("CAPP") to offer financial assistance for California energy utility customers to help reduce past due energy bill balances accrued during the COVID-19 pandemic. Preference in this program is given to residential past due customers, and SJCE was granted $4.3 million of funds for qualifying customer relief, which was received and applied to customer accounts in early 2022. The California 2022-2023 State Budget also allocated an additional $1.2 billion for the second round of CAPP relief, and SJCE was granted $2.1 million of funds for qualifying customer relief, which was received and applied to support customer accounts in early 2023.

Reliability

The CPUC adopted an Resource Adequacy ("RA") policy framework in 2004 in an effort to ensure the reliability of electric service in the State. In particular, the RA policy framework is designed to ensure that CPUC jurisdictional Load Serving Entities, such as SJCE, have sufficient capacity to meet their peak load with a 15% reserve margin. The City has paid four CPUC citations assessed against the City for failing to procure RA in amounts sufficient to satisfy the 2019 ($6.8 million), 2020 ($1.1 million), 2021 ($758,000), and 2023 ($10,000) RA Requirements. SJCE prioritizes full compliance with the RA requirements, however tight RA market conditions and project delays make compliance challenging in months with high peak load. Future RA deficiencies and CPUC citations remain a possibility.

Power Charge Indifference Adjustment ("PCIA")

The PCIA is a fee PG&E charges CCA customers to cover the above-market costs associated with PG&E's power generation portfolio and is revised annually. CCAs factor the PCIA into their rate setting. The volatility of the PCIA, which is tied to energy prices, continues to create uncertainty in rate and budget forecasting, however the use of internal forecasting tools and recent CPUC proceeding decisions have created some additional predictability and allowed SJCE to plan for future PCIA impacts.

Relatedly, a large PCIA eligible asset, Diablo Canyon Power Plant, is expected to be removed from the PCIA portfolio in 2024. This has the effect of reducing costs in PCIA but will likely increase clean energy and RA procurement costs. It is possible the CPUC will rule to extend operations at the Diablo

Canyon Power Plant and there is uncertainty regarding the financial impacts a possible extension will have on the PCIA portfolio. A final decision is expected by the end of 2023.

Provider of Last Resort

The Provider of Last Resort ("POLR") proceeding at the CPUC is currently revising the Financial Security Requirement ("FSR") methodology in which CCAs like SJCE must provide financial security in case of an unexpected CCA default and customer return to the IOU, the current POLRs. At present, there are several proposals in the proceeding that have a wide range of impact to SJCE's FSR posting. SJCE has included the worst case scenario impact in its financial planning. The next ruling in the POLR proceeding is expected in late 2023.

NOTE 13 – SUBSEQUENT EVENTS

Department Renaming

On October 3, 2023, the San José City Council voted to adopt certain changes to the municipal code related to energy, including changing the name of the Community Energy Department to the Energy Department. The ordinance will take effect November 2, 2023, with the previous Director of the Community Energy Department to be the Director of the Energy Department. In addition to SJCE, the newly named department will also oversee the administration of a potential new electric utility named San José Power ("SJPower"). Both SJCE and SJPower divisions of the Energy Department are to be operated from their own separate operating funds. At this time, the Council has approved the submission of a transmission interconnection application to inform the City of some of the costs to create an electric grid for particular areas within the City. Additional analysis of the economic feasibility of prospective rates and service areas will precede future recommendations to the Council as to whether the City should proceed.

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SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2023

Schedule of the Proportionate Share of the Net Pension Liability (Asset)

(Dollar Amounts in Thousands)

	2023	2022	2021	2020	2019
Proportion of the collective net pension liability	1.17%	1.06%	0.79%	0.47%	0.47%
Proportionate share of the collective net pension liability (asset)	$ 529	$ (2,747)	$ (1,660)	$ (1,156)	$ -
Covered payroll	$ 3,692	$ 2,650	$ 2,336	$ 2,181	$ 1,627
Proportionate share of collective net pension liability (asset) as percentage of covered payroll	14.33%	-103.66%	-71.06%	-53.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	59.55%	57.75%	63.72%	51.07%	50.41%

Schedule of Employer Contributions – Defined Benefit Pension Plan

	2023	2022	2021	2020	2019
Actuarially determined contribution	$ 2,340	$ 2,209	$ 1,770	$ 1,429	$ 804
Contribution in relation to the actuarially determined contributions	2,340	2,209	1,770	1,429	804
Difference between actuarially determined contribution and contributions made	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 4,520	$ 3,692	$ 2,650	$ 2,336	$ 2,181
Contributions as a percentage of covered payroll	51.77%	59.83%	66.79%	61.18%	36.86%

Fiscal year	**June 30, 2023**	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**
Valuation date	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	6.625%	6.625%	6.75%	6.75%	6.875%
Salary increases	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service
Amortization growth rate	2.75%	2.75%	2.75%	3.00%	3.00%
Amortization method	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30- year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30- year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30- year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.
Mortality	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2021 projection scale	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2020 projection scale	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2019 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale

Note to Schedules

As a cost-sharing enterprise fund of the City, SJCE is required to recognize a liability/(asset) for its proportionate share of the City's collective net pension liability. SJCE recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pension for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

The schedules present information to illustrate changes in SJCE's proportionate share of the net pension liability (asset) and contributions over a 10-year period when the information is available. SJCE commenced operations in fiscal year 2018.

Schedule of the Proportionate Share of the Net OPEB Liability (Asset)

(Dollar Amounts in Thousands)

	2023	2022	2021	2020	2019
Proportion of the collective net OPEB liability (asset)	1.38%	1.24%	1.12%	0.73%	0.73%
Proportionate share of the collective net OPEB liability (asset)	$ (1,210)	$ (1,878)	$ (1,062)	$ (715)	$ (742)
Covered payroll	$ 4,319	$ 3,757	$ 2,336	$ 2,181	$ 1,627
Proportionate share of the collective net OPEB asset as percentage of covered payroll	-28.02%	-49.99%	-45.46%	-32.78%	-45.61%
Plan fiduciary net position as a percentage of the total OPEB liability	56.32%	52.46%	57.80%	46.67%	43.81%

Schedule of Employer Contributions – Postemployment Healthcare Plan

(Dollar Amounts in Thousands)

	2023	2022	2021	2020	2019
Actuarially determined contribution	$ 317	$ 307	$ 349	$ 115	$ 148
Contribution in relation to the actuarially determined contributions	317	307	349	115	148
Difference between actuarially determined contribution and contributions made	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 5,331	$ 4,319	$ 3,757	$ 2,336	$ 2,181
Contributions as a percentage of covered payroll	5.95%	7.11%	9.29%	4.92%	6.79%

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2023

Methods and assumption used to determine contributions:

Fiscal Year	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019
Valuation Date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Actuarial Cost Method	Individual entry age	Individual entry age	Individual entry age	Individual entry age	Individual entry age
Amortization Method/ Period	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Asset Valuation Method	Fair value of assets	Fair value of assets	Fair value of assets	Fair value of assets	Fair value of assets
Amortization growth rate	0.00%	0.00%	0.00%	0.00%	0.00%
Discount rate	6.000%	6.250%	6.750%	6.750%	6.875%
Ultimate rate of medical inflation	3.780%	3.780%	3.940%	4.250%	4.250%
Salary increases	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.00% based on years of service	3.25% based on years of service	3.25% based on years of service
Mortality	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2021 projection scale	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2020 projection scale	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2019 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ended June 30, 2023 can be found in the June 30, 2021 actuarial valuation report.

Changes in assumptions. The discount rate was 6.25% for FCERS for the measurement period ended June 30, 2021. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per person cost trends were moved forward one year. Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information become available.

Note to Schedules

As a cost-sharing enterprise fund of the City, SJCE is required to recognize a liability/(asset) for its proportionate share of the City's collective net Other Postemployment Benefits (OPEB) liability. SJCE recognizes OPEB expense and reports deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB.

The schedules present information to illustrate changes in the SJCE's proportionate share of the net OPEB liability (asset) and contributions over a 10-year period when the information is available. SJCE commenced operations in fiscal year 2018.

Certified Public Accountants

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

Honorable City Council
San José Clean Energy
City of San José, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the San José Clean Energy (SJCE), an enterprise fund of the City of San José, California (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the SJCE's financial statements, and have issued our report thereon dated November 9, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SJCE's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SJCE's internal control. Accordingly, we do not express an opinion on the effectiveness of the SJCE's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SJCE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 9, 2023