CITY OF SAN JOSE, CALIFORNIA

Single Audit Reports

Basic Financial Statements with
Federal and Airport Compliance Sections

For the Year Ended June 30, 2015

Certified
Public
Accountants

CITY OF SAN JOSE, CALIFORNIA

For the Year Ended June 30, 2015

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Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters
Change in Accounting Principles
As described in Note I.E. to the basic financial statements, effective July 1, 2014, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

Postemployment Healthcare Plans – Unfunded Actuarial Accrued Liabilities
As described in Note IV.A.4.4. to the basic financial statements, based on the most recent actuarial valuations as of June 30, 2014, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2014, the postemployment healthcare plans' actuarial accrued liabilities exceeded the actuarial value of their assets by $613 million and $530 million, respectively.

Our opinion is not modified with respect to these matters.

Macias Gini & O'Connell LLP
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedules of revenues, expenditures, and changes in fund balances – budget and actual for the General Fund, Housing Activities Fund, and Low and Moderate Income Housing Asset Fund; schedules of employer contributions – defined benefit pension plans; schedule of changes in the employer's net pension liability – defined benefit pension plans; the schedule of investment returns – defined benefit pension plans; the schedule of the City's proportionate share of the net pension liability and related ratios – CalPERS; the schedule of employer contributions – CalPERS; and the schedules of funding progress – postemployment healthcare benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, schedule of passenger facility charge revenues and expenditures, and schedule of customer facility charge revenues and expenditures are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* the *Passenger Facility Charge Audit Guide for Public Agencies*, and the *California Civil Code Section 1936, as amended by Senate Bill 1192*, respectively, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 16, 2015, except for our report on the schedule of expenditures of federal awards,
schedule of passenger facility charge revenues and expenditures, and
schedule of customer facility charge revenues and expenditures as to which the date is December 1, 2015

Management's Discussion and Analysis ("MD&A") provides an overview of the City of San José's ("City") activities and financial performance for the fiscal year ended June 30, 2015. Readers are encouraged to read the MD&A in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal at the beginning of the Introductory Section, and with other portions of this Comprehensive Annual Financial Report ("CAFR"). All amounts have been rounded to the nearest one hundred thousand dollars and one tenth of a percent.

FINANCIAL HIGHLIGHTS

- The government-wide statement of net position for the City's governmental and business-type activities indicates that as of June 30, 2015, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $4.890 billion. Of this amount, a deficit of $1.487 billion represent unrestricted net position, which is comprised of a deficit balance of $1.734 billion for governmental activities, and a positive balance of $247.4 million for business-type activities. In addition, the City's restricted net position totals $1.041 billion ($927.2 million for governmental activities and $113.5 million for business-type activities) and is dedicated to specific purposes. Lastly, net position of $5.336 billion is the City's net investment in capital assets ($4.567 billion for governmental activities and $769.5 million for business-type activities).

- The net position decreased by $1.874 billion or 27.7 percent during 2014-2015 to $4.890 billion from $6.764 billion. The decrease was due to a restatement of $1.811 billion to the beginning net position to record the City's net pension liability and related deferred outflows of resources for pension contributions made during the prior year in accordance with GASB Statements No. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27,* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This resulted in the recognition of a net pension liability in the amount of $1.699 billion, the deferred outflows of resources related to pension contributions made subsequent to the measurement date of June 30, 2014 in the amount of $244.1 million, and the deferred inflows of resources related to differences between projected and actual earnings on pension investments in the amount of $275.8 million as of June 30, 2015. The remaining changes in net position are discussed below.

- Expenses continued to exceed revenues although tax revenues increased by $30.7 million. The primary factors leading to the increased revenues were increases in capital grants and contributions revenue ($91.7 million), property taxes ($16.3 million), and fees, fines and charges for services ($35.7 million). There were also decreases in public safety expense of $27.0 million and sanitation expense of $4.8 million.

- Governmental funds reported a combined ending fund balances of $1.323 billion at June 30, 2015, which is $52.3 million or 4.1 percent more than the June 30, 2014 balance. The increase was attributable to an increase in the General Fund of $11.9 million, Housing Activities Fund of $3.9 million, Low and Moderate Income Housing Asset Fund of $13.6 million, Special Assessment Districts of $1.3 million, San José Financing Authority Debt Service of $3.2 million, and the Nonmajor Funds of $18.4 million.

- Unassigned fund balance totals $67.0 million, which is 5.1 percent of combined governmental fund balances at June 30, 2015.

- Total long-term liabilities decreased by $100.5 million to $3.398 billion at June 30, 2015, which represents a decrease of 2.9 percent compared to $3.499 billion at June 30, 2014. The primary factors leading to the decrease in long-term liabilities for governmental activities of $65.4 million were the payments of scheduled debt service of $85.9 million, offset by increases in self-insurance liability of $10.5 million and OPEB liability of $14.5 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of $35.1 million were due to payments of $33.1 million for scheduled debt service and an increase in other long-term liabilities of $1.6 million.

- Net pension liability of $1.699 billion was recorded at June 30, 2015 due to the implementation of GASB Statement No. 68 in the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction to the City's basic financial statements, which are comprised of four components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Basic Financial Statements
- Required Supplementary Information

In addition, this report also contains other supplementary information.

Government-wide Financial Statements

Government-wide Financial Statements provide readers with a broad overview of the City's finances in a manner similar to that of a private-sector business.

The ***statement of net position*** presents information on all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources is the City's net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The ***statement of activities*** presents information showing how the net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Examples include revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements address functions that principally are supported by taxes and intergovernmental revenues (governmental activities) and other functions that intend to recover all or in part a portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, capital maintenance, community services, sanitation, and interest and fiscal charges. The City's business-type activities include airport, wastewater treatment, water supply, and parking operations.

The government-wide financial statements include the primary government of the City and four separate components for which the City is financially accountable.

Fund Financial Statements

Fund Financial Statements report information about groupings of related accounts used to maintain control over resources segregated for specific activities or objectives. As do other state and local governments, the City uses fund accounting to ensure and demonstrate finance-related legal compliance. Each City fund falls into one of three categories: governmental funds, proprietary funds, or fiduciary funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's capacity to finance its programs in the near future.

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

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances present information separately for the General Fund, Housing Activities Fund, Low and Moderate Income Housing Asset Fund, Special Assessment Districts Fund, and the San José Financing Authority Debt Service Fund, which are all classified as major funds. These statements also report several individual governmental funds classified as nonmajor funds such as special revenue, debt service, and capital project funds, which are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this CAFR.

Proprietary funds generally account for services charged to external or internal customers through fees. Proprietary funds provide the same type of information as shown in the government-wide financial statements for business-type activities, only in more detail. The City accounts for its airport, wastewater treatment, water system, and parking operations in proprietary funds.

The City accounts for its public works program support, employee benefits, and vehicle maintenance and operations as internal service funds. These services predominantly benefit governmental functions. Therefore, they are included as governmental activities in the government-wide financial statements. Individual fund data for each of the nonmajor internal service funds are provided in the form of combining statements elsewhere in this CAFR.

Fiduciary funds account for resources held for the benefit of City employees and outside parties in a similar manner as that for proprietary funds. Pension plan trust funds, private purpose trust funds, and agency funds are reported as fiduciary funds. The government-wide financial statements do not include fiduciary funds as their resources are not available to support City programs.

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information includes the budgetary schedules for the General Fund, Housing Activities Fund and the Low and Moderate Income Housing Asset Fund. In addition, pension and other postemployment healthcare schedules present the City's progress toward funding its obligations to provide future pension and other postemployment healthcare benefits for its active and retired employees.

Combining and individual fund statements and schedules provide information for nonmajor governmental funds, internal service funds, and fiduciary funds and are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of net position: As noted earlier, net position may serve as a useful indicator of a government's financial position. As of June 30, 2015, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $4.890 billion.

The following table is a condensed summary of the City's net position for governmental and business-type activities:

Statement of Net Position
June 30, 2015 and 2014
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2015	FY 2014*	FY 2015	FY 2014*	FY 2015	FY 2014*
Assets:						
Current and other assets................	$ 1,733,780	$ 1,678,924	829,066	830,468	2,562,846	2,509,392
Capital assets..............................	5,697,918	5,946,797	2,032,236	2,056,728	7,730,154	8,003,525
Total assets...........................	7,431,698	7,625,721	2,861,302	2,887,196	10,293,000	10,512,917
Deferred outflows of resources:						
Loss on refundings of debt.............	1,275	1,460	3,645	1,075	4,920	2,535
Deferred outflows of resources related to pensions.............	216,614	-	27,523	-	244,137	-
Total deferred outflows of resources	217,889	1,460	31,168	1,075	249,057	2,535
Liabilities:						
Current and other liabilities.............	184,587	163,881	93,683	87,388	278,270	251,269
Long-term liabilities.......................	1,945,015	2,010,433	1,453,417	1,488,486	3,398,432	3,498,919
Net Pension liability.....................	1,514,381	-	184,277	-	1,698,658	-
Total liabilities.........................	3,643,983	2,174,314	1,731,377	1,575,874	5,375,360	3,750,188
Deferred inflows of resources:						
Gain on refundings of debt.............	-	-	796	1,374	796	1,374
Deferred inflows of resources related to pensions.............	245,922	-	29,894	-	275,816	-
Total deferred inflow of resources	245,922	-	30,690	1,374	276,612	1,374
Net position:						
Net investment in capital assets	4,566,716	4,769,632	769,516	779,015	5,336,232	5,548,647
Restricted	927,190	889,631	113,459	125,345	1,040,649	1,014,976
Unrestricted	(1,734,224)	(206,396)	247,428	406,663	(1,486,796)	200,267
Total net position.....................	$ 3,759,682	$ 5,452,867	1,130,403	1,311,023	4,890,085	6,763,890

* 2014 amounts were not restated for GASB Statement Nos. 68 and 71 because information was not available.

At June 30, 2015, the City reported positive balances in all three categories of net position on a total basis. Net investment in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire them) of $5.336 billion comprise 109.1 percent of the City's total net position. These capital assets facilitate providing services to the San José community, but they are not liquid, and therefore they are not available for future spending. During 2014-2015, net investment in capital assets decreased by $212.4 million due primarily to the depreciation expense of $450.8 million offset by additions (net) to capital assets of $243.3 million.

A portion of the City's net position, $1.041 billion or 21.3 percent, are subject to legal restrictions on their use, including $927.2 million in governmental activities and $113.5 million in business-type activities. Of the total net position at June 30, 2015, $1.487 billion or 30.4 percent represents unrestricted net position, which comprises a deficit balance of $1.734 billion for governmental activities, and a positive balance of $247.4 million for business-type activities. Primary factors contributing to the deficit unrestricted net position are the net pension liability of $1.699 billion recorded by the City at June 30, 2015.

During 2014-2015, the City's total net position decreased by $1.874 billion. Notable changes in the statement of net position between June 30, 2015 and June 30, 2014 include:

- The net position decreased by $1.874 billion or 27.7 percent during 2014-2015 to $4.890 billion from $6.764 billion. The decrease was due to a restatement of $1.811 billion to the beginning net position to record the City's net pension liability and related deferred outflows of resources for contribution made during the prior year in accordance with GASB Statement Nos. 68 and 71, and a loss of $63.0 million from operating activities. The financial statements for the fiscal year ended June 30, 2014 were not restated because the pension accounting information required by GASB Statement Nos. 68 and 71 for the year were not available.

- Capital assets decreased by $273.4 million or 3.4 percent compared to the prior fiscal year. Governmental capital assets decreased by $248.9 million and business-type capital assets decreased by $24.5 million. The decrease in governmental capital assets resulted from depreciation expense of $365.2 million for major infrastructure and other assets. The decrease in governmental capital assets was partially offset by additions (net) to capital assets of $181.7 million, which included transfers of $78.9 million of prior years' building improvements to City-owned assets from the SARA to the City. The decrease in business-type capital assets was primarily due to depreciation expense of $85.6 million but was offset by additional projects of $61.2 million primarily within the Wastewater Treatment System and at the Airport. As of June 30, 2015, the Airport completed the construction of the Fuel Truck Maintenance Facility and the Shuttle Bus Staging Area.

- Current and other assets increased by $53.5 million or 2.1 percent due to an increase of $54.9 million for governmental activities which also included a decrease of $1.4 million for business-type activities. The decrease in current assets for business-type activities is mainly due to a decrease in inventory maintained resulting from a centralized inventory management system implemented at the Wastewater Treatment Plant. The increase in governmental activities is mainly due to an increase in cash and investment balances, as a result of revenues exceeding expenditures by $52.3 million for governmental funds.

- Deferred outflows of resources increased by $246.5 million. The increase was due to the recording of deferred pension contributions made in the fiscal year 2014-2015 in the amount of $244.1 million.

- Total long-term liabilities decreased by $100.5 million to $3.398 billion at June 30, 2015, which represents a decrease of 2.9 percent compared to $3.499 billion at June 30, 2014. The primary factors leading to the decrease in long-term liabilities for governmental activities of $65.4 million were the payments of scheduled debt service of $85.9 million, offset by increases in self-insurance liability of $10.5 million and OPEB liability of $14.5 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of $35.1 million were due to payments of $33.1 million for scheduled debt service and an increase in other long-term liabilities of $1.6 million.

- Net pension liability of $1.699 billion was recorded at June 30, 2015. This new liability was recorded due to the implementation of GASB Statement No. 68 in the fiscal year 2014-2015.

- Current and other liabilities for the City increased slightly by $27.0 million or 10.7 percent due to increases of $20.7 million for governmental activities and $6.3 million for business-type activities. The increase for governmental activities and business-type activities was primarily due to higher payables to vendors at June 30, 2015.

- Deferred inflows of resources increased by $275.2 million. The increase was due to the recording of deferred inflows of resources related to pensions in the amount of $275.8 million.

Unrestricted net position for governmental activities decreased by $1.528 billion or 740.2 percent resulting in a deficit balance of $1.734 billion at June 30, 2015. For business-type activities, unrestricted net position decreased by $159.2 million resulting in a positive balance of $247.4 million at June 30, 2015. The net decrease in unrestricted net position was due primarily to the recording of net pension liability of $1.514 billion and $184.3 million for the government and business-type activities, respectively.

Analysis of activities: The following table indicates the changes in net position for governmental and business-type activities:

Statement of Activities
For the Years Ended June 30, 2015 and 2014
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2015	FY 2014*	FY 2015	FY 2014*	FY 2015	FY 2014*
Revenues:						
Program revenues:						
Fees, fines, and charges for services	$ 398,994	$ 367,998	409,586	404,917	808,580	772,915
Operating grants and contributions	97,467	103,844	1,266	1,651	98,733	105,495
Capital grants and contributions	129,901	29,873	6,225	14,507	136,126	44,380
General revenues:						
Property taxes	384,523	368,233	-	-	384,523	368,233
Utility taxes	112,645	114,486	-	-	112,645	114,486
Franchise fees	46,909	45,749	-	-	46,909	45,749
Transient occupancy taxes	36,980	29,685	-	-	36,980	29,685
Sales taxes shared revenue	180,407	173,412	-	-	180,407	173,412
State of California in-lieu	419	434	-	-	419	434
Business taxes	47,431	45,500	-	-	47,431	45,500
Unrestricted interest and investment income	4,125	5,060	3,252	4,581	7,377	9,641
Other revenue	17,753	18,278	1,747	-	19,500	18,278
Total revenues	1,457,554	1,302,552	422,076	425,656	1,879,630	1,728,208
Expenses:						
General government	127,480	119,299	-	-	127,480	119,299
Public safety	466,519	493,544	-	-	466,519	493,544
Community services	236,840	207,967	-	-	236,840	207,967
Sanitation	141,244	146,058	-	-	141,244	146,058
Capital maintenance	507,523	484,260	-	-	507,523	484,260
Interest and fiscal charges	60,266	60,852	-	-	60,266	60,852
Norman Y. Mineta San José International Airport	-	-	197,786	199,987	197,786	199,987
Wastewater Treatment System	-	-	158,385	169,622	158,385	169,622
Municipal Water System	-	-	33,885	33,187	33,885	33,187
Parking System	-	-	12,714	10,751	12,714	10,751
Total expenses	1,539,872	1,511,980	402,770	413,547	1,942,642	1,925,527
Excess (deficiency) before transfers	(82,318)	(209,428)	19,306	12,109	(63,012)	(197,319)
Transfers	3,501	2,468	(3,501)	(2,468)	-	-
Change in net position	(78,817)	(206,960)	15,805	9,641	(63,012)	(197,319)
Net position at beginning of year, as previously reported	5,452,867	5,659,827	1,311,023	1,301,382	6,763,890	6,961,209
Change in accounting principle	(1,614,368)	-	(196,425)	-	(1,810,793)	-
Net position at beginning of year, as restated	3,838,499	5,659,827	1,114,598	1,301,382	4,953,097	6,961,209
Net position at end of year	$ 3,759,682	$ 5,452,867	1,130,403	1,311,023	4,890,085	6,763,890

* FY 2014 amounts were not restated for GASB Statement Nos. 68 and 71 because information was not available.

Governmental activities: Net position for governmental activities decreased by $1.693 billion or 31.1 percent during 2014-2015 from $5.453 billion to $3.760 billion. Total expenses decreased by $27.9 million and total revenues increased by $155.0 million. Although total revenue increased and total expenses decreased, the increase in revenues were not enough to offset total expenses resulting in a decrease in net position before transfers. Significant elements of the decrease in net position before transfers for governmental activities from June 30, 2014 to June 30, 2015 are as follows:

- Contributing factors resulting in increases to certain revenue categories are as follows: Capital grants contributions increased by $100.0 million or 334.8 percent, mainly due to transfers of $78.9 million of prior years' building improvements to City-owned assets from the SARA to the City, and donated capital assets of $23.4 million from developers. Fees, fines, and charges for services increased by $31.0 million or 8.4 percent, due to reimbursements of $4.2 million from the United States Patent Office, $1.1 million from the County of Santa Clara for the EMS care services, an increase of $11.7 million in in-lieu fees to the Subdivision Park Trust Fund, increases of $8.7 and $4.8 million in revenues from additional conference activities in the Convention Center and Dolce Hayes Mansion, respectively, and an increase of $3.8 million in sanitation revenues. Property tax revenue increased by $16.3 million or 4.4 percent, due to an increase in assessed property tax valuations which resulted in additional receipts of $26.6 million, offset by a decrease in construction excise taxes of $7.3 million. Sales tax revenue increased by $7.0 million or 4.0 percent indicating a modest improvement in consumer spending. Transient occupancy tax receipts from guests staying in the City's local hotels increased by $7.3 million or 24.6 percent. For the fourteen largest hotels in the City, the average room rate increased from $160 to $173 and the occupancy rate rose from 78.7 percent to 79.6 percent during the year indicating signs of continued economic recovery.

- Contributing factors resulting in decreases to certain revenue categories are as follows: Operating grants and contributions decreased by $6.4 million or 6.1 percent primarily due to a decrease of grant revenue of $4.6 million and $1.6 million for the SAFER grant and COPS hiring grant, respectively.

- Unrestricted interest and investment income decreased by $0.9 million, a decrease of 18.5 percent from the prior year. This is primarily due to the write-off of interest on code enforcement receivables deemed uncollectible as of June 30, 2015.

- A component of changes in governmental expenses during 2014-2015 is due to the recording of pension expense of $145.8 million per GASB Statement No. 68. Under GASB Statement No. 68, pension expense reflects the changes in net pension liability and related pension deferred outflows and inflows of resources. This is different than the prior year where the annual pension contributions were recognized as expenses. As such $206.1 million of pension contributions in the prior year under GASB Statement No. 27 is not measured in a similar manner in the current year.

- General government expenses increased by $8.2 million or 6.9 percent during 2014-2015 due to a write-off of construction-in-progress in the amount of $25.9 million for parks and library projects and the recording of pension expense of $14.7 million per GASB Statement No. 68. This was offset by deferred pension contributions of $21.0 million and a decrease in OPEB expenses of $13.0 million due to changes in actuarial assumptions.

- Public safety expenses decreased by $27.0 million or 5.5 percent primarily due to a decrease of $2.5 million in OPEB expenses and deferred pension contributions of $96.6 million, offset by the recording of pension expenses of $141.8 million and an increase in the General Fund of $23.1 million, which is explained in more detail in the General Fund section.

- Community services expenses increased by $28.9 million or 13.9 percent is primarily due to an increase of $15.1 million in the General Fund, which is explained in more detail in the General Fund section, an increase of $5.7 million in Low and Moderate Income Housing Asset Fund due to an expense of $4.6 million in a loan reserve as a result of annual review of the valuations and adjustments reflecting the terms of the loans and an increase of $1.1 million in personnel expenses, an increase of $2.7 million in the Housing Activities Fund due to an expense of $3.1 million in a loan reserve offset by decreases in other housing expenses, and an increase of $11.2

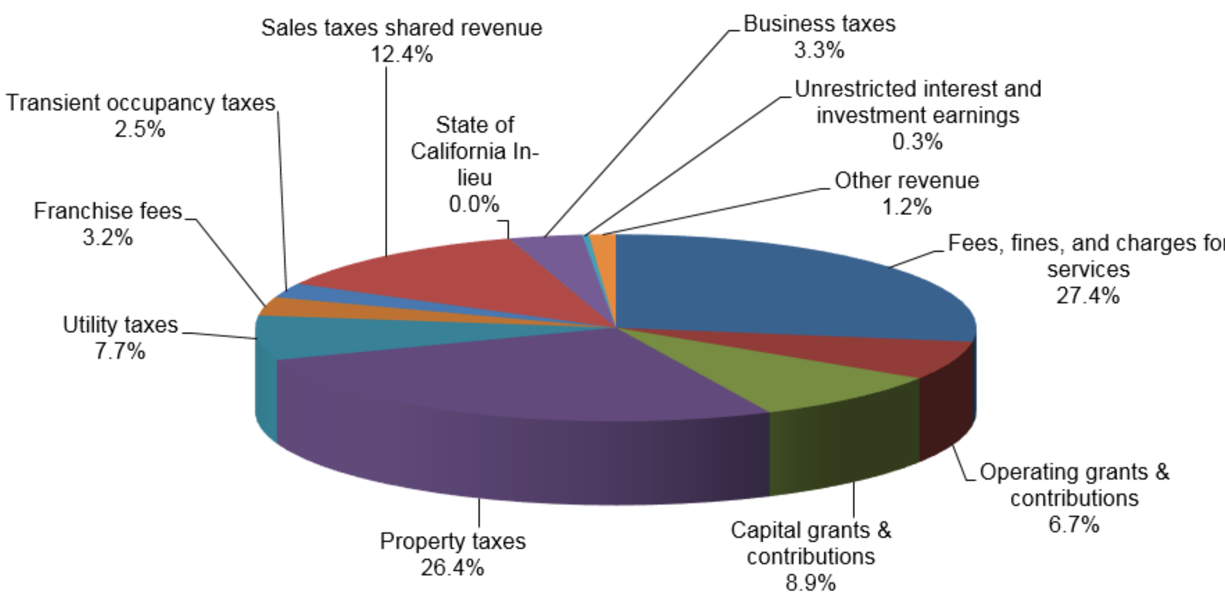
million in operating and capital maintenance expenses in the Convention Center, which corresponded to increased conference activities and revenues in the Convention Center.

- Sanitation expenses decreased by $4.8 million or 3.3 percent primarily due to deferred pension contributions of $6.3 million and a decrease of $1.4 million in OPEB expense and the recording of pension expenses of $4.3 million.

- Capital maintenance increased by $23.3 million or 4.8 percent primarily due to an increase of $10.6 million in the General Fund which is explained in more detail in the General Fund section, an increase of $3.8 million of expenses in the hotel business improvement district in preparation for Super Bowl 50, and an increase of $14.0 million in street repaving and maintenance and the recording of pension expenses of $16.4 million. These were partially offset by deferred pension contributions of $25.9 million.

- Interest and fiscal charges decreased by $0.5 million or 1.0 percent primarily due to the payoff and retirement of long-term obligations. The balance of debt payable for various bonds and loans decreased $85.9 million or 6.5 percent from the prior year.

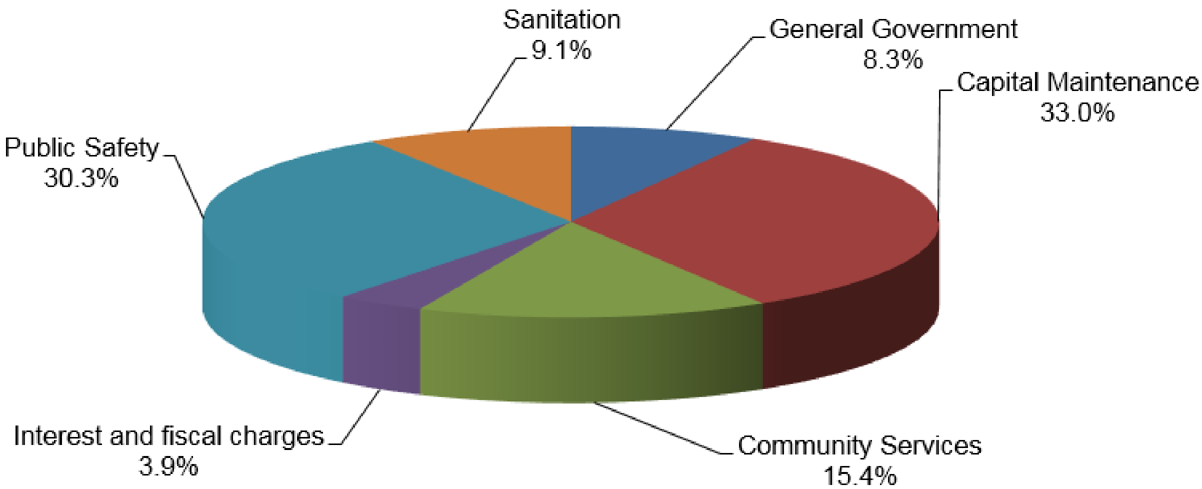
Governmental Activities Revenues 2015



The chart above shows the primary components of governmental activities revenue sources for 2014-2015. Of the $1.457 billion in total revenues generated by governmental activities, 75.1 percent is attributable to four categories: property taxes (26.4 percent), fees, fines, and charges for services (27.4 percent) sales taxes (12.4 percent), and capital grant contributions (8.9 percent). All revenue sources increased except for operating grants and contributions ($6.4 million), utility taxes ($1.8 million), investment income ($1.0 million), State of California in-lieu fees ($0.02 million), and other revenue ($0.5 million), which decreased compared to the previous year.

The chart below shows the principal categories of 2014-2015 expenses for governmental activities. Of the $1.540 billion in total expenses incurred by governmental activities, the categories accounting for 78.7 percent of the totals are: capital maintenance (33.0 percent); public safety (30.3 percent); and community services (15.4 percent).

Governmental Activities Expenses 2015



Business-type activities: Business-type activities net position decreased by $180.6 million or 13.8 percent to $1.130 billion during 2014-2015.

The notable components of the changes in net position for business-type activities during 2014-2015 are:

Airport net position decreased by $98.1 million or 32.7 percent due to a restatement of $67.9 million to the beginning net position related to the recording of net pension liability and related deferred contributions, nonoperating expenses exceeding net nonoperating amounts by $32.6 million, offset by $1.0 million in capital contributions.

The Airport had a net operating income of $1.4 million, an increase of $1.3 million compared to prior year's operating income of $0.1 million.

Operating revenues increased by $0.3 million or 0.2 percent, which was mainly due to an increase in terminal building and concession, parking and roadway, and general aviation all attributable to growth in passenger traffic.

A total of approximately 9.6 million passengers travelled through the Airport in 2015 compared to approximately 9.1 million in 2014, resulting in passenger traffic growth of 5.4 percent.

Operating expenses of $124.6 million decreased by $1.1 million or 0.9 percent compared to the prior fiscal year due to decreases in general and administrative expenses, terminal building and concessions, and depreciation and amortization, offset by increases in airfield area, parking and roadway, and general aviation.

Nonoperating expenses exceeded nonoperating revenues by $32.6 million which represented a decrease of $5.3 million from the previous fiscal year. This decrease was mainly due to an increase of $3.2 million in CFC revenues, an increase of $1.1 million in passenger facilities charges, a decrease of $1.6 million in interest expense, a decrease of $0.5 million in loss on capital asset disposal, an increase of $0.2 million in other revenues, offset by an increase in $1.0 million in bond issuance costs and a decrease of $0.3 million in investment income.

Wastewater Treatment System net position decreased by $77.3 million or 9.1 percent from $846.0 million to $768.7 million. The decrease was due to a restatement of $116.0 million to the beginning net position related to the recording of net pension liability and related deferred contributions, offset by a net operating and nonoperating revenues of $38.8 million. The largest portion, $517.4 million or 67.3 percent, of the net position was its net investment in capital assets (e.g. land, buildings, and infrastructures) less outstanding debt that was used to acquire those assets. Approximately $196.6 million, or 25.6 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

Operating revenues decreased by $2.7 million primarily due to lower contributions from the Tributary Agencies toward the Water Pollution Control Plant's ongoing maintenance, replacement and debt service costs of $2.0 million, lower connection fee revenue due to a slowdown in commercial and industrial development activities compared to the peak levels experienced in the prior fiscal year ($3.2 million), and the last contribution from the Santa Clara Valley Water District in the prior year for the South Bay Water Feasibility Study ($0.6 million). These decreases were offset by increases in sewer service and user charge collections reflective of economic growth in the residential and commercial sectors ($2.8 million) and higher recycled-water revenue due to recycled-water rate increases ($0.5 million).

Total operating expenses decreased by $11.0 million compared to the prior fiscal year. Under GASB Statement No. 68, the fund recorded pension expense in the amount of $11.7 million, which reflects the changes in net pension liability and related pension deferred outflows and inflows of resources. This is different than the prior year where the annual pension contributions were recognized as expenses. As such $16.6 million of pension contributions in the prior year under GASB Statement No. 27 is not measured in a similar manner in the current year. The decrease was also due to $8.4 million in fewer urgent sewer replacements. These changes were offset by an increase in personnel expense of $4.3 million.

Net nonoperating revenues decreased by $0.8 million due to decreases in the fair value of investments. Capital contributions decreased by $4.7 million mainly due to no funding appropriated from the U.S. Bureau of Reclamation for construction of wastewater recycling facilities ($4.1 million) and a decrease in donated capital assets from developers ($0.6 million).

Municipal Water System net position decreased by $3.5 million or 4.0 percent from $86.8 million to $83.3 million. The decrease was due to a restatement of $8.6 million to the beginning net position related to the recording the net pension liability and related deferred contributions, offset by a net operating and nonoperating revenues of $3.6 million. Operating revenues of $37.3 million increased by $1.9 million or 5.5 percent due to rate increase in potable water of 11.0 percent offset by a decrease in usage due to water conservation in response to drought, which increased revenues by $1.4 million and an increase in the recycled water rate index of 11.0 percent and minor increase in demand, which generated an additional $0.5 million. Operating expenses of $33.9 million increased by $0.7 million or 2.1 percent due to expansion of water facility capacity to support increased demand and economic growth.

Parking System net position decreased by $1.7 million or 2.2 percent from $78.4 million to $76.7 million. The decrease was due to a restatement of $3.9 million to the beginning net position related to the recording the net pension liability and related deferred contributions, offset by a net operating and nonoperating revenues of $2.2 million. Operating revenues increased by $2.0 million or 14.7 percent primarily due to the installation of new smart meters in the downtown area and increased activity at the Convention Center parking facility resulting from a recovering economy. Operating expenses increased by $2.0 million or 18.3 percent reflecting higher operating and maintenance costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses ***fund accounting*** to ensure and demonstrate compliance with finance-related legal requirements.

As of June 30, 2015, the City's governmental funds reported combined fund balances of $1.323 billion, an increase of $52.3 million or 4.1 percent compared to the balance at June 30, 2014. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- $0.3 million consists of nonspendable fund balance including prepaid items, advances and deposits, and other assets that are not intended to convert into cash and long-term in nature and do not represent currently available resources.
- $907.9 million is reported as restricted fund balance that includes restrictions imposed by external parties or enabling legislation. This amount includes unspent bond proceeds, unspent grant revenues, and restricted tax revenues.
- $134.2 million is reported as committed fund balance that had been limited by formal Council action to specific purposes.
- $214.1 million is reported as assigned fund balance that includes amounts that may be used for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- $67.0 million is reported as unassigned fund balance that represents the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications.

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2015, the General Fund's unassigned fund balance is $67.0 million or 21.2 percent of the $316.0 million total General Fund balance. Comparing unassigned fund balance and total fund balance to total fund expenditures may be useful as a measure of the General Fund's capacity to liquidate future obligations. At June 30, 2015, unassigned fund balance represents 8.4 percent of total General Fund expenditures of $793.2 million, while total fund balance represents 39.8 percent of total General Fund expenditures. At June 30, 2014, the same measures were 7.1 percent and 42.5 percent, respectively.

Consistent with the prior year, revenues exceeded expenditures resulting in an excess of $15.5 million in 2014-2015. The excess was generated through stronger revenues.

In 2014-2015, General Fund revenues of $808.7 million were $21.8 million or 2.8 percent higher than 2013-2014 revenues of $786.9 million. Taxes and special assessments revenues increased by $34.7 million or 5.6 percent. The increase was primarily attributed to the following revenue sources: increases of $23.6 million in property tax due to increased property tax assessments, $7.0 million in sales tax and $2.8 million in transient occupancy tax due to an improving economy.

License, permits and fines decreased by $4.8 million or 7.2 percent mainly due to decreases of $3.6 million in revenues from building permit fees, $0.6 million from electric permits, $0.6 million from fines and forfeitures.

2014-2015 General Fund expenditures of $793.2 million were $77.9 million or 10.9 percent higher than 2013-2014 expenditures of $715.3 million as discussed below.

General government expenditures decreased by $3.8 million primarily due to decreases of $4.5 million in claims expenditure and $3.0 million in miscellaneous operating expenditures. The decreases were offset by increases of $2.7 million in sick leave payout on retirement and $1.0 million in personnel costs in various departments.

Public safety expenditures increased by $23.1 million primarily due to increases of personnel costs in fire and police departments, and increase in public safety services for crime, fire, medical and disaster related situations. Increases in personnel costs were due to salary increase of 3.3 percent for sworn officers and 3.0 percent for non-sworn officers, and overtime expense as a result of a high number of vacant positions in the police department.

Community services expenditures increased by $15.1 million mainly due to increases of $15.7 million related to personnel costs in libraries, community centers, planning and other community services. Libraries extended service from 33 to 34 hours per week to 47 hours per week; staffing in the planning and code enforcement department increased to accommodate increased demand for building permits; staffing in the other community services increased due to the expansion of programs such as Homeless Rapid Rehousing Program. The increases were offset by decreases of $0.7 million of expenditures in children's health initiative program.

Sanitation expenditures slightly increased by $0.2 million due to increases of $0.5 million in waste and recycle collection fee refunds and $0.1 million for the Silicon Valley Energy Watch Program. The increases were offset by decreases of $0.1 million in staffing expenditures and $0.3 million in non-personal expenditures.

Capital outlay expenditures increased by $18.1 million due to the purchase of a fire apparatus of $1.5 million, upgrades of $1.3 million to police administration and communication buildings, expenditures of $8.2 million for the energy and utility conservation project, $5.1 million for the U.S. Patent Office tenant capital improvement project.

Capital maintenance expenditures increased by $10.6 million or 16.4 percent due to U.S. Patent Office staff relocation cost of $4.4 million, Fire apparatus replacement of $1.5 million, and public safety capital maintenance expenditures of $2.7 million, and an increases of $1.9 million in building development fee program personnel costs.

Housing Activities fund: The City's Housing Activities fund receives resources from the U.S. Department of Housing and Urban Development and the California Department of Housing and Community Development. At June 30, 2015, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first time homebuyers, was $70.1 million. This balance includes loans to developers for various projects, including Ford and Monterey, Taylor Oaks Apartments, Donner Lofts, Japantown Seniors, The Metropolitan, Northrup, Roundtable, Kings Crossing, Peacock Commons, Archer Studios, Canoas Terrace, Curtner Gardens, Homesafe, Markham Plaza, Plaza Del Sol, Verandas, Corde Terra Village Senior, and Willow Glen Senior Housing. Additions to the loan receivable balance were offset by an increase in the valuation allowance in the Housing Activities fund based on the City's annual review of the valuations and adjustments reflecting the terms of the loans. Restricted fund balance increased by $4.0 million to $84.6 million at June 30, 2015. The increase is primarily due to revenues from intergovernmental ($5.5 million), and investment and other revenues ($11.6 million) exceeding expenditures for community services ($11.3 million). Intergovernmental revenues decreased by $3.9 million or 41.4 percent compared to prior year due to less grant funds received from HOME Investment Partnership Program as more grant expenditures were paid by program income generated in the fiscal year 2014-2015 and the wind-down of the Neighborhood Stabilization Program and Mobilehome Seismic Program.

Low and Moderate Income Housing Asset fund: The Low and Moderate Income Housing Asset fund was created pursuant to the Redevelopment Dissolution Law to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the former Agency. At June 30, 2015, the fund's loan receivable balance (net) was $242.1 million. This balance consists mainly of loans to developers for various projects. Restricted fund balance increased by $13.6 million to $326.5 million from $312.9 million. The increase is primarily due to interest repayment of developer loans.

Special Assessment Districts fund: The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of eight special assessment and community facilities districts located in different parts of the City. A total of $145.9 million in special assessment and special tax bonds were outstanding at June 30, 2015. All bonds are secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt, except for the Special Hotel Tax Revenue Bond, Series 2011, which are secured by a first lien on the Convention Center Facilities District No.2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT as defined in the bond documents) that is appropriated by City Council. The City is not obligated to secure any deficiency or redeem any debt of special assessment districts from City funds.

Restricted fund balance increased by $1.3 million from $42.4 million to $43.7 million as of June 30, 2015, due to increases in Transient Occupancy Tax revenue and a one-time energy efficient incentive rebate. Total expenditures for 2014-2015 also decreased by $9.3 million or 37.1 percent compared to the prior fiscal year primarily due to a significant decrease in capital outlay with the completion of the Convention Center renovation and expansion in November 2014, which were funded by the Special Hotel Tax Revenue Bonds (Series 2011), Lease Revenue Bonds (Series 2011A), and the Lease Revenue Commercial Paper Program.

Financing Authority fund: The City's Financing Authority Debt Service fund accounts for debt activity related to lease revenue bonds and commercial paper notes, which serves as a mechanism for financing City public improvements. Restricted fund balance increased by $3.2 million from $13.1 million to $16.3 million as of June 30, 2015. The increase is primarily due to the net proceeds of $21.2 million from the sale of property located west of the Airport transferred to the fund from the General Fund, which is offset by an increase in debt service payments of $18.8 million.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. At June 30, 2015, the unrestricted net position was $18.7 million for the Airport, $196.6 million for the Wastewater Treatment System, $14.8 million for the Municipal Water System and $17.3 million for the Parking System. Net position for proprietary funds decreased from $1.311 billion at June 30, 2014 to $1.130 billion at June 30, 2015, resulting in a decrease of $180.6 million or 13.8 percent. The decrease was due to a restatement of $196.4 million to the beginning net position related to the recording of net pension liability and related deferred contributions, offset by a net operating and nonoperating revenues of $15.8 million.

Other aspects of proprietary fund activities are discussed in the business-type activities section above.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's Charter requires the City Manager to submit balanced operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1 and ends on the following June 30. Council approved the 2014-2015 budgets in June 2014.

During the fiscal year ended June 30, 2015, there was a $52.4 million increase in the budgeted revenues between the original and final amended operating budget for the General Fund. The increase reflected higher actual receipts in property tax; business tax; franchise and other taxes; and other revenues.

Actual budgetary basis expenditures of $850.8 million were $102.5 million less than the amended budget and $61.6 million less than the original budget due to planned expenditures not occurring in the fiscal year ended June 30, 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to $7.730 billion at June 30, 2015. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible assets, and construction-in-progress. The City's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. At June 30, 2015, net capital assets decreased by $273.4 million ($248.9 million in governmental activities and $24.5 million in business-type activities) or 3.4 percent compared to net capital assets at June 30, 2014. The decrease in capital assets of $248.9 million in governmental activities is primarily due to depreciation expense of $365.2 million and deletions of capital assets totaling $65.4 million. These decreases were offset by acquisitions of capital assets of $102.8 million and transfers of building improvements from the SARA in the amount of $78.9 million. The decrease of $24.5 million in capital assets in the business-type activities resulted from depreciation expense of $85.6 million, offset by additions of capital projects of $61.2 million at the Airport and within the Wastewater Treatment System.

Total land for governmental activities decreased by $26.0 million primarily due to the sale of property located west of the Airport for $36.9 million, offset primarily by a land acquisition of $9 million for the Del Monte Park expansion.

Total construction-in-progress increased by $5.3 million or 7.1 percent from $74.2 million at June 30, 2014 to $79.5 million at June 30, 2015. Construction-in-progress for the governmental activities decreased by $3.6 million or 6.6 percent primarily due to more CIP additions being placed into service than new additions to CIP. One of the larger assets placed into service was the Traffic Incident Management Command Center, which resulted in $2.6 million decrease in CIP. Business-type activities contributed an increase of $8.9 million to the total construction-in-progress as additions to the Airport and the Wastewater Treatment System construction-in-progress totaling $22.6 million was offset by $13.7 million in projects that were completed and placed in service. The completed Airport projects include the following: completion of construction of the Fuel Truck Maintenance Facility and the Shuttle Bus Staging Area.

The City records infrastructure assets at historical cost in the government-wide financial statements and depreciates assets from acquisition date to the end of the current fiscal year as required by GASB Statement No. 34. For governmental fund financial statements recording purposes, capital asset purchases are recorded as expenditures, rather than capitalizing and recording related depreciation. Capital assets, net of depreciation, for governmental and business-type activities in the government-wide financial statements are presented below to illustrate changes between June 30, 2014 and June 30, 2015 (in thousands):

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 388,732	$ 414,721	134,926	134,926	523,658	549,647
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	50,329	53,865	29,209	20,337	79,538	74,202
Buildings	1,080,068	1,035,849	1,139,829	1,178,186	2,219,897	2,214,035
Improvements, other than buildings	205,535	190,234	622,621	614,892	828,156	805,126
Infrastructure	3,946,285	4,230,395	-	-	3,946,285	4,230,395
Furniture and fixtures, vehicles, equipment	26,969	21,624	91,693	94,338	118,662	115,962
Property under capital leases	-	109	1,076	1,167	1,076	1,276
Total capital assets	$5,697,918	$5,946,797	2,032,236	2,056,728	7,730,154	8,003,525

Commitments outstanding as of June 30, 2015, related to governmental and business-type activities construction in progress totaled approximately $33.5 million and $54.6 million, respectively. Additional information about the City’s capital assets can be found in the Notes to Basic Financial Statements, Note III.D.

General Obligation Bonded Debt Limit

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City’s 2014-2015 tax roll was $146.2 billion, which results in a total debt limit of $21.9 billion. As of June 30, 2015, the City had $407.3 million of General Obligation bonds outstanding which represents approximately 1.9% of the General Obligation bonds’ debt limit.

General Obligation Bonds and Other Bond Ratings

The City’s current general obligation credit ratings are Aa1/AA+/AA+ from Moody’s Investors Service (“Moody’s”), Standard & Poor's (“S&P”), and Fitch Ratings (“Fitch”), respectively. These credit ratings have remained the same from the prior year, and the City continues to be one of the highest rated large cities (with population over 250,000) in California, and third highest among the nation’s ten largest cities.

For Norman Y. Mineta San José International Airport, S&P currently has an underlying rating of A-, Moody’s currently has an underlying rating of A2. Fitch currently has an underlying rating on Airport Revenue Bonds at A-. The outlook for all three agencies is stable.

Sewer revenue bonds issued by the San Jose-Santa Clara Clean Water Financing Authority have current underlying ratings of AAA by S&P and Fitch, and a rating of Aa2 by Moody's. The rating outlook by S&P and Fitch is stable. Moody's does not assign a rating outlook.

Outstanding Debt

The City's debt service obligations include general obligation bonds, revenue bonds, lease revenue bonds, and special assessment and special tax bonds.

During 2014-2015, the City’s gross outstanding long-term debt decreased by $143.0 million to $2.617 billion, comprised of $1.233 billion of governmental activities and $1.384 billion of business-type activities. The balances at June 30, 2014 were $1.319 billion for governmental activities and $1.441 billion for business-type activities, for a total of $2.760 billion. The decrease of $143.0 million is primarily due to the scheduled debt service payments.

The table below identifies the net changes in each category (in thousands):

	As of June 30, 2015	As of June 30, 2014	Net Change
Governmental Activities:			
General obligation bonds	$ 401,735	$ 421,380	(19,645)
HUD Section 108 loan	1,196	14,706	(13,510)
San José Financing Authority			
Lease revenue bonds	553,835	588,235	(34,400)
Lease revenue bonds with reimbursement agreement	100,260	110,300	(10,040)
Revenue bonds with pledge agreement	29,880	31,695	(1,815)
Special assessment bonds with limited governmental commitment	145,895	152,335	(6,440)
Sub-total	1,232,801	1,318,651	(85,850)
Business-Type Activities:			
Revenue bonds	1,369,485	1,422,545	(53,060)
State of CA-Revolving Fund Loan	14,597	18,720	(4,123)
Sub-total	1,384,082	1,441,265	(57,183)
Total:	$ 2,616,883	$ 2,759,916	(143,033)

Additional information about the City's long-term obligations appears in the Notes to Basic Financial Statements, Note III.F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City completed 2014-2015 with better operating financial results than expected when the 2014-2015 Adopted Budget was developed. Although the economic indicators in this region appear to have stabilized, the City still faces fiscal challenges on a long-term basis to achieve a more desirable level of budget stability while avoiding any reduction in services. In June 2015, the City Council approved a balanced General Fund budget for fiscal year 2015-2016 with a projected surplus of $9.4 million and has a focus on achieving budget and service level stability, target investments to meet priority needs of the community, and to continue service delivery efficiencies.

- Due to an improved forecast for 2015-2016; the City does not face further service cuts in the fiscal year. The small projected surplus is due to increases in revenues from a stronger economy, reduction in services and careful management of expenses.

- In order to maintain service level stability, the 2015-2016 Adopted Budget includes funding of $29.5 million in the General Fund ($35.2 million in all funds) for compensation increases.

- 2015-2016 redevelopment property tax revenues are forecast to be less than the amount necessary to pay enforceable obligations of SARA. The City is estimated to advance $19.4 million to the SARA in 2015-2016 to fund the debt service payments for the Convention Center and the 4th Street San Fernando Garage. As of the report date the City has advanced $15.4 million to SARA.

- For funding purposes, as of June 30, 2015 the most recent actuarial valuation date, the Police and Fire Department Retirement Plan ("PFDRP") had a 78.2 percent funded ratio. The total pension liability was $3.977 billion, and the fiduciary net position was $3.110 billion resulting in a net pension liability of $866.5 million.

- For funding purposes, as of June 30, 2015 of the most recent actuarial valuation date, the Federated City Employees' Retirement System ("FCERS") had a 57.8 percent funded ratio. The total pension liability was $3.341 billion, and the fiduciary net position was $1.931 billion resulting in a net pension liability of $1.411 billion.

- For funding purposes, as of June 30, 2014, the most recent actuarial valuation date, PFDRP's Postemployment Healthcare Plan had a 13.2 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was $706.7 million and the actuarial value of assets was $93.6 million resulting in a UAAL of $613.1 million. As of June 30, 2014, the most recent actuarial valuation date, FCERS's Postemployment Healthcare Plan had a 27.4 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was $729.4 million and the actuarial value of postemployment healthcare benefit assets was $199.8 million, resulting in a UAAL of $529.6 million.

- For 2015-2016, the City's contribution rates for pension benefits and postemployment healthcare benefits, as a percentage of payroll are as follows:

	PFDRP				FCERS			
Contribution Rates	**Police Tier 1**	**Police Tier 2**	**Fire Tier 1**	**Fire Tier 2**	**Tier 1**	**Tier 2**	**Tier 2B**	**Tier 2C**
Retirement Pension	73.01%	11.27%	74.95%	11.17%	66.16%	5.70%	5.70%	5.70%
Postemployment Heathcare Benefits	10.31%	10.31%	10.62%	10.62%	9.41%	9.41%	12.66%	12.86%

- On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of 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 pension benefits and postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for the fiscal year ending June 30, 2016 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the benefit pension plans and the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount of $128.2 million for PFDRP, and $114.5 million for FCERS Tier 1 members. The prepayment for PFDRP and for FCERS Tier 1 members was paid by the City in July 2015. The City did not exercise its option to prepay its contribution for PFDRP and FCERS Tier 2 members.

All of these factors were considered in preparing the City's budget for 2015-2016.

FORWARD-LOOKING STATEMENTS AND REQUESTS FOR INFORMATION

Forward-Looking Statements

When used in this CAFR, the words or phrases "will likely result," "are expected to," "will continue," "is "anticipated, "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward-looking statements", but are not the exclusive means of identifying forward-looking statements in the CAFR. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this CAFR. The City undertakes no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of the CAFR.

Requests for Information

This financial report is designed to provide our residents, taxpayers, customers, investors and creditors with a general overview of the City's finances. All summaries of documents contained in this CAFR are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference in this CAFR to a document is qualified in its entirety by reference to such document, which is on file with the City.

Questions concerning any of the information provide in this report or requests for additional financial information should be addressed to the Director of Finance, 200 East Santa Clara Street, San José, California 95113. Requests for documents may be directed to the City department designated in the CAFR as the holder of the particular document or to the Director of Finance.

Basic
Financial Statements

Basic Financial Statements

City of San José
Statement of Net Position
June 30, 2015
($000's)

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in pooled cash and investments held in City Treasury	$ 862,960	519,231	1,382,191
Receivables (net of allowances for uncollectibles)	136,603	15,966	152,569
Due from outside agencies	655	-	655
Inventories	992	927	1,919
Loans receivable (net of allowances for uncollectibles)	317,338	-	317,338
Advances and deposits	347	3,173	3,520
Other assets	43,531	200	43,731
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	57,736	164,189	221,925
Cash and investments held with fiscal agent	144,542	110,318	254,860
Other cash and investments	6,840	-	6,840
Receivables (net of allowances for uncollectibles)	-	3,918	3,918
Prepaid bond insurance costs (net of accumulated amortization)	385	6,572	6,957
Long-term receivables from SARA	161,851	4,572	166,423
Capital assets (net of accumulated depreciation):			
Nondepreciable	439,061	177,017	616,078
Depreciable	5,258,857	1,855,219	7,114,076
Total assets	7,431,698	2,861,302	10,293,000
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	1,275	3,645	4,920
Deferred outflows of resources related to pensions	216,614	27,523	244,137
Total deferred outflows of resources	217,889	31,168	249,057
LIABILITIES			
Accounts payable	44,569	22,316	66,885
Accrued liabilities	24,304	2,449	26,753
Interest payable	11,032	24,243	35,275
Due to SARA	-	20	20
Due to outside agencies	485	-	485
Short-term notes payable	43,844	37,912	81,756
Unearned revenue	19,786	1,413	21,199
Advances, deposits, and reimbursable credits	7,215	5,330	12,545
Long-term payables to SARA	464	-	464
Other liabilities	32,888	-	32,888
Long-term obligations:			
Due within one year	114,499	41,478	155,977
Due in more than one year	1,830,516	1,411,939	3,242,455
Net pension liability	1,514,381	184,277	1,698,658
Total liabilities	3,643,983	1,731,377	5,375,360
DEFERRED INFLOWS OF RESOURCES			
Gain on refundings of debt	-	796	796
Deferred inflows of resources related to pensions	245,922	29,894	275,816
Total deferred inflows of resources	245,922	30,690	276,612
NET POSITION			
Net investment in capital assets	4,566,716	769,516	5,336,232
Restricted for:			
Debt service	39,249	26,690	65,939
Capital projects	345,817	86,769	432,586
Community services	537,753	-	537,753
Public safety	4,371	-	4,371
Unrestricted (deficit)	(1,734,224)	247,428	(1,486,796)
Total net position	$ 3,759,682	1,130,403	4,890,085

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

City of San José
Statement of Activities
For the Year Ended June 30, 2015
($000's)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	**Expenses**	**Fees, Fines, and Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business -Type Activities**	**Total**
Governmental activities:							
General government	$ 127,480	44,044	617	-	(82,819)	-	(82,819)
Public safety	466,519	20,300	8,599	-	(437,620)	-	(437,620)
Community services	236,840	117,006	45,335	-	(74,499)	-	(74,499)
Sanitation	141,244	150,546	298	1,122	10,722	-	10,722
Capital maintenance	507,523	67,098	42,618	128,779	(269,028)	-	(269,028)
Interest and fiscal charges	60,266	-	-	-	(60,266)	-	(60,266)
Total governmental activities	**1,539,872**	**398,994**	**97,467**	**129,901**	**(913,510)**	**-**	**(913,510)**
Business -Type activities:							
Norman Y. Mineta San José International Airport	197,786	163,962	610	937	-	(32,277)	(32,277)
Wastewater Treatment System	158,385	192,715	656	3,369	-	38,355	38,355
Municipal Water System	33,885	37,295	-	1,919	-	5,329	5,329
Parking System	12,714	15,614	-	-	-	2,900	2,900
Total business-type activities	**402,770**	**409,586**	**1,266**	**6,225**	**-**	**14,307**	**14,307**
Total	**$ 1,942,642**	**808,580**	**98,733**	**136,126**	**(913,510)**	**14,307**	**(899,203)**

	Governmental Activities	Business -Type Activities	Total
General revenues:			
Taxes and franchise fees:			
Property and other taxes	384,523	-	384,523
Utility	112,645	-	112,645
Franchise	46,909	-	46,909
Transient occupancy	36,980	-	36,980
Business taxes	47,431	-	47,431
Sales taxes shared revenue	180,407	-	180,407
State of California in-lieu	419	-	419
Unrestricted interest and investment income	4,125	3,252	7,377
Other revenue	17,753	1,747	19,500
Transfers	3,501	(3,501)	-
Total general revenues and transfers	**834,693**	**1,498**	**836,191**
Change in net position	**(78,817)**	**15,805**	**(63,012)**
Net position - beginning, as previously reported	5,452,867	1,311,023	6,763,890
Change in accounting principle	(1,614,368)	(196,425)	(1,810,793)
Net position - beginning, as restated	3,838,499	1,114,598	4,953,097
Net position - ending	**$ 3,759,682**	**1,130,403**	**4,890,085**

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2015
($000's)

		General Fund	Housing Activities	Low and Moderate Income Housing Asset
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	308,829	23,126	54,552
Receivables (net of allowance for uncollectibles)		55,115	1,177	1,452
Due from outside agencies		655	-	-
Due from other funds		1,942	-	-
Loans receivables (net of allowance for uncollectibles)		1,241	70,057	242,102
Advances and deposits		203	-	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		1,269	9,792	-
Cash and investments held with fiscal agent		19,250	3	-
Other cash and investments		-	-	-
Advances to other funds		3,297	-	-
Advances receivable from SARA		6,404	-	12,975
Other assets		-	2,300	21,621
Total assets	$	398,205	106,455	332,702
LIABILITIES				
Accounts payable	$	14,805	843	40
Accrued salaries, wages, and payroll taxes		20,260	35	137
Due to other funds		-	-	-
Due to outside agencies		373	-	-
Short-term notes payable		-	-	-
Unearned revenue		6,363	-	-
Advances, deposits, and reimbursable credits		7	-	-
Advances from other funds		8,112	-	-
Long-term advances from SARA		-	-	464
Other liabilities		32,331	1	-
Total liabilities		82,251	879	641
DEFERRED INFLOWS OF RESOURCES		-	20,949	5,561
FUND BALANCES				
Nonspendable		203	-	-
Restricted		10,599	84,627	326,500
Committed		94,748	-	-
Assigned		143,398	-	-
Unassigned		67,006	-	-
Total fund balances		315,954	84,627	326,500
Total liabilities, deferred inflows of resources and fund balances	$	398,205	106,455	332,702

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

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
-	112	455,166	841,785
41,889	-	36,860	136,493
-	-	-	655
-	-	10,531	12,473
-	-	3,938	317,338
5	-	139	347
12,777	-	33,898	57,736
32,332	49,220	43,737	144,542
-	-	6,840	6,840
-	-	9,940	13,237
-	14,227	-	33,606
-	-	-	23,921
87,003	63,559	601,049	1,588,973
-	-	27,001	42,689
-	-	3,312	23,744
-	-	12,473	12,473
-	112	-	485
-	43,844	-	43,844
-	-	13,423	19,786
2,425	-	4,783	7,215
-	3,297	1,828	13,237
-	-	-	464
317	-	239	32,888
2,742	47,253	63,059	196,825
40,550	-	1,597	68,657
5	-	139	347
43,706	16,306	426,114	907,852
-	-	39,425	134,173
-	-	70,715	214,113
-	-	-	67,006
43,711	16,306	536,393	1,323,491
87,003	63,559	601,049	1,588,973

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2015
($000's)

Total fund balances-governmental funds (Page 25)		$	1,323,491
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Land	388,732		
Construction in progress	50,329		
Infrastructure assets	11,420,427		
Other capital assets	1,962,410		
Accumulated depreciation	(8,130,740)		
Total capital assets			5,691,158
Other long-term assets associated with the New Market Tax Credit (NMTC) financing program are not current financial resources, therefore, are not reported in governmental funds.			19,610
Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds.			28,107
Long-term receivables associated with lease, pledge revenue agreements, and reimbursement arrangements from the private-purpose trust fund are not current financial resources and therefore are not reported in the governmental funds.			128,245
Prepaid bond insurance costs are expended in governmental funds when paid, however, such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.			385
Refunding of debt reported as deferred outflows/inflows of resources are not financial resources, therefore are not reported in the funds. Such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.			1,275
Special assessments are reported as revenue when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred inflows of resources since they are not available.			40,550
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is generally not accrued as a liability in the balance sheet of governmental funds.			(11,032)
Internal service funds are used by management to charge the cost of public works support, employee benefits, and stores, vehicle, maintenance and operations to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.			23,622
Long-term obligations are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Bonds and HUD loan payable	(1,278,569)		
Accrued vacation, sick leave and compensatory time	(62,151)		
Estimated liability for self-insurance	(147,104)		
Net other postemployment benefits obligation	(407,638)		
Other	(46,578)		
Total long-term obligations			(1,942,040)
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds. These amounts consist of:			
Net pension liability	(1,514,381)		
Deferred outflows of resources	216,614		
Deferred inflows of resources	(245,922)		
			(1,543,689)
Net position of governmental activities (Page 22)		$	3,759,682

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

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City of San José
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015
($000's)

	General Fund	Housing Activities	Low and Moderate Income Housing Asset
REVENUES			
Taxes and special assessments	$ 649,803	-	-
Licenses, permits, and fines	62,000	-	-
Intergovernmental	11,385	5,467	-
Charges for current services	42,731	-	-
Rent	-	-	4
Investment income	1,749	2,472	10,133
Other revenue	40,998	9,139	9,529
Total revenues	808,666	17,078	19,666
EXPENDITURES			
Current:			
General government	71,792	-	-
Public safety	485,327	-	-
Community services	122,614	11,259	7,426
Sanitation	1,291	-	-
Capital maintenance	75,493	-	-
Capital outlay	21,766	-	-
Debt service:			
Principal	13,623	-	-
Interest and fiscal charges	1,250	-	-
Total expenditures	793,156	11,259	7,426
Excess (deficiency) of revenues over (under) expenditures	15,510	5,819	12,240
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	37,482	-	-
Transfers in	9,124	-	1,826
Transfers out	(50,226)	(1,907)	(470)
Total other financing sources (uses)	(3,620)	(1,907)	1,356
Net change in fund balances	11,890	3,912	13,596
Fund balances - beginning	304,064	80,715	312,904
Fund balances - ending	$ 315,954	84,627	326,500

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

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
19,999	-	159,512	829,314
-	-	-	62,000
-	-	73,267	90,119
-	-	206,928	249,659
-	-	36,993	36,997
106	112	2,466	17,038
501	19,363	7,603	87,133
20,606	19,475	486,769	1,372,260
-	-	18,239	90,031
-	-	1,443	486,770
-	-	73,489	214,788
-	-	142,115	143,406
21	-	125,009	200,523
54	-	54,083	75,903
6,440	46,255	20,052	86,370
9,215	32,357	19,642	62,464
15,730	78,612	454,072	1,360,255
4,876	(59,137)	32,697	12,005
-	-	-	37,482
-	62,301	41,747	114,998
(3,555)	-	(56,040)	(112,198)
(3,555)	62,301	(14,293)	40,282
1,321	3,164	18,404	52,287
42,390	13,142	517,989	1,271,204
43,711	16,306	536,393	1,323,491

City of San José

Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2015

($000's)

Net change in fund balances--total governmental funds (Page 29)		$	52,287
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:			
Capital outlay	75,903		
Depreciation expense	(362,366)		
Excess of depreciation expense over capital outlay			(286,463)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)			
Donated assets	23,355		
Transfers from SARA	78,888		
Proceeds from sale of capital assets	(37,482)		
Loss on disposal of assets	(27,838)		
			36,923
Decrease in long-term receivables associated with lease, pledge revenue, and reimbursement arrangements from the private purpose trust fund are not current financial resources and therefore are not reported in the governmental funds.			(11,935)
Prepaid bond insurance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.			(19)
Amortization of deferred outflows of resources resulting from the deferred loss on refunding of bonds			(185)
Repayment of long-term obligation principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The City's long-term obligations were reduced because principal payments were made to bondholders and HUD.			85,850
Accrued interest payable on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources. Amortization of bond premiums and discounts should be expensed as a component of interest expense on the statement of activities. This amount represents the change in accrued interest payable and the amortization of bond premiums and discounts not reported in governmental funds.			
Decrease in accrued interest payable	380		
Amortization of premiums and discounts on bonds issued	1,970		
Total net interest expense and amortization of discount/premium			2,350
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available revenues" and are reported as deferred inflows of resources in the governmental funds.			(5,014)
Internal service funds are used by management to charge the cost of public works support, employee benefits, and vehicle, maintenance and operations to individual funds. The change in net position is included in governmental activities in the statement of activities.			(732)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:			
Net increase in net OPEB obligation	(14,543)		
Net decrease in vacation, sick leave, and compensatory time	1,406		
Net increase in estimated liability for self-insurance	(10,542)		
Net decrease in other liabilities	1,121		
Total additional expenditures			(22,558)
Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			70,679
Change in net position of governmental activities (Page 23)		$	(78,817)

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

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City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2015
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
ASSETS						
Current assets:						
Equity in pooled cash and investments held in City Treasury	$ 112,428	362,627	26,137	18,039	519,231	21,175
Receivables (net of allowance for uncollectibles)	8,084	4,212	3,450	220	15,966	110
Prepaid expenses, advances and deposits	139	-	-	-	139	-
Inventories	-	927	-	-	927	992
Total unrestricted current assets	120,651	367,766	29,587	18,259	536,263	22,277
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	111,669	50,462	-	2,058	164,189	-
Cash and investments held with fiscal agent	104,037	6,281	-	-	110,318	-
Receivables (net of allowances for uncollectibles)	3,918	-	-	-	3,918	-
Prepaid expenses, advances and deposits	61	-	-		61	-
Total restricted assets	219,685	56,743	-	2,058	278,486	-
Total current assets	340,336	424,509	29,587	20,317	814,749	22,277
Noncurrent assets:						
Prepaid bond insurance (net of accumulated amortization)	6,544	28	-	-	6,572	-
Advances and deposits	3,173	-	-	-	3,173	-
Long-term receivable from SARA	-	-	-	4,572	4,572	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	90,944	63,888	1,200	20,985	177,017	-
Depreciable	1,262,519	489,145	67,258	36,297	1,855,219	6,760
Total noncurrent assets	1,363,180	553,061	68,458	61,854	2,046,553	6,760
Total assets	1,703,516	977,570	98,045	82,171	2,861,302	29,037
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refundings of debt	3,385	260	-	-	3,645	-
Deferred outflows of resources related to pensions	7,103	18,313	1,490	617	27,523	-
Total deferred outflows of resources	$ 10,488	18,573	1,490	617	31,168	-

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

City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2015
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
LIABILITIES						
Current liabilities:						
Accounts payable	$ 3,398	14,442	2,868	652	21,360	1,880
Accrued liabilities	589	1,679	130	51	2,449	560
Interest payable	1	154	-	-	155	-
Due to SARA	-	-	-	20	20	-
Short-term notes payable	37,912	-	-	-	37,912	-
Accrued vacation, sick leave and compensatory time	1,613	3,703	124	125	5,565	-
Estimated liability for self-insurance	563	654	67	-	1,284	-
Advances and deposits payable	1,718	-	-	92	1,810	-
Unearned revenue	1,413	-	-	-	1,413	-
Loans payable	-	4,198	-	-	4,198	-
Pollution remediation obligation	330	-	-	-	330	-
Total current liabilities unrestricted	47,537	24,830	3,189	940	76,496	2,440
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	956	-	-	-	956	-
Interest payable	23,931	157	-	-	24,088	-
Current portion of bonds payable, net	23,686	6,031	-	-	29,717	-
Pollution remediation obligation	384	-	-	-	384	-
Total current liabilities payable from restricted assets	48,957	6,188	-	-	55,145	-
Total current liabilities	96,494	31,018	3,189	940	131,641	2,440
Noncurrent liabilities:						
Accrued vacation, sick leave and compensatory time	817	477	-	-	1,294	2,975
Estimated liability for self-insurance	2,178	3,116	346	-	5,640	-
Advance contributions from participating agencies	-	2,155	-	-	2,155	-
Advances, deposits and reimbursable credits	-	-	1,365	-	1,365	-
Loans payable	-	10,399	-	-	10,399	-
Bonds payable (net of premium/discount)	1,325,579	27,137	-	-	1,352,716	-
Net pension liability	64,650	108,018	7,940	3,669	184,277	-
Net other postemployment benefits obligation	13,766	25,377	1,905	842	41,890	-
Total noncurrent liabilities	1,406,990	176,679	11,556	4,511	1,599,736	2,975
Total liabilities	1,503,484	207,697	14,745	5,451	1,731,377	5,415
DEFERRED INFLOWS OF RESOURCES						
Gain on refundings of debt	796	-	-	-	796	-
Deferred inflows of resources related to pensions	7,933	19,758	1,525	678	29,894	-
Total deferred inflows of resources	8,729	19,758	1,525	678	30,690	-
NET POSITION						
Net investment in capital assets	126,350	517,426	68,458	57,282	769,516	6,760
Restricted for debt service	20,441	6,249	-	-	26,690	-
Restricted for capital projects and other agreements	36,311	48,400	-	2,058	86,769	2,917
Unrestricted	18,689	196,613	14,807	17,319	247,428	13,945
Total net position	$ 201,791	768,688	83,265	76,659	1,130,403	23,622

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2015
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
OPERATING REVENUES						
Charges for services	$ 46,228	150,092	37,295	15,614	249,229	111,908
Rentals and concessions	16,271	6,909	-	-	23,180	-
Service connection, engineering and inspection	56,299	3,772	-	-	60,071	-
Operating contributions from participating agencies	-	31,490	-	-	31,490	-
Other	7,183	452	-	-	7,635	-
Total operating revenues	125,981	192,715	37,295	15,614	371,605	111,908
OPERATING EXPENSES						
Operations and maintenance	52,928	103,214	30,104	6,754	193,000	110,568
General and administrative	18,208	25,275	1,212	3,873	48,568	-
Depreciation and amortization	53,437	27,523	2,569	1,926	85,455	2,860
Materials and supplies	-	664	-	161	825	-
Total operating expenses	124,573	156,676	33,885	12,714	327,848	113,428
Operating income (loss)	1,408	36,039	3,410	2,900	43,757	(1,520)
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	19,291	-	-	-	19,291	-
Customer facility charges	18,690	-	-	-	18,690	-
Operating grants	610	399	-	-	1,009	-
Investment income	1,222	1,835	110	85	3,252	123
Interest expense	(72,237)	(1,613)	-	-	(73,850)	-
Bond issuance costs	(976)	-	-	-	(976)	-
Contributions for maintenance reserves	-	257	-	-	257	-
Loss on disposal of capital assets	-	(96)	-	-	(96)	(61)
Other revenues, net	806	797	30	114	1,747	25
Net nonoperating revenues (expenses)	(32,594)	1,579	140	199	(30,676)	87
Income (loss) before capital contributions and transfers	(31,186)	37,618	3,550	3,099	13,081	(1,433)
Capital contributions	937	3,369	1,919	-	6,225	
Transfers in	-	-	-	62	62	1,000
Transfers out	-	(2,230)	(413)	(920)	(3,563)	(299)
Changes in net position	(30,249)	38,757	5,056	2,241	15,805	(732)
Net position - beginning, as previously reported	299,913	845,979	86,769	78,362	1,311,023	24,354
Change in accounting principle	(67,873)	(116,048)	(8,560)	(3,944)	(196,425)	-
Net postion - beginning, as restated	232,040	729,931	78,209	74,418	1,114,598	24,354
Net position - ending	$ 201,791	768,688	83,265	76,659	1,130,403	23,622

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

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City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 124,772	172,336	37,156	15,867	350,131	-
Cash received from interfund services provided	-	-	-	-	-	112,231
Payments to suppliers	(45,267)	(55,300)	(24,775)	(8,789)	(134,131)	(90,834)
Payments for employees	(25,230)	(71,079)	(6,217)	(2,257)	(104,783)	(19,776)
Other receipts	806	21,044	-	-	21,850	-
Net cash provided by operating activities	55,081	67,001	6,164	4,821	133,067	1,621
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	-	-	-	62	62	1,000
Transfer to other funds	-	(2,230)	(413)	(920)	(3,563)	(299)
Operating grants	428	447	-	-	875	-
Payments from other funds	-	5,074	14	-	5,088	-
Increase in long-term receivable from SARA	-	-	-	1,531	1,531	-
Net cash provided by (used in) noncapital and related financing activities	428	3,291	(399)	673	3,993	701
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	19,325	-	-	-	19,325	-
Customer facility charges received	18,559	-	-	-	18,559	-
Capital grants received	-	468	-	-	468	-
Acquisition and construction of capital assets	(5,226)	(48,316)	(1,999)	(1,383)	(56,924)	(3,582)
Payment for redemption of bonds	(4,874)				(4,874)	-
Bond issuance cost paid	(976)				(976)	-
Principal payment on commercial paper	(3,247)	-	-	-	(3,247)	-
Principal paid on debt	(23,475)	(9,643)	-	-	(33,118)	-
Interest paid on debt	(73,443)	(1,736)	-	-	(75,179)	-
Advances and deposits received	274	-	-	-	274	-
Net cash used in capital and related financing activities	(73,083)	(59,227)	(1,999)	(1,383)	(135,692)	(3,582)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	68,760	-	-	-	68,760	-
Purchase of investments	(44,891)	-	-	-	(44,891)	-
Interest received	1,068	1,530	89	85	2,772	123
Net cash provided by investing activities	24,937	1,530	89	85	26,641	123
Net change in cash and cash equivalents	7,363	12,595	3,855	4,196	28,009	(1,137)
Cash and cash equivalents - beginning	306,796	406,775	22,282	15,901	751,754	22,312
Cash and cash equivalents - ending	$ 314,159	419,370	26,137	20,097	779,763	21,175

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

City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	$ 1,408	36,039	3,410	2,900	43,757	(1,520)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	53,437	27,523	2,569	1,926	85,455	2,860
Other nonoperating revenues	805	796	30	97	1,728	25
Decrease (increase) in:						
Accounts receivable	(853)	(131)	(168)	157	(995)	298
Inventories	-	292	-	-	292	89
Prepaid expenses, advances and deposits	(9)	20	-	3	14	-
Increase (decrease) in:						
Accounts payable and accrued liabilities	2,427	8,038	618	190	11,273	25
Accrued salaries, wages, and payroll	41	283	27	7	358	-
Accrued vacation, sick leave and compensatory time	-	154	6	(19)	141	(156)
Estimated liability for self-insurance	499	232	229	-	960	-
Unearned revenue	(510)	-	-	-	(510)	-
Due to SARA	-	-	-	(236)	(236)	-
Net pension liability, deferred outflows and inflows of pension related resources	(2,394)	(6,585)	(584)	(215)	(9,778)	-
Net other postemployment benefit obligation	131	340	27	11	509	-
Advances and deposits payable	99	-	-	-	99	-
Total adjustments	53,673	30,962	2,754	1,921	89,310	3,141
Net cash provided by operating activities	$ 55,081	67,001	6,164	4,821	133,067	1,621
Reconciliation of cash and cash equivalents to the statement of net position:						
Equity in pooled cash and investments held in City Treasury						
Unrestricted	$ 112,428	362,627	26,137	18,039	519,231	21,175
Restricted	111,669	50,462	-	2,058	164,189	-
Cash and investments held with fiscal agent	104,037	6,281	-	-	110,318	-
Less investments not meeting the definition of cash equivalents	(13,975)	-	-	-	(13,975)	-
Cash and cash equivalents	$ 314,159	419,370	26,137	20,097	779,763	21,175
Noncash noncapital, capital and related financing, and investing activities:						
Change in operating grants receivable	$ (181)	-	-	-	(181)	-
Loss on disposal of capital assets	-	96	-	-	96	61
Bond refunding	144,836	-	-	-	144,836	-
Capital contributions from developers	-	2,779	1,919	-	4,698	-
Amortization of bond discount/premium, and prepaid bond insurance costs	(123)	236	-	-	113	-
Amortization of deferred outflows/inflows of resources	-	-	-	-	-	-
related to bond refundings	499	189	-	-	688	-
Change in capital related payables	443	-	-	-	443	-
Change in capital related receivables	(937)	-	-	-	(937)	-
Change in fair value of investments	17	-	-	-	17	-

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

City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015
($000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	$ -	469	4,721
Cash and investments	-	28,382	-
Investments of retirement systems:			
Fixed income	938,001	-	-
Collective short-term investments	418,924	-	-
Absolute return	348,614	-	-
Global equity	1,838,352	-	-
Private equity	375,550	-	-
International currency contracts, net	738	-	-
Global tactical asset	345,846	-	-
Private debt	334,505	-	-
Real assets	711,922	-	-
Real estate	25,318	-	-
Total investments of retirement systems	5,337,770	-	-
Receivables:			
Accrued investment income	8,323	-	4
Employee contributions	1,937	-	-
Employer contributions	4,250	-	-
Due from the City of San José	-	20	-
Other	10,716	1,058	-
Restricted cash and investments held with fiscal agent	-	134,507	-
Total current assets	5,362,996	164,436	4
Noncurrent assets:			
Advances to the City of San José	-	464	-
Accrued interest	-	6,112	-
Loans receivables, net	-	17,773	-
Advances and deposits	-	66	-
Property held for resale	-	20,606	-
Capital assets:			
Nondepreciable	-	83,603	-
Depreciable, net	123	63,709	-
Total noncurrent assets	123	192,333	-
Total assets	5,363,119	356,769	4,725
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding of debt	$ -	29,806	

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

City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015
($000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
LIABILITIES			
Current liabilities:			
Due to the City of San José	$ -	315	-
Accounts payable	-	5,279	-
Accrued salaries and benefits	-	157	-
Due to brokers	5,125	-	-
Accrued interest payable	-	37,088	-
Pass through payable to the County of Santa Clara	-	44,097	-
Unearned revenue	-	156	-
Other liabilities	2,768	9	4,725
Total current liabilities	7,893	87,101	4,725
Long-term liabilities:			
Due within one year	-	263,873	-
Due in more than one year	-	1,920,833	-
Total noncurrent liabilities	-	2,184,706	-
Total liabilities	7,893	2,271,807	4,725
NET POSITION RESTRICTED FOR:			
Employees' pension benefits	5,040,572	-	
Employees' postemployment healthcare benefits	314,654	-	
Redevelopment dissolution and other purposes	-	(1,885,232)	
Total net position	$ 5,355,226	(1,885,232)	

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

City of San José
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2015
($000's)

	Pension Trust Funds	Private Purpose Trust Funds
ADDITIONS		
Redevelopment property tax revenues	$ -	199,712
Investment income:		
Interest	22,016	1,511
Dividends	34,074	-
Net rental income	3,931	804
Net change in fair value of plan investments	(85,826)	-
Investment expenses	(26,612)	-
Total investment income (loss)	(52,417)	2,315
Securities lending income:		
Securities lending income	563	-
Securities lending rebates and expenses	(15)	-
Total securities lending income	548	-
Contributions:		
Employer	291,899	-
Employees	70,030	-
Total contributions	361,929	-
Charges for current services	-	460
Development fees	-	209
Gain on sales of property	-	4,979
Other	-	1,758
Total additions	310,060	209,433
DEDUCTIONS		
General and administrative	8,466	3,649
Project expenses	-	3,392
Pass through amounts to the County of Santa Clara	-	29,902
Capital contributions to the City of San José	-	78,888
Depreciation	-	5,680
Interest on debt	-	93,944
Health insurance premiums	53,648	-
Refunds of contributions	2,421	-
Retirement and other benefits:		
Death benefits	19,944	-
Retirement benefits	318,450	-
Total deductions	402,929	215,455
Change in net position	(92,869)	(6,022)
Net position restricted for pension, postemployment healthcare benefits and other purposes:		
Beginning of year	5,448,095	(1,879,210)
End of year	$ 5,355,226	(1,885,232)

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

INDEX TO THE NOTES

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of San José, California (the "City"), was chartered on March 25, 1850, and has operated under a Council–Manager form of government since 1916. The City has defined its reporting entity in accordance with generally accepted accounting principles ("GAAP") in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body's financial accountability or whether the nature and significance of the relationship with the primary government is misleading to exclude.

A primary government is financially accountable, if it appoints a voting majority of an organization's governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. Based upon the application of these criteria, the following is a brief description of each component unit included within the City's reporting entity. All such component units have been "blended" (or in the case of the Successor Agency to the Redevelopment Agency of the City of San José reported as a fiduciary fund) as though they are part of the primary government because the component unit's governing body is substantially the same as the City's primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it, or the City is entirely or almost entirely responsible for the repayment of the debt of the component unit.

- **Successor Agency to the Redevelopment Agency of the City of San José** – The Successor Agency to the Redevelopment Agency of the City of San José (the "SARA") was created by State Statute to serve as a custodian for the assets and to wind down the affairs of the SARA. The SARA is subject to the direction of a Board consisting of the Mayor and the other members of the City Council. The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an Oversight Board. The Oversight Board is comprised of seven member representatives from local government bodies: two appointed by the Mayor; two appointed by the County of Santa Clara (the "County"); one appointed by the County Superintendent of Education; one appointed by the Chancellor of California Community Colleges; and one appointed by the largest special district taxing entity in the Merged Project Area (currently the Santa Clara Valley Water District).

  In general, the SARA's assets can only be used to pay enforceable obligations in existence at the date of dissolution, February 1, 2012 (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). SARA is only allocated revenue in the amount that is necessary to meet the enforceable obligations of the Agency each year until all enforceable obligations of the former Redevelopment Agency of the City of San José (the "Agency") have been paid in full and all assets have been liquidated. Based upon the nature of the SARA's custodial role, the SARA is reported in a fiduciary fund (private purpose trust fund).

- **San José – Santa Clara Clean Water Financing Authority** – The San José **–** Santa Clara Clean Water Financing Authority (the "Clean Water Financing Authority") was created pursuant to a Joint Exercise of Powers Agreement between the City and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San José – Santa Clara Water Pollution Control Plant (the "Plant"). The Clean Water Financing Authority is governed by a five-member Board of Directors, three are members of the San José City Council and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara entered into an Improvement Agreement and subsequent amendments to the Improvement Agreement (the "Improvement Agreement"), which requires each city to make base payments that are at least equal to each city's allocable share of debt service requirements of the Clean Water Financing Authority's outstanding revenue bonds. Under the Improvement Agreement, the City of San José is almost entirely responsible for the repayment of the Clean Water Financing Authority's outstanding revenue bonds.

- **City of San José Financing Authority** – The City of San José Financing Authority (the "Financing Authority") was created by a Joint Exercise of Powers Agreement between the City and the Agency. The Financing Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City and is authorized to issue bonds for this purpose. The Financing Authority is governed by an 11-member Governing Board, which consists of the members of the City Council.

- **San José Diridon Development Authority** – The San José Diridon Development Authority (the "Diridon Authority") was created in March 2011 by a Joint Exercise of Powers Agreement between the City and the Agency. The Diridon Authority was created for the purposes of overseeing the development of properties within the Diridon area of the City, and is authorized to issue bonds for this purpose. The Diridon Authority is governed by an 11-member Governing Board, which consists of the members of the City Council. The Diridon Authority did not have any activity in fiscal year 2014-15.

Separate financial reports for City departments and component units for the fiscal year 2014-15, containing additional information and more detailed information regarding financial position, changes in financial position, and, where applicable, cash flows, are available from the City's Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

- Federated City Employees' Retirement System (the "FCERS")
- Police and Fire Department Retirement Plan (the "PFDRP")
- Successor Agency to the Redevelopment Agency of the City of San José
- Norman Y. Mineta San José International Airport (the "Airport")
- San José – Santa Clara Clean Water Financing Authority

B. Financial Statement Presentation

***Government-wide Financial Statements*. ** The government-wide financial statements, i.e. the statement of net position and the statement of activities, display information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to prevent the double counting of internal activities. For example, the direct expense charges based on actual use are not eliminated, whereas indirect expense allocations made in the funds are eliminated. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each business-type activity of the City and each function of the City's governmental activities. Direct expenses are those that are specifically associated with a business-type activity or governmental function and; therefore, are clearly identifiable to a particular activity or function. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs, and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are instead presented as general revenues.

***Fund Financial Statements*.** The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category, such as governmental, proprietary and fiduciary, are presented. The emphasis of fund financial statements are on the major governmental and enterprise funds of the City and are reported separately in the accompanying financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds in the accompanying financial statements.

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The City reports the following major governmental funds:

The ***General Fund*** is the City's primary operating fund. It accounts for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds.

The ***Housing Activities Fund*** is a special revenue fund that accounts for all of the City's affordable housing activities funded by federal and state grants, as well as various fees. Prior to the dissolution of redevelopment agencies, the Housing Activities Fund accounted for all of the City's affordable housing activities, including the 20% redevelopment property tax revenue (i.e. former tax increment) set-aside for low and moderate income housing and related expenditures. Upon dissolution of the Agency and the City Council's election to retain the housing activities previously funded by the Agency, the City created a housing successor fund and transferred the assets and affordable housing activities funded by the Agency to the Low and Moderate Income Housing Asset Fund.

The ***Low and Moderate Income Housing Asset Fund*** is a special revenue fund that was created to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the Agency on February 1, 2012. This fund is primarily funded by loan repayment program income generated from the former Agency's housing assets.

The ***Special Assessment Districts Fund*** is a capital project fund that accounts for the capital project and debt activities related to debt issued to finance public improvements benefiting properties against which special assessments or special taxes are levied.

The ***City of San José Financing Authority Debt Service Fund*** is a debt service fund that accounts for the debt activities related to capital projects funded with Financing Authority debt.

The City reports the following major enterprise funds:

The ***Norman Y. Mineta San José International Airport Fund*** accounts for the activities of the City owned commercial service and general aviation airport.

The ***Wastewater Treatment System Fund*** accounts for the financing, construction and operations of the Plant, the regional water reclamation program (known as South Bay Water Recycling), and the San José Sewage Collection System.

The ***Municipal Water System Fund*** accounts for the operations of the five water system operating districts: North San José, Evergreen, Coyote, Edenvale, and Alviso.

The ***Parking System Fund*** accounts for the operations of the City owned parking garage facilities, parking lots, and parking meters located within the City.

The City also reports the following types of funds:

The ***Internal Service Funds*** are used to account for the public works support services provided to City-wide capital programs; the cost of operating an automotive maintenance facility used by other City departments; and employee benefits including medical, vision, dental, and unemployment insurance costs on a cost-reimbursement basis.

The ***Pension Trust Funds*** account for the accumulated resources to be used for retirement annuity and postemployment healthcare payments to members of the FCERS and the PFDRP, collectively, the "Retirement Systems".

The ***Private Purpose Trust Funds*** account for the custodial responsibilities that are assigned to SARA with the passage of the Redevelopment Dissolution Act and for the James Lick fund, which holds resources in trust for the support of the EMQ Families First Agency (a.k.a. Eastfield Ming Quong).

The ***Agency Fund*** accounts for assets held by the City in a custodial capacity with respect to the San José Arena.

C. Measurement Focus and Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds do not have a measurement focus but are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility user taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus. This focus is on the determination of, and changes in financial resources, and generally only current assets and current liabilities are included in the balance sheet. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. For this purpose, the City considers revenues as available if they are collected within sixty days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. However, principal and interest on long-term debt and certain estimated liabilities, such as compensated absences and self-insurance claims, are recorded only when payment is due.

In governmental funds, revenues from taxes, franchise fees, investment income, state and federal grants and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current period. All other revenue items are considered measurable and available only when cash is received by the City.

Proprietary funds distinguish between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. In addition, the Wastewater Treatment System Fund's on-going contributions from other participating agencies for their allocation of the Plant's operating and maintenance expenses, their share of debt service, and other commitments towards the Plant's improvements are also included as operating revenues. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply restricted cost-reimbursement grant resources to such programs, followed by restricted categorical block grants, and then by unrestricted general revenues.

D. Use of Estimates

A number of estimates and assumptions relating to the reporting of revenues, expenditures/expenses, assets, deferred outflows of resources, liabilities and deferred inflows of resources, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

E. New Pronouncements

During the year ended June 30, 2015, the City implemented the following Governmental Accounting Standards Board (the "GASB") Statements:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68), which addresses the accounting and financial reporting requirements for pensions. The provisions of GASB Statement No. 68 separate accounting and financial reporting from how pensions are funded and require changes in the notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of the total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and the pension expense and related deferred outflows/inflows of resources disclosures (see Note IV.A.1.3). When the City implemented this statement in fiscal year 2015, the City also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB Statement No. 71), which resolves transition issues in GASB Statement No. 68.

As of July 1, 2014, the City restated the beginning net position to record the beginning deferred pension contributions and net pension liability as follows (dollars in thousands):

		Governmental Activities		Business-Type Activities		Total
Net position - beginning, as previously reported	$	5,452,867	$	1,311,023	$	6,763,890
Change in accounting principle		(1,614,368)		(196,425)		(1,810,793)
Net Position - beginning, as restated	**$**	**3,838,499**	**$**	**1,114,598**	**$**	**4,953,097**

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement is intended to improve accounting and financial reporting for state and local government's combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. Application of Statement No. 69 did not have any effect on the City's financial statements.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and acquisition value to certain assets and disclosures related to all fair value measurements. Application of Statement No. 72 is effective for the City's fiscal year ending June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. Application of Statement No. 73 is effective for the City's fiscal year ending June 30, 2017.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57*, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. Application of Statement No. 74 is effective for the City's fiscal year ending June 30, 2017.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, for OPEB. This statement addresses accounting and financial reporting for OPEB and establishes standards for recognizing and measuring liabilities, deferred outflows/inflows of resources, and expenses/expenditures. Application of Statement No. 75 is effective for the City's fiscal year ending June 30, 2018.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* Application of Statement No. 76 is effective for the City's fiscal year ending June 30, 2016.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Application of Statement No. 77 is effective for the City's fiscal year ending June 30, 2017.

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

Restricted and unrestricted pooled cash and investments held in the City Treasury and other unrestricted investments, invested by the City Treasurer, are considered cash equivalents for purposes of the statement of cash flows because the City's cash management pool and funds invested by the City Treasurer possess the characteristics of demand deposit accounts. Other restricted and unrestricted investments with maturities less than three months at the time of purchase are also considered cash equivalents for purposes of the statement of cash flows.

2. 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 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.

3. Deposits and Investments

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. This statement requires governmental entities to report investments at fair value in the statement of net position or balance sheet and to recognize the corresponding change in fair value of investments in the year in which the change occurred.

Pooled Cash and Investments held in City Treasury. The City reports its investments held in City Treasury at fair value. The fair value is based on quoted market information obtained from fiscal agents or other sources. Income from some investments is assigned to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the year ended June 30, 2015, the total investment income from these investments assigned and transferred to the General Fund was approximately $381,000.

Retirement Systems. The Retirement Systems' investment policies authorize various types of investments. These investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently audited financial statements and other fund information. The fair value of separate real estate properties is based on annual independent appraisals. Purchases and sales of securities are reflected on the date of trade. Investment income is recognized as earned. Rental income from real estate activity is recognized as earned, net of expenses.

Other Investments. Non-pooled investments are generally carried at fair value. However, investments in investment agreements are carried at cost. Income from non-pooled investments is recorded based on the specific investments held by the fund. The investment income is recorded in the fund that earned the income.

4. Inventories

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out) or market.

5. Special Assessment Districts

Special assessments are recorded as receivables when liens are placed on properties. Special assessments not considered available are recorded as receivables and offset by deferred inflows of resources in the governmental fund financial statements. In general, special assessment and special tax bonds are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. There is no reserve for delinquent receivables since priority liens exist against the related properties and hence the City's management believes full value will ultimately be received by the City. Surplus funds remaining at the completion of a special assessment district project are disposed of in accordance with the City Council's resolutions and with the applicable laws of the State of California. A liability is recorded for the balance remaining until a final legal determination has been made.

6. Advances and Deposits

Amounts deposited in connection with eminent domain proceedings and special assessment surpluses are reported as advances and deposits. In the governmental fund statements, non-current portions of these are offset equally by either a credit or a classification of fund balance in the nonspendable, restricted or committed account.

7. Other Assets

Other assets primarily consist of real properties acquired outright and/or through foreclosure in connection with the housing rehabilitation program and an asset associated with the City's New Market Tax Credit Financing ("NMTCF") program. These assets are recorded at the lower of cost or estimated net realizable value.

8. Prepaid Bond Insurance, Original Issue Discounts and Premiums, and Refundings

Prepaid bond insurance costs are amortized using the straight-line method over the life of the bonds. Amortization of these balances is recorded as a component of operating expenses.

In the government-wide, proprietary fund and fiduciary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, proprietary fund and fiduciary fund financial statements. Bond premiums and discounts are deferred and amortized on a straight line basis over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Gains or losses from refunding of debt are reported as deferred outflows or inflows of resources and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is recorded as a component of interest expense.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Restricted Assets

Assets that are restricted for specific uses by bonded debt requirements, grant provisions or other requirements are classified as restricted because their use is limited by applicable bond covenants or agreements.

10. Capital Assets

Capital assets include land, buildings, improvements, vehicles and equipment, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives in excess of one year. Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide statement of net position, the proprietary funds' statement of net position, and the private purpose trust fund's statement of fiduciary net position. 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. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term, when the lease does not transfer ownership or include a bargain purchase option or the estimated useful life of the asset and is included in depreciation and amortization.

Buildings, improvements, infrastructure, vehicles and equipment, and furniture and fixtures are depreciated using the straight-line method over the following estimated useful lives:

Buildings	5 – 40 years
Improvements, other than buildings	10 - 50 years
Infrastructure	25 - 50 years
Vehicles and equipment	2 - 40 years
Furniture and fixtures	10 years

Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. Capital assets that meet the definition of the major infrastructure networks or extend the life of existing infrastructure networks are capitalized as infrastructure. Infrastructure networks include roads, bridges, drainage systems, and lighting systems.

11. Compensated Absences – Accrued Vacation, Sick Leave, and Compensatory Time

Vacation, sick leave, compensatory time, and related benefits are accrued as determined by the agreements between the City and the respective employees' collective bargaining group. For governmental funds, compensated absence obligations are recorded in the appropriate governmental funds when due. The portion not currently due is recorded in the government-wide financial statements. For proprietary funds, compensated absences are expensed when earned by employees. At year-end, the accrued but unpaid compensated absence obligations are recorded as current and non-current liabilities in the appropriate proprietary funds.

Vacation hours may be accumulated up to two times an employee's annual accrual rate, which will vary by years of service and bargaining unit, but it generally does not exceed a maximum of 400 hours for non-sworn employees and 360 hours for employees represented by the San José Police Officer's Association ("SJPOA"). Employees represented by the International Association of Firefighters, Local 230 ("IAFF"), may accumulate vacation hours up to 400 hours for employees on a 40-hour workweek and 576 hours for employees on a 56-hour workweek.

Generally, employees in FCERS who retire with at least 15 years of service, or 20 years for police officers and firefighters in PFDRP, may be eligible to receive, upon retirement, sick leave payouts based on percentages of accumulated unused sick leave hours as determined by the respective collective bargaining agreements.

Employees hired on or after September 30, 2012, into classifications represented by the following bargaining units are not eligible for a sick leave payout: Association of Building, Mechanical, and Electrical Inspectors ("ABMEI"); the Association of Engineers and Architects, IFPTE Local 21 ("AEA"); the Association of Legal Professionals of San José ("ALP"); the Association of Maintenance Supervisory Personnel, IFPTE Local 21 ("AMSP"); the City Association of Management Personnel, IFPTE Local 21 ("CAMP"); the Confidential Employees' Organization, AFSCME Local 101 ("CEO"); the International Brotherhood of Electrical Workers, Local No. 332 ("IBEW"); the International Union of Operating Engineers, Local No. 3 ("OE#3"); the Municipal Employees' Federation, AFSCME Local 101 ("MEF"). Unrepresented employees hired on or after September 30, 2012, are also ineligible for a sick leave payout. Employees hired on or after July 7, 2013, into classifications represented by the SJPOA are not eligible for a sick leave payout. Employees hired on or after September 14, 2014, into classifications represented by IAFF are not eligible for a sick leave payout.

Employees hired on or before September 29, 2012, into classifications represented by ABMEI, AEA, ALP, AMSP, CAMP, CEO, IBEW, OE#3, MEF, as well as unrepresented employees, are eligible for a sick leave payout based on the employee's sick leave balance and hourly rate as of June 22, 2013. Employees in these bargaining units may continue to accrue sick leave after June 22, 2013, but such accrued sick leave may not be used for sick leave payout purposes. In addition, an employee may receive pay increases subsequent to June 22, 2013, but the employee's sick leave payout will be based on their rate of pay as of June 22, 2013. If an employee reduces their sick leave balance below what it was as of June 22, 2013, such employee will not be able to restore their sick leave balance for sick leave payout purposes.

Employees hired on or before July 6, 2013, into classifications represented by the SJPOA are eligible for a sick leave payout based on the employee's sick leave balance and hourly rate as of July 6, 2013. An employee may continue to accrue sick leave after July 6, 2013, but such accrued sick leave may not be used for sick leave payout purposes. In addition, an employee may receive pay increases subsequent to July 6, 2013, but the employee's sick leave payout will be based on their rate of pay as of July 6, 2013. If an employee reduces their sick leave balance below what it was as of July 6, 2013, such employee will not be able to restore their sick leave balance for sick leave payout purposes.

Employees hired on or before September 13, 2014, into classifications represented by IAFF are eligible for a sick leave payout based on the employee's sick leave balance as of June 20, 2015, and hourly rate as of June 21, 2014. An employee may continue to accrue sick leave after June 20, 2015, but such accrued sick leave may not be used for sick leave payout purposes. In addition, an employee may receive pay increases subsequent to June 21, 2014, but the employee's sick leave payout will be based on their rate of pay as of June 21, 2014. If an employee reduces their sick leave balance below what it was as of June 20, 2015, such employee will not be able to restore their sick leave balance for sick leave payout purposes.

12. Interfund Transactions

Interfund transactions are reflected as loans, services provided, reimbursements and/or transfers. Loans and balances related to unsettled service transactions are reported as receivables and payables as appropriate, are subject to elimination upon consolidation of similar fund types, and are referred to as either "due to/from other funds," i.e., the current portion of interfund loans and unsettled service transactions, or "advances to/from other funds," i.e., the non-current portion of interfund loans. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Services provided are deemed to be at market or near market rates and are treated as revenues and expenditures/expenses. Reimbursements are defined as when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

13. Self-Insurance

The City is self-insured for workers' compensation, general liability, auto liability, and certain other risks, except as described in Note III.F.13. The City's workers' compensation activities are funded and accounted for separately in the fund financial statements based upon the activities of each fund. The current portion of claims liability is accounted for in the General Fund and the enterprise funds on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements and the enterprise fund financial statements, the estimated liability for all self-insurance liability claims is recorded as a liability.

14. Deferred Outflows/Inflows of Resources

Deferred resources related to pension expense and unamortized portions of the gain and loss on refunding debt are reported as deferred outflows and deferred inflows of resources, respectively. In addition to this, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

15. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's defined benefit retirement plans, PFDRP, FCERS, and the California Public Employees' Retirement System ("CalPERS") and additions to/deductions from the Retirement Systems' and CalPERS' fiduciary net positions have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

16. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment In Capital Assets* **–** This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt and deferred outflows/inflows of resources associated with the debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Position* – This category represents net position that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, the government-wide statement of net position reported restricted net position of $927,190,000 in governmental activities and $113,459,000 in business-type activities. Of these amounts $327,875,000 and $53,395,000, respectively are restricted by enabling legislation.

- *Unrestricted Net Position* – This category represents net amounts that do not meet the criteria for “restricted” or “net investment in capital assets”.

17. Fund Balances

Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the financial statements reporting for governmental funds classify fund balances based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. Fund balance for the City’s governmental funds consists of the following categories:

- *Nonspendable Fund Balance* – includes amounts that are not in a spendable form, such as inventories, prepaid items, and long-term loans and notes receivables. It also includes amounts that are legally or contractually required to be maintained intact or required to be retained in perpetuity, such as the principal of an endowment fund.

- *Restricted Fund Balance* – includes amounts reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

- *Committed Fund Balance* – includes amounts that have been limited to specific purposes as defined in the City Charter or through adoption of an ordinance by the City Council, the highest level of decision making authority of the City. These commitments may be changed or lifted, but only by the same formal action that was used to impose the constraint originally. City Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes that are neither restricted nor committed through City Council budgetary action, which include the approval of appropriations and revenue sources pertaining to the next fiscal year’s budget. On June 21, 2011, City Council adopted a resolution establishing the City’s Governmental Fund Balance Financial Reporting Policy, which states that assigned fund balances are intended to be used for specific purposes through City Council budgetary actions. Intent is expressed by (a) the City Council or (b) the City Manager to which the City Council has delegated the authority to assign amounts to be used for specific purposes.

- *Unassigned Fund Balance* – includes amounts within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Unassigned amounts are technically available for any purpose. Other governmental funds may only report a negative unassigned balance that was created after classification in one of the other four fund balance categories.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance categories, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

18. Property Taxes

Property taxes are collected on behalf of and remitted to the City by the County of Santa Clara (the County). The amount of property tax levies is restricted by Article 13A of the California State Constitution (commonly referred to as Proposition 13).The County assesses property values, levies, bills, and collects the related property taxes as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	January 1
Levy dates	October 1	July 1
Due dates (delinquent after)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

The City has elected to participate in the "Teeter Plan" offered by the County whereby cities receive 100% of secured property and supplemental property taxes levied in exchange for foregoing any interest and penalties collected on the related delinquent taxes. Accordingly, property taxes levied for the fiscal year are recorded as revenue when received from the County.

General property taxes are based either on a flat 1% rate applied to the fiscal 1976 full value of the property or on 1% of the sales price of the property on sales transactions and construction that occur after the fiscal 1976 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year depending on increases in the consumer price index.

The City's net assessed valuation for the year ended June 30, 2015, was approximately $141.5 billion, an increase of approximately 6.8% from the previous year. The City's tax rate was approximately $0.181 per $100 of assessed valuation, which included the 1% basic levy and additional levies for general obligation bonds Measures "O" and "P" (2000) and Measure "O" (2002).

19. Wastewater Treatment System

The Wastewater Treatment System is an enterprise of the City and is comprised of the Plant, including South Bay Water Recycling, and the San José Sewage Collection System.

The Plant provides wastewater treatment services to the City and to six other sewage collection agencies. The Clean Water Financing Authority was established to provide financing for the capital programs of the Plant including the regional water reclamation program. The City's sewer service rates pay for the City's share of the Plant operations, maintenance, and administration and capital costs.

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the fiscal year ended June 30, 2015, the City's portion of the capital and operating costs was approximately 82.6% and the City's interest in the net position of the Plant was approximately 83.5%.

II. Stewardship, Compliance, and Accountability

A. Deficit Net Position

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show on an annual basis that it had incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, the former Agency liabilities exceeded assets. Therefore, the Agency historically carried a deficit, which was expected to be reduced as future tax increment revenues were received and used to reduce its outstanding long-term debt. This deficit was transferred to the SARA on February 1, 2012. At June 30, 2015, SARA has a deficit of $1,885,701,000, which will be eliminated with future redevelopment property tax revenues distributed from the Redevelopment Property Tax Trust Fund administered by the County's Auditor-Controller.

B. Deficit Unrestricted Net Position – Governmental Activities

At June 30, 2015, the City reports a deficit unrestricted net position in its Statement of Net Position – governmental activities in the amount of $1,734,224,000. This deficit is primarily due to the City's accrual of certain long-term liabilities, such as the net pension liability, compensated absences, and estimated claims, that are recognized as expenses under the accrual basis of accounting as the liabilities are incurred; however, these expenses are not budgeted (funded) until the liabilities are anticipated to come due; and the City's recognition of other postemployment benefit ("OPEB") obligations for OPEB costs in which the actuarial annual required contributions are greater than the amount funded into the OPEB plans to date (see Note IV.A.3.3).

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2015, total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds: Pension Trust	Fiduciary Funds: Private Purpose Trust	Fiduciary Funds: Agency	Carrying Value
Equity in pooled cash and investments	$ 862,960	$ 519,231	$ -	$ 469	$ 4,721	$ 1,387,381
Other cash and investments	-	-	-	28,382	-	28,382
Restricted assets:						
Equity in pooled cash and investments	57,736	164,189	-	-	-	221,925
Cash and investments with fiscal agents	144,542	110,318	-	134,507	-	389,367
Other cash and investments	6,840	-	-	-	-	6,840
Investments of retirement systems	-	-	5,337,770	-	-	5,337,770
Total deposits and investments	$ 1,072,078	$ 793,738	$ 5,337,770	$ 163,358	$ 4,721	$ 7,371,665
Deposits						$ 6,136
Investments						7,365,529
Total deposits and investments						$ 7,371,665

Pooled Cash and Investments Held in City Treasury. The City maintains a cash and investment pool that is available for use by all funds and certain component units. Each fund's portion of this pool is displayed on the accompanying governmental fund balance sheets and proprietary fund and fiduciary fund statements of net position as "Equity in pooled cash and investments held in City Treasury."

Other Cash and Investments. The City has other investments outside the City Treasury that are invested pursuant to various governing bond covenants, San José Municipal Code or California Government Code provisions.

Other cash and investments consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These investments are made either in accordance with bond covenants, and are pledged for payment of principal, interest, and specified capital improvements or in accordance with trust and grant agreements.

Investments of Retirement Systems. The Retirement Systems' funds are invested pursuant to policy guidelines established by the respective Boards. The objective of each investment policy is to maximize the expected return of the funds at an agreed upon level of risk. The Retirement Boards have established percentage guidelines for types of investments to ensure the portfolio is diversified.

Investment Risk. The investments are subject to certain types of risk, including interest rate risk, credit quality risk, concentration of credit risk, custodial credit risk and foreign currency risk. These risks are addressed separately for the investments related to governmental and business-type activities and those related to the Retirement Systems, as follows:

1. Governmental and Business-Type Activities

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 two years. Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed 5 years.

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2015, was approximately 469 days.

Credit Quality Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligations 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.

Investment in Local Agency Investment Fund. The City is a voluntary participant in the California Local Agency Investment Fund ("LAIF") that is governed by the California Government Code under the oversight of the Local Investment Advisory Board ("Board"). The Board consists of five members as designated by state statute. The fair value of the City's investment in the LAIF pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF, for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis, which is different from the fair value of the City's position in the LAIF pool.

At June 30, 2015, the City's pooled and fiscal agent investments in LAIF was approximately $270,711,000 and the SARA's investments in LAIF was approximately $18,103,000. The weighted average maturity of LAIF was 239 days at June 30, 2015. The total amount recorded by all public agencies in LAIF at June 30, 2015 was approximately $21.5 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The total amount recorded by all public agencies in PMIA at June 30, 2015 was approximately $69.6 billion and of that amount, 97.92% was invested in non-derivative financial products and 2.08% in structured notes and asset backed securities.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy sets forth the policies regarding concentration of credit risk.

The City Council adopted an investment policy (the "Policy") on April 2, 1985, as last amended on June 9, 2015, related to the City's cash and investment pool, which is subject to annual review. The 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 Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy.

The following table identifies the investment types that are authorized by the Policy as of June 30, 2015:

Authorized Investment Type	Maximum Maturity	Maximum Percentage or Dollar of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Supranationals	5 years	20% *	None
Bankers' Acceptances	180 days	20% *	5% *
Insured Time Deposits	3 years *	$10 million *	5% *
Uninsured Time Deposits	18 months *	$10 million *	5% *
Commercial Paper	270 days	20% *	5% *
Negotiable Certificates of Deposit	180 days *	20% *	5% *
Repurchase Agreements	92 days *	50% *	10% *
Reverse Repurchase Agreements	30 days *	Lesser of $25 million or 20% *	None
Corporate Medium Term Notes	3 years *	20% *	5% *
California Local Agency Investment Fund	None	State Treasurer Limit	None
Money Market Mutual Funds	None	20%	10%
Municipal Bonds - Category 1 (City)	5 years	10% *	5% *
Municipal Bonds - Category 2 (State of CA)	5 years	5% *	5% *
Municipal Bonds - Category 3 (CA Issuers)	5 years	5% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	5% *	5% *
Investment Agreements	None	None	None
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)	5 years	10%*	None
Asset Backed Securities (ABS)	5 years	5% *	None

* Represents where the City’s investment policy is more restrictive than the California Government Code.

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Agriculture Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Investment in Farmer Mac may not exceed 10% of the total portfolio.

- Purchases of Supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated “Aa3, AA or AA” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.

- Purchases of Bankers’ Acceptances (“BAs”) are limited to issues by domestic U.S. or foreign banks. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.

- Deposits up to the Federal Deposit Insurance Corporation (“FDIC”) of $10,000,000 may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Depositories now must have a short-term rating of “P1, A1, or F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. Deposits shall be collateralized in the manner prescribed by State law for depositories.

- Commercial paper eligible for investment must be rated “P1, A1 or F1” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of $500,000,000 and shall issue debt, other than commercial paper, if any, that is rated “A3, A- or A-” or higher, respectively, by Moody’s, S&P, or Fitch.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer short-term rating of “P1, A1, F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.

- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City’s Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of the repurchase agreement’s face value.

- Reverse repurchase agreements under the Policy are limited to the lesser of $25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.

- Corporate medium term notes eligible for investment must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.

- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is $50,000,000.

- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission (“SEC”) and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years of experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of $500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and must be maintained at no less than $1.00 per share.

- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be rated “A3, A- or A-”

or better by two of the three nationally recognized rating services; Moody's, S&P, or Fitch, respectively.

- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a provider's inability to meet its contractual obligations.

- Mortgage backed securities and collateralized mortgage obligations must be issued by a United States government agency and must be AAA-rated or better by a nationally recognized rating service.

- Asset backed securities must be AAA-rated or better by a nationally recognized rating service. The issuer of any asset backed security must have an "A3, A- or A-" rating or better by Moody's, S&P, or Fitch, respectively, of its underlying debt.

The Policy permits the Director of Finance to authorize investments that depart from the Policy's numerical limits if such an action is in the best interest of the City and is otherwise consistent with the Policy and applicable City, state and federal laws. Whenever a deviation or exception to the Policy occurs, it must be reported to the City Manager within 3 business days and to the City Council within 10 days of its discovery.

The following schedule indicates the interest rate risk, credit quality risk and concentration of credit risk of the City's investments, as of June 30, 2015 (dollars in thousands). The credit ratings listed are for Moody's and S&P, respectively.

		Maturity				
Type of Investment	**Credit Rating**	**Under 30 Days**	**31 - 180 Days**	**181 - 365 Days**	**1 - 5 Years**	**Carrying Value**
Pooled investments in the City Treasury:						
Treasury Notes	Aaa / AA+	$ -	$ -	$ 16,009	$ 10,020	$ 26,029
Federal Farm Credit Banks	Aaa / AA+	30,001	53,521	82,580	91,518	257,620
Federal Home Loan Banks	Aaa / AA+	25,002	48,488	40,866	157,287	271,643
Federal Home Loan Banks - Callable	Aaa / AA+	-	-	-	27,600	27,600
Federal Home Loan Banks - Discount	P-1 / A-1	-	20,490	-	-	20,490
Federal Home Loan Mortgage Corporation	Aaa / AA+	-	-	5,007	111,433	116,440
Federal Home Loan Mortgage Corporation - Callable	Aaa / AA+	-	-	-	161,511	161,511
Federal National Mortgage Association	Aaa / AA+	-	20,011	10,014	132,880	162,905
Federal National Mortgage Association - Callable	Aaa / AA+	-	-	-	48,910	48,910
Corporate Medium Term Notes	P-1 / A-1	53,521	53,856	87,931	56,989	252,297
Corporate Medium Term Notes - Callable	P-1 / A-1	-	-	5,150	-	5,150
Commercial paper	P-1 / A-1	-	9,989	12,772	-	22,761
Commercial paper - Discount	P-1 / A-1	50,999	34,977	-	-	85,976
Negotiable certificate of deposit	P-1 / A-1	53,000	14,006	-	-	67,006
Money market mutual funds	Aaa-mf	17,925	-	-	-	17,925
California local agency investment fund	Not Rated	-	-	85,000	-	85,000
Total pooled investments in the City Treasury		230,448	255,338	345,329	798,148	1,629,263
Investments with fiscal agents:						
Federal Home Loan Banks	P-1 / A-1	13,975	-	-	-	13,975
Federal Home Loan Banks - Discount	P-1 / A-1	-	12,146	-	-	12,146
Money market mutual funds	AAAm	13,963	-	-	-	13,963
California local agency investment fund	Not Rated	-	-	195,523	-	195,523
Total investments with fiscal agents		27,938	12,146	195,523	-	235,607
Total Citywide investments (excluding Retirement Systems)		$ 258,386	$ 267,484	$ 540,852	$ 798,148	1,864,870
Trust Funds:						
Total investments in Retirement Systems (See page 63)						5,337,770
Total investments in the SARA (See page 138)						162,889
Total investments						$ 7,365,529

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name. As of June 30, 2015, the City's deposits were collateralized at 110%. All investments in the City Treasury were in the City's name. Neither deposits nor investments held by the City were subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the City. The City mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5% of the total portfolio unless discussed otherwise in the above table. Investments issued by or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement.

As of June 30, 2015, the City's pooled investments in the City Treasury have investments in U.S. Agencies that represents 5% or more of the total pooled investments in the following:

Federal Farm Credit Banks	15.81%
Federal Home Loan Banks	19.62%
Federal Home Loan Mortgage Corporation	17.06%
Federal National Mortgage Association	13.00%

In addition, the following major funds hold investments with trustees that represent 5% or more of the funds' investments outside the City Treasury as of June 30, 2015:

Special Assessment Districts:	
Federal Home Loan Banks	37.57%
Airport:	
Federal Home Loan Banks	13.43%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2015, 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.

2. Retirement Systems

Investment Policies – The City's Municipal Code delegates authority to the Boards of Administration of PFDRP and FCERS (the "Retirement Boards") to invest monies of the respective plans as provided in the Municipal Code. The Retirement Boards have adopted detailed investment guidelines consistent with the limitations set forth in the Municipal Code. At June 30, 2015, the Retirement Systems' investment target asset allocations are as follows:

	PFDRP - Pension		
Asset Class	**Minimum**	**Target**	**Maximum**
Global and private equity	25%	39%	50%
Fixed income	15%	27%	35%
Inflation-linked assets	12%	25%	25%
Absolute return	10%	16%	30%
Cash	-	1%	5%

	FCERS - Pension		
Asset Class	**Minimum**	**Target**	**Maximum**
Global equity	30%	28%	44%
Private equity	-	9%	-
Global fixed income	14%	19%	34%
Private debt	-	5%	10%
Absolute return	6%	11%	16%
Global tactical asset allocation/ Opportunistic	-	5%	-
Real assets	15%	23%	30%
Cash	-	-	5%

	PFDRP - Postemployment Healthcare		
Asset Class	**Minimum**	**Target**	**Maximum**
Global equity	25%	43%	50%
Fixed income	5%	15%	25%
Absolute return	-	20%	25%
Inflation-linked assets	12%	22%	25%
Cash	-	-	5%

	FCERS - Postemployment Healthcare		
Asset Class	**Minimum**	**Target**	**Maximum**
Global equity	40%	47%	54%
Fixed income	20%	30%	40%
Real assets	15%	23%	30%

The Inflation-linked asset category includes allocations to, real estate, commodities, and other inflation-linked assets. The absolute return and global tactical asset allocation/opportunistic asset classes include allocations to global macro and relative value hedge fund strategies and managers with unconstrained global mandates. In addition during times of significant market dislocations opportunistic mandates would be allocated to the global tactical asset allocation/opportunistic asset class. The real assets asset class allocates to commodities, natural resources, infrastructure, and real estate.

As of June 30, 2015, PFDRP's separate real estate properties include: office buildings in O'Fallon, MO and San José, CA. As of June 30, 2015, the office building in O'Fallon, MO had a mortgage payable with a fair value of $8,127,000.

At June 30, 2015, the Retirement Systems held the following investments (dollars in thousands):

	PFDRP	FCERS	Total
Securities and other:			
Fixed income:			
Global fixed income	$ 534,874	$ 403,127	$ 938,001
Collective short term investments	274,773	144,151	418,924
Total fixed income	809,647	547,278	1,356,925
Absolute return	138,715	209,899	348,614
Global equity	934,112	904,240	1,838,352
Global tactical asset	345,846	-	345,846
Private equity	277,800	97,750	375,550
Private debt	226,174	108,331	334,505
Real assets	452,628	259,294	711,922
Real estate	25,318	-	25,318
International currency contracts, net	405	333	738
Total investments	$ 3,210,645	$ 2,127,125	$ 5,337,770

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Retirement Systems do not have a policy regarding interest rate risk.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2015, concerning the fair value of investments and interest rate risk (dollars in thousands):

	PFDRP							
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years	**Total Fair Value**	**Total Cost**
Global fixed income:								
Commingled Funds	$ 22,941	$ -	$ -	$ 285,022	$ 226,820	$ 91	$ 534,874	$ 544,004
Collective short-term investments	274,773	-	-	-	-	-	274,773	266,384
Total fixed income	$ 297,714	$ -	$ -	$ 285,022	$ 226,820	$ 91	$ 809,647	$ 810,388

	FCERS							
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years	**Total Fair Value**	**Total Cost**
Global fixed income:								
Commingled Funds	$ 34,411	$ -	$ -	$ 196,656	$ 62,713	$ -	$ 293,780	$ 293,433
Corporate Bonds	-	-	-	2	-	-	2	-
U.S. TIPS	-	-	11,770	97,575	-	-	109,345	111,142
Total global fixed income	34,411	-	11,770	294,233	62,713	-	403,127	404,575
Collective short-term investments	144,151	-	-	-	-	-	144,151	138,209
Total fixed income	$ 178,562	$ -	$ 11,770	$ 294,233	$ 62,713	$ -	$ 547,278	$ 542,784

Custodial Credit Risk – The Retirement Systems do not have a policy regarding custodial credit risk. As of June 30, 2015, the Retirement Systems' investments, are held in the Retirement Systems' names, and/or are not exposed to custodial credit risk.

Credit Quality Risk – The Retirement Systems' investment policies allow for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated. Investment managers may, as part of their investment strategy, invest in securities where the issuer's ability or willingness to pay is limited. At times, these debt securities may be converted into other debt, equity, or hybrid securities that have different risk and return characteristics than the securities initially purchased. The Retirement Systems may hedge against the possible adverse effects of currency fluctuations on the Retirement Systems' portfolios of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

Please note that the following table reflects only securities held in the Retirement System' names and not the securities held in comingled funds. The table provides information as of June 30, 2015 concerning credit risk of fixed income investments (dollars in thousands):

	PFDRP		**FCERS**	
S&P quality rating	**Fair Value**	**Fair value as a % of fixed income investments**	**Fair Value**	**Fair value as a % of fixed income investments**
AA+	$ -	0%	$ 109,345	20%
Not rated	809,647	100%	437,933	80%
Total	$ 809,647	100%	$ 547,278	100%

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the Retirement Systems' investment policies permit individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuation on the underlying asset value.

The following tables provide information as of June 30, 2015, concerning the fair value of investments and foreign currency risk (dollars in thousands):

PFDRP

Currency Name	Cash	Private Equity	Global Equity	Real Assets	International Currency Contracts, Net	Total Exposure
Australian Dollar	$ (230)	$ -	$ 2,015	$ -	$ 10	$ 1,795
British Pound Sterling	(466)	-	20,595	-	428	20,557
Canadian Dollar	(191)	-	6,906	-	(93)	6,622
Denmark Krone	-	-	7,104	-	-	7,104
Euro Currency	(1,424)	-	14,785	9,093	(370)	22,084
Hong Kong Dollar	-	-	967	-	-	967
Japanese Yen	532	-	13,127	-	431	14,090
Norwegian Krone	-	-	1,095	-	-	1,095
South Korean Won	-	-	4,184	-	-	4,184
Swedish Krona	(51)	-	1,804	-	(1)	1,752
Swiss Franc	-	-	8,633	-	-	8,633
Total	$ (1,830)	$ -	$ 81,215	$ 9,093	$ 405	$ 88,883

FCERS

Currency Name	Cash	Private Equity	Global Equity	Real Assets	International Currency Contracts, Net	Total Exposure
Australian Dollar	$ (259)	$ -	$ 14,149	$ -	$ 15	$ 13,905
Brazilian Real	-	-	49	-	-	49
Canadian Dollar	(164)	-	38,363	-	(82)	38,117
Chile Peso	-	-	247	-	-	247
Denmark Krone	-	-	7,015	-	-	7,015
Euro Currency	(391)	7,026	29,126	-	(261)	35,500
Hong Kong Dollar	17	-	10,878	-	-	10,895
Hungarian Forint	-	-	62	-	-	62
Indonesian Rupiah	-	-	394	-	-	394
Israeli Shekel	-	-	636	-	-	636
Japanese Yen	151	-	5,130	-	304	5,585
Korean Won	-		8,024	-	-	8,024
Malaysian Ringgit	-	-	1,145	-	-	1,145
Mexican Peso	-	-	1,105	-	-	1,105
Moroccan Dirham	-	-	9	-	-	9
New Zealand Dollar	-	-	541	-	-	541
Norwegian Krone	-	-	4,204	-	-	4,204
Peruvian Nuevo Sol	-	-	31	-	-	31
Philippine Peso	-	-	32	-	-	32
Polish Zloty	4	-	476	-	-	480
Russian Ruble	-		112	-	-	112
Singapore Dollar	-	-	1,446	-	-	1,446
South African Rand	-	-	1,181	-	-	1,181
Swedish Krona	(71)	-	75	-	(4)	-
Swiss Franc	-	-	19,666	-	-	19,666
Thailand Baht	-	-	296	-	-	296
Turkish Lira	-	-	39	-	-	39
United Kingdom Pound	(320)	-	55,969	-	361	56,010
Total	$ (1,033)	$ 7,026	$ 200,400	$ -	$ 333	$ 206,726

Investment Concentration Risk – The Retirement Systems' investment policies specify that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies or industries. The Retirement Systems' investment policy states that in addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 10% of the Retirement System's assets without Board approval, with the exception of passive management, where the Retirement System's assets are not held in the Retirement System's name at the Retirement System's custodial bank, in which case the investment management firm can manage no more than 20% of the Retirement System's assets without Board approval. In addition as a general rule, Retirement System assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval. As of June 30, 2015, the Retirement Systems did not hold investments in any one issuer, excluding U.S. Government guaranteed investments that represented 5% or more of the total Retirement Systems' net position or total investments.

Derivatives – The Retirement Systems' investment policies allow for investments in derivative instruments that comply with the Retirement Systems' objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The Retirement Systems are currently authorized to use derivative strategies to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to the applicable Boards approved policy benchmark. In addition to the Retirement Systems internal derivative policies, it is understood that the mandates of certain investment managers retained by the Retirement Systems may use derivatives. Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable.

PFDRP's investment policy states that the fair value of derivative investments that are not exchange traded, such as swaps and rights, is determined by the PFDRP's custodian based on the base market value of similar instruments. FCERS investment policy states that investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds; the fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The investment policies of both PFDRP and FCERS provide that futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2015. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts for a portion of derivative instruments outstanding as of June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (amounts in thousands):

PFDRP

Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2015 Classification	Amount	Fair Value at June 30, 2015 Classification	Amount	Notional Amount
International currency forwards	Investment income	$ (13,287)	International currency contracts, net	$ 405	$ 111,665
Futures long/short (domestic and foreign)	Investment income	9,947	Fixed income (domestic and foreign)	-	12,085
Index futures long/short (domestic & foreign)	Investment income	-	Fixed income (domestic and foreign)	-	167
Total derivative instruments		$ (3,340)		$ 405	

FCERS

Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2015 Classification	Amount	Fair Value at June 30, 2015 Classification	Amount	Notional Amount
International currency forwards	Investment income	$ (12,340)	International currency contracts, net	$ 333	$ 76,168
Future options bought/written	Investment income	8,973	Fixed income, collective short-term	-	(13,878)
Rights / Warrants	Investment income	56	Global equity	-	17
Total derivative instruments		$ (3,311)		$ 333	

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2015:

Counterparty Credit Risk – The Retirement Systems are exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The Retirement Systems' investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract.

As of June 30, 2015, PFDRP had total commitments in forward currency contracts to purchase and sell international currencies of $111,665,000 and $111,665,000, respectively, with fair values of $112,095,000 and $111,690,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2015, FCERS had total commitments in forward currency contracts to purchase and sell international currencies of $76,168,000 and $76,168,000, respectively, with fair values of $76,497,000 and $76,164,000, respectively, held by counterparties with an S&P rating of at least A and above.

Interest Rate Risk – FCERS has exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices. Net values are adjusted with unrealized gains and losses and are collateralized to minimize counterparty risk. FCERS receives the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 50 to 55 basis points. FCERS does not have a policy regarding interest rate risk; however, FCERS does settle on a transaction plus one day basis (T+1), therefore limiting FCERS exposure to counterparty risk. As of June 30, 2015, the FCERS's derivative investments had a maturity date of less than one year.

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Retirement Systems' investment policies permit individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Retirement Systems' investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Retirement Systems utilize these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2015, the Retirement Systems' net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Retirement Systems' commitments relating to forward currency contracts are settled on a net basis. Foreign currency risk on these investments as of June 30, 2015, is disclosed in the table on page 65.

Securities Lending. FCERS does not have a securities lending program. PFDRP has historically participated in a securities lending program offered by the PFDRP's custodial bank, State Street Corporation (State Street).The program permitted State Street to lend the individual securities in the PFDRP's investment portfolio into a "collateral pool" under such terms and conditions as State Street deemed advisable and to permit the lent securities to be transferred into the name of the borrowers.

On August 7, 2014, the PFDRP Board voted to exit the State Street securities lending program due to lower anticipated earnings as PFDRP shifted a large portion of assets from separately managed accounts enrolled in the securities lending program to commingled accounts that cannot be enrolled in the program. In order to exit the securities lending program, PFDRP incurred an approximate loss of $507,000 due to the NAV of the collateral pool being below $1.00 at the time of redemption. As of June 30, 2015, PFDRP no longer participated in the State Street's securities lending program or directly in any other securities lending program.

B. Receivables, Net of Allowances

At June 30, 2015, receivables of the City's major individual funds and nonmajor funds taken in aggregate, including the applicable allowance for uncollectible accounts, are as follows (dollars in thousands):

Receivables – Governmental Activities:	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Special Assessment Districts	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Taxes	$ 39,953	$ -	$ -	$ -	$ 8,190	$ -	$ 48,143
Accrued interest	510	124	1,426	23	2,221	37	4,341
Grants	1,207	1,029	-	-	9,781	-	12,017
Special assessments	-	-	-	40,550	-	-	40,550
Other	35,160	27	26	1,316	19,718	115	56,362
Less: allowance for uncollectibles	(21,715)	(3)	-	-	(3,050)	(42)	(24,810)
Total receivables, net	$ 55,115	$ 1,177	$ 1,452	$ 41,889	$ 36,860	$ 110	$ 136,603

Receivables – Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	$ 10,637	$ 3,981	$ 3,880	$ 249	$ 18,747
Accrued interest	376	703	47	34	1,160
Grants	1,333	122	-	-	1,455
Less: allowance for uncollectibles	(344)	(594)	(477)	(63)	(1,478)
Total receivables, net	$ 12,002	$ 4,212	$ 3,450	$ 220	$ 19,884

Special assessment receivables in the amount of $40,550,000 are not expected to be collected within the subsequent year.

C. Loans Receivable, Net of Allowances

The composition of the City's loans receivable balance for governmental activities, net of the allowance for uncollectible accounts, as of June 30, 2015 is as follows (dollars in thousands):

Type of Loan	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Nonmajor Governmental Funds	Total Governmental Activities
Housing Program Developer, rehabilitation, second mortgage and relocation loans	$ -	$ -	$ 533,440	$ -	$ 533,440
Loans funded by federal grants	-	69,696	-	6,313	76,009
Economic development, real estate developer and other loans	1,241	50,885	-	165	52,291
Less: allowance for uncollectibles	-	(50,524)	(291,338)	(2,540)	(344,402)
Total loans, net	$ 1,241	$ 70,057	$ 242,102	$ 3,938	$ 317,338

The City uses funds generated from the former Agency Housing Loans as well as other state and federal funding sources to offer financial assistance to qualified developers, individuals and families by providing loans at "below market" interest rates.

Typical loans and related terms are summarized as follows:

Loan Type	Interest Rates	Due
New construction and permanent	0 - 4%	up to 55 years
Multi-unit rental rehabilitation	3%	5 or more years
First time home buyer	4%	7 to 40 years
Home improvement	3 - 6%	1 to 30 years

Loans are secured by first, second, third or lower in lien-property deeds of trust except for first time homebuyer loans, which are all secured by second deeds of trust. Interest and principal are typically due in installments, except for first time homebuyer, which do not require payments until their maturity dates.

The City has also invested in multi-family rental housing projects serving very low to moderate income individuals through subordinate loans with terms of up to 55 years. Generally, these loans are to be repaid through fixed payments or net cash flow payments from project operations and the term and potential risk of each loan varies. Because of the net cash flow feature of these subordinate loans, there is greater risk of variability in the timing of payments and, potentially, a lower probability of eventual repayment on these subordinate loans than on other loan types.

The City maintains a valuation allowance against loans receivable comprised of an allowance for risk and an allowance for present value discount. The allowance for risk is maintained to provide for losses that can be reasonably anticipated. The allowance is based upon continuing consideration of changes in the character of the portfolio, evaluation of current economic conditions, and such other factors that, in the City's judgment, deserve recognition in estimating potential loan losses. The allowance for risk takes into consideration maturity dates, interest rates, and other relevant factors.

In accordance with City policy, loans are funded at below market rates of interest and include amortized net cash flow deferred repayment terms. This policy exists to enhance the well-being of the recipients or beneficiaries of the financial assistance, who, as described above, are very low, low, or moderate-income individuals or families, or developers of housing for such individuals or families.

Accordingly, for financial statement purposes, the City has established an allowance account against the loans receivable balance containing a present value discount. The present value discount gives recognition to the economic cost of providing loans at interest rates below market, and represents an estimate of the present value of projected net cash flows to the City from the loan portfolio. The present value discount attributable to the loans will be recognized as interest income only as such loans are repaid in full because of the deferred nature of the loan portfolio and the high level of uncertainty relating to the likelihood that cash flows will occur as projected. The difference between the individual outstanding loan balances and the calculated net present value of the loans results in the allowance for present value discount. Losses are recognized as an addition to the allowance and any subsequent recoveries are deducted from the allowance.

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and Low and Moderate Income Housing Asset Fund loans receivable as of June 30, 2015.

In the normal course of operations for housing programs, the City has outstanding commitments to extend credit, which have been encumbered as of June 30, 2015. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2015, amounts committed to extend credit under normal lending agreements totaled approximately $2,703,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2015 (dollars in thousands):

	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 414,721	$ 12,151	$ 38,140	$ -	$ 388,732
Construction in progress	53,865	47,235	25,874	(24,897)	50,329
Total capital assets, not being depreciated	468,586	59,386	64,014	(24,897)	439,061
Capital assets, being depreciated:					
Buildings	1,482,518	240	1,380	111,116	1,592,494
Improvements, other than buildings	218,733	5,205	-	16,807	240,745
Infrastructure	11,396,426	21,539	-	2,462	11,420,427
Vehicles and equipment	110,921	16,407	12,685	1,313	115,956
Furnitures and fixtures	27,130	64	-	-	27,194
Property under capital leases	12,704	-	1,446	-	11,258
Total capital assets, being depreciated	13,248,432	43,455	15,511	131,698	13,408,074
Less accumulated depreciation for:					
Buildings	446,669	38,349	283	27,691	512,426
Improvements, other than buildings	28,499	6,489	-	222	35,210
Infrastructure	7,166,031	308,111	-	-	7,474,142
Vehicles and equipment	92,565	9,387	12,414	-	89,538
Furnitures and fixtures	23,862	2,781	-	-	26,643
Property under capital leases	12,595	109	1,446	-	11,258
Total accumulated depreciation	7,770,221	365,226	14,143	27,913	8,149,217
Total capital assets, being depreciated, net	5,478,211	(321,771)	1,368	103,785	5,258,857
Governmental activities capital assets, net	$ 5,946,797	$ (262,385)	$ 65,382	$ 78,888	$ 5,697,918
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 134,926	$ -	$ -	$ -	$ 134,926
Intangible assets	12,882	-	-	-	12,882
Construction in progress	20,337	22,584	-	(13,712)	29,209
Total capital assets, not being depreciated	168,145	22,584	-	(13,712)	177,017
Capital assets, being depreciated:					
Buildings	1,629,575	13	322	5,064	1,634,330
Improvements, other than buildings	1,139,544	31,461	651	5,786	1,176,140
Vehicles and equipment	239,785	7,124	633	2,862	249,138
Property under capital leases	6,884	-	-	-	6,884
Total capital assets, being depreciated	3,015,788	38,598	1,606	13,712	3,066,492
Less accumulated depreciation for:					
Buildings	451,389	43,338	226	-	494,501
Improvements, other than buildings	524,652	29,518	651	-	553,519
Vehicles and equipment	145,447	12,631	633	-	157,445
Property under capital leases	5,717	91	-	-	5,808
Total accumulated depreciation	1,127,205	85,578	1,510	-	1,211,273
Total capital assets, being depreciated, net	1,888,583	(46,980)	96	13,712	1,855,219
Business-type activities capital assets, net	$ 2,056,728	$ (24,396)	$ 96	$ -	$ 2,032,236

During the fiscal year ended June 30, 2015, the SARA transferred $78,888,000 in capital assets to the City. A more detailed description of this transaction can be found at Note IV.C.2.

2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the fiscal year ended June 30, 2015 is as follows (dollars in thousands):

Governmental activities:		
General government	$	12,098
Public safety		6,534
Capital maintenance		313,697
Community services		30,037
Capital assets held by City's internal service funds		2,860
Total depreciation expense - governmental activities	$	365,226
Business-type activities:		
Norman Y. Mineta San José International Airport	$	53,560
Wastewater Treatment System		27,523
Municipal Water System		2,569
Parking System		1,926
Total depreciation expense - business-type activities	$	85,578

3. Capitalized Interest

Interest costs that related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested tax-exempt debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. There was no capitalized interest cost for the fiscal year ended June 30, 2015.

4. Construction Commitments

Commitments outstanding as of June 30, 2015, related to governmental and business-type activities construction in progress totaled approximately $33,474,000 and $54,575,000, respectively.

E. Leases

1. Operating Leases as Lessee

The City has commitments under various operating lease agreements requiring annual rental payments, which are described as follows:

Governmental Activities

The City has ongoing commitments under operating lease agreements for business equipment, office facilities and land necessary for City operations, which expire at various dates through 2021. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund and the Nonmajor Governmental Funds under these operating lease agreements for the fiscal year ended June 30, 2015 amounted to approximately $1,509,000 and $202,000, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2015, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Govermental Activities
2016	$ 1,152	$ 99	$ 1,251
2017	455	-	455
2018	337	-	337
2019	280	-	280
2020	132	-	132
2021	23	-	23
Totals	$ 2,379	$ 99	$ 2,478

Business-Type Activities

Airport Gas-Powered Buses. In September 2009, the City entered into a restated operating lease and maintenance agreement for ten compressed natural gas ("CNG") powered buses for the Airport. The term of the agreement is from December 2007 to May 2017. Rental and maintenance expense for the Airport buses for the fiscal year ended June 30, 2015 was approximately $1,295,000.

Future Minimum Payments. The future minimum lease and maintenance payments required under the existing agreement for the ten CNG powered buses, as of June 30, 2015, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Operating Leases
2016	$ 956
2017	879
Total	$ 1,835

2. Operating Leases as Lessor

Governmental Activities

The City also leases building space, facilities, and/or the privilege of operating a concession to tenants and concessionaries resulting in the receipt of annual rents that are not specifically described.

Business-Type Activities - Airport

Airline-Airport Lease and Operating Agreements. The City entered into an Airline-Airport lease and operating agreement with various passenger and cargo airlines ("Signatory Airlines") serving the Airport. The airline lease agreement, which took effect on December 1, 2007, was scheduled to expire on June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allowed the airlines the ability to continue to conduct operations and occupy leased space through the extended term. The existing rates and charges structure, as well as all other terms and conditions, remain unchanged through the extended term. Negotiations for a new agreement with the airlines are currently underway.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City's Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the new airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of $9,000,000. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airline's share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first $1,000,000 of the City's share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of the City's share shall be applied to the capital costs of the Airport's Master Plan Program. For the fiscal year ended June 30, 2015, the Airport's revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by approximately $24,349,000. The surplus for fiscal year ended June 30, 2015 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2017.

Other Airport Leases. In December 2013, the City entered into a ground lease and operating agreement with Signature Flight Support Corporation (Signature), which is constructing a full-service, fixed based facility on 29 acres of the Airport's west side. The term of the agreement is for 50 years from December 11, 2013 to December 11, 2063. Signature pays interim ground rental equal to 50% of the base ground rental until the earlier of (i) the first day of the twenty-fifth full calendar month from the effective date or (ii) the date a certificate of occupancy is issued for the use and occupancy of the leasehold improvements, whichever is earlier. At such date the certificate of occupancy is issued, or commencing with the twenty-fifth month after effective date, whichever is earlier, and continuing throughout the term, effective December 12, 2014, Signature shall pay base ground rental of $2.13 per square foot per year based upon the actual square footage of premises occupied. The base ground rental is subject to a consumer price index increase annually and by appraisal every five years. Rental revenues from the ground lease with Signature were $1,356,000 for the fiscal year ended June 30, 2015.

The City also enters into leases with concessionaires, airline carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. As of June 30, 2015, the terms of these operating leases range from one month to 23 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount. Rental revenues from the operating leases were $75,006,000 for the fiscal year ended June 30, 2015.

The future minimum rentals to be received from the Airport operating leases, as of June 30, 2015, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Amount
2016	$ 95,876
2017	98,047
2018	38,129
2019	37,857
2020	38,069
2021 - 2025	43,466
2026 - 2030	47,527
2031 - 2035	48,442
2036 - 2040	40,163
2041 - 2045	28,137
2046 - 2050	32,112
2051 - 2055	36,648
2056 - 2060	41,825
2061 - 2063	32,778
Total	$ 659,076

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. As of June 30, 2015, leased assets had historic costs of approximately $1,025,338,000 and accumulated depreciation of approximately $177,696,000.

F. Long-Term Debt and Other Obligations

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the City as of June 30, 2015 (dollars in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments ($ millions)	Balance June 30, 2015
Governmental Activities							
City of San José							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	$ 71,000	06/06/2001	09/01/2031	5.00-5.13%	2.37	$ 40,205
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	4.25-5.00%	3.87	69,650
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.13-5.00%	3.96	79,150
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	4.00-4.50%	1.54-1.55	32,440
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.51-3.52	77,320
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-5.50%	3.00	69,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10-1.11	26,470
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-5.00%	0.30	7,500
							401,735
HUD Section 108 Note (FMC)	Economic Development	25,810	02/10/2005	08/01/2024	Variable	0.15-0.33	**1,196**
City of San José Financing Authority							
Lease Revenue Bonds:							
Series 2001F (Convention Center)	Refunding	186,150	07/01/2001	09/01/2022	5.00%	10.53-14.73	100,260
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	4.00-4.70%	1.15-1.61	12,290
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.25-5.00%	0.00-17.44	54,765
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.13-4.75%	1.22-2.22	26,830
Series 2008C (Hayes Mansion)	Refunding	10,915	06/26/2008	06/01/2027	Variable	0.00-4.57	10,915
Series 2008D (Taxable) (Hayes Mansion)	Refunding	47,390	06/26/2008	06/01/2025	Variable	2.79-3.90	26,330
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/01/2025	Variable	0.75-1.26	9,860
Series 2008E-2 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/01/2025	Variable	0.75-1.26	9,850
Series 2008F (Taxable) (Land Acquisition)	Refunding	67,195	06/11/2008	06/01/2034	Variable	1.29-3.17	39,685
Series 2011A (Conventional Center)	Convention Center	30,985	04/12/2011	05/01/2042	3.00-5.75%	0.43-2.17	30,985
Series 2013A (Civic Center Project)	Refunding	305,535	05/28/2013	06/01/2039	4.00-5.00%	4.11-21.3	302,605
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.75-1.91	29,720
Revenue Bonds:							
Series 2001A (4th & San Fernando Garage)	Parking Facility	48,675	04/10/2001	09/01/2026	4.50-5.25%	1.89-3.20	29,880
							683,975
Special Assessment Bonds with Limited Government Commitment							
Special Assessment Bonds							
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.50-5.87%	1.31-2.03	14,815
Special Tax Bonds							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.60-5.70%	0.20-0.30	1,960
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	5.40-6.00%	0.56-0.87	6,325
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	5.80-6.65%	0.33-0.95	10,455
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	4.60-5.25%	0.64-0.94	6,995
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	1.75-7.71	105,345
							145,895
Total Governmental Activities - Bonds and Notes Payable							**$ 1,232,801**
Business-Type Activities							
Norman Y. Mineta San José International Airport							
Revenue Bonds:							
Series 2007A (AMT)	Airport Facilities	$ 545,755	09/13/2007	03/01/2047	5.00-6.00%	6.37-73.50	$ 533,905
Series 2007B	Airport Facilities	179,260	09/13/2007	03/01/2037	4.25-5.00%	2.44-28.80	174,675
Series 2011A-1 (AMT)	Refunding	150,405	07/28/2011	03/01/2034	3.00-6.25%	3.53-21.12	136,505
Series 2011A-2 (Non-AMT)	Refunding	86,380	07/28/2011	03/01/2034	4.00-5.25%	2.03-12.22	78,460
Series 2011B (Taxable)	Refunding	271,820	12/14/2011	03/01/2041	3.72-6.75%	0.80-27.33	263,590
Series 2012A (Non-AMT)	Refunding	49,140	11/08/2012	03/01/2018	1.53%	8.34-8.58	25,385
Series 2014A (AMT)	Refunding	57,350	10/07/2014	03/01/2026	2.00-5.00%	0.05-9.17	56,325
Series 2014B (Non-AMT)	Refunding	28,010	10/07/2014	03/01/2028	3.10-5.00%	7.97-10.37	28,010
Series 2014C (Non-AMT)	Refunding	40,285	10/07/2014	03/01/2031	3.60-5.00%	7.29-8.86	40,285
							1,337,140
Wastewater Treatment System							
Cleanwater Financing Authority							
Revenue Bonds:							
Series 2005A	Refunding	54,020	10/05/2005	11/15/2016	3.75%	5.13-5.80	10,925
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	3.00-3.50%	0.07-5.41	21,420
							32,345
State of California - Revolving Fund Loan	Wastewater Facilities	73,566	06/24/1997	05/01/2019	Various	1.77-4.35	**14,597**
							46,942
Total Business-Type Activities - Bonds and Loan Payable							**$ 1,384,082**
Grand Total							**$ 2,616,883**

2. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions for which non-compliance would adversely affect its ability to pay debt service. During the course of the fiscal year, the City identified several noncompliant issues with the continuing disclosure requirements and these have been remedied.

3. Legal Debt Limit and Margin

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2014-2015 tax roll was $146.2 billion, which results in a total debt limit of $21.9 billion. As of June 30, 2015, the City had $407,332,000 of General Obligation bonds outstanding which represents approximately 1.9% of the General Obligation bonds' debt limit.

4. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service ("IRS") at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the City's tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, there was no rebate liability outstanding as of June 30, 2015.

5. Special Assessment and Special Tax Bonds with Limited City Commitment

All obligations of the City under the Special Assessment and Special Tax Bonds are not considered general obligations of the City, but are considered limited obligations, payable solely from the assessments/special taxes and from the certain funds pledged therefore under the Paying Agent Agreement or Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City, or any political subdivision thereof, is pledged to the payment of the bonds. The City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund for these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

As of June 30, 2015, the City has recorded approximately $40,550,000 of deferred inflows of resources and related special assessments receivables in the Special Assessment Districts Fund. These balances consist primarily of property tax assessments and/or special taxes to be collected in the future by the County of Santa Clara for future debt service of the special assessment districts and the community facilities districts.

The City issued Special Hotel Tax Revenue Bonds, Series 2011 (Convention Center Expansion and Renovation Project), which are secured by a first lien on the Convention Center Facilities District No. 2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT as defined in the bond documents) that is appropriated by City Council as part of the City's annual budget process to pay debt service. The Base Special Tax and Additional Special Tax (as defined in the bond documents) are property-based taxes levied on hotel properties within the Convention Center Financing District and remitted to the City on a monthly or quarterly basis in the same manner as the City's Transient Occupancy Tax. The amount of deferred inflows and related receivables noted above does not include special taxes associated with the Special Hotel

Tax Revenue Bonds because these special taxes are calculated based on occupancy and a percentage of room rent and therefore the amount is undeterminable.

6. Conduit Debt

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with IRS requirements in order to meet the tax-exempt status, the owner is required to set aside a certain percentage of all units built for very low to moderate-income households. The bonds are payable solely from payments made on the related secured loans. These tax-exempt housing bonds have maturity dates that are due at various dates through September 1, 2047. As of June 30, 2015, the outstanding conduit multi-family housing revenue bonds issued by the City aggregated approximately $499,722,000.

In the opinion of the City's officials, these bonds are not payable from any revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, the State, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds.

***7.* City of San José Financing Authority Variable-Rate Lease Revenue Bonds**

Included in long-term debt is $96,640,000 of variable-rate bonds, comprised of four series (Series 2008C, Series 2008D, Series 2008E and Series 2008F) issued by the Financing Authority. The Financing Authority issued these bonds to provide variable-rate exposure to the debt portfolio and to provide additional flexibility with respect to restructuring or redeeming the debt issued for certain projects. The source of repayment for each of these series is from lease payments from the City to the Financing Authority for the City's lease of the Dolce Hayes Mansion (Series 2008C and Series 2008D), the Ice Centre (Series 2008E) and real property located at 1125 Coleman Avenue in San José (Series 2008F).

Effective December 18, 2013, the Financing Authority directly placed the Series 2008C/D/E Bonds with U.S. Bank National Association ("U.S. Bank") and in connection with the direct placement, the City, the Financing Authority and U.S Bank entered into separate continuing covenant agreements for the private placement of the Series 2008C/D Bonds and the Series 2008E Bonds. Effective June 26, 2014, the Financing Authority directly placed the Series 2008F Bonds with Bank of America, N.A. ("BofA") and in connection with the direct placement, the City, the Financing Authority and BofA entered into a continuing covenant agreement for the private placement of the Series 2008F Bonds. The scheduled redemption of these bonds is incorporated in the Annual Requirements to Maturity schedules (see Note III.F.9.).

The principal balances of the Financing Authority's variable-rate bonds as of June 30, 2015 are as follows (dollars in thousands):

	Privately-Placed Bonds				
	Balance June 30, 2015	Purchaser	Agreement Expiration	Fixed Fee/ Spread	Interest Index Rate
City of San José Financing Authority:					
Lease Revenue Bonds:					
Series 2008C (Hayes Mansion)	$ 10,915	U.S. Bank, N.A.	12/18/2016	0.530%	SIFMA (Weekly)
Series 2008D (Taxable) (Hayes Mansion)	26,330	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008E (Taxable) (Ice Centre)	19,710	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008F (Taxable) (Land Acquisition)	39,685	Bank of America, N.A.	6/26/2017	0.575%	1-Month LIBOR
Total variable rate lease revenue bonds	$ 96,640				

Prior to the execution of the continuing covenant agreements on December 18, 2013 (for the Series 2008C, 2008D, and 2008E bonds) and June 26, 2014 (for the Series 2008F bonds), the variable-rate lease revenue bonds were publicly-marketed “demand” bonds supported by credit facilities and payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. Subsequently, the credit facilities were cancelled and the bonds were sold directly to U.S. Bank and Bank of America, N.A. and are no longer remarketed on the open market.

The Financing Authority is required to pay a fixed fee, or spread, ranging from 0.530% to 0.575% (as noted above) based on the terms of the applicable continuing covenant agreement. Per the terms of each of the continuing covenant agreements, the spread is subject to increase in the event that the long-term unenhanced ratings of the Financing Authority’s lease revenue bonds are downgraded. The applicable interest index rate plus the fixed fee comprise the combined interest rate that is applied to outstanding principal and billed to the Financing Authority monthly. As of June 30, 2015, the continuing covenant agreements for the Series 2008C/D/E bonds had an expiration date of December 18, 2016 and the continuing covenant agreement for the Series 2008F bonds had an expiration date of June 26, 2017.

Pursuant to the continuing covenant agreements, the Series 2008C/D/E Bonds will be subject to mandatory tender upon expiration of the agreements, at which time the Financing Authority has the obligation to purchase the Bonds unless the City negotiates an extension with the banks or remarkets the bonds with a different purchaser or credit facility provider. If the City fails to remarket the bonds, and assuming no events of default have occurred, the unremarketed bonds will function similar to a term loan, and will be amortized over a three year period and will bear interest per a formula with a minimum rate of 8% per annum for the Series 2008C/D/E Bonds and 7.5% per annum for the Series 2008F Bonds. Lease payments may not exceed the fair market rental value of the leased properties under State law, so the principal may be amortized over multiple years in such case.

For the Series 2008F Bonds, the continuing covenant agreement specifies that the lease payments payable by the City during an amortization period will increase up to the maximum annual rent of $14,925,000 and, if that amount is insufficient to repay BofA during the amortization period, BofA may require an appraisal of the leased property to re-determine the lease payments up to the then fair rental value of the leased property. Similarly, the continuing covenant agreements applicable to the Series 2008C/D/E Bonds specify that the City would be obligated to make lease payments during an amortization period to repay U.S. Bank to the extent of the fair rental value of the applicable leased property and, to the extent the amount due remains unpaid, it shall continue the obligation of the City, pursuant to the applicable lease, to be paid on or before the expiration of the three-year amortization period. Additionally, each of the continuing covenant agreements specifies other terms in order to promote prompt repayment to the applicable bank.

8. Summary of Changes in Long-term Obligations

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2015 are as follows (dollars in thousands):

	July 1, 2014	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2015	Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	$ 421,380	$ -	$ (19,645)	$ 401,735	$ 19,650
Issuance premiums/discounts:					
For issuance premiums	5,876		(279)	5,597	279
HUD Section 108 loan	14,706	-	(13,510)	1,196	-
San José Financing Authority					
Lease revenue bonds	588,235	-	(34,400)	553,835	14,660
Issuance premiums/discounts:					
For issuance premiums	44,295	-	(1,780)	42,515	1,780
For issuance discounts	(630)	-	23	(607)	(23)
Lease revenue bonds with reimbursement agreement (Convention Center)	110,300	-	(10,040)	100,260	10,530
Revenue bonds with pledge agreement (Fourth Street and San Fernando Garage)	31,695	-	(1,815)	29,880	1,895
Special assessment and special tax bonds with limited governmental commitment	152,335	-	(6,440)	145,895	4,790
Issuance premiums/discounts:					
For issuance discounts	(1,803)	-	66	(1,737)	(66)
Total long-term debt payable	1,366,389	-	(87,820)	1,278,569	53,495
Other long-term obligations:					
Hayes Mansion construction loan	1,200	-	-	1,200	-
Lease-purchase agreement	19,286	-	(113)	19,173	1,224
Arbitrage liability	33	-	(33)	-	-
Accrued vacation, sick leave and compensatory time	66,688	38,034	(39,596)	65,126	36,857
Accrued landfill postclosure costs	6,510	-	(465)	6,045	465
Estimated liability for self-insurance	136,562	32,701	(22,159)	147,104	22,041
Net other postemployment benefits (OPEB) obligation	393,095	14,543	-	407,638	-
Pollution remediation obligation	586	-	(103)	483	-
NMTC financing obligation	20,084	-	(407)	19,677	417
Total other long-term obligations	644,044	85,278	(62,876)	666,446	61,004
Governmental activities long-term obligations	$ 2,010,433	$ 85,278	$ (150,696)	$ 1,945,015	$ 114,499

General Obligation Bonds are issued pursuant to a two-thirds majority voter authorization. In 2000 and 2002, San José voters approved three ballot measures (Measures O and P in 2000 and Measure O in 2002) that authorized the total issuance of $598,820,000 of general obligation (“GO”) bonds for library, parks and public safety projects. GO bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount. The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. As of June 30, 2015, the City of San José had issued $589,590,000 of GO bonds with proceeds split for three purposes: library projects ($205,885,000), parks and recreation projects ($228,030,000), and public safety projects ($155,675,000). Total principal and interest remaining on the bonds as of June 30, 2015 is approximately $603,262,000, with the final payment due on September 1, 2039.

The City did not issue any GO bonds in fiscal year 2015. A total of $9,230,000 of the authorization remains un-issued for the library ($5,905,000) and public safety programs ($3,325,000). The proceeds of those bonds would be used to fund a portion of the library and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the issuance of this final series will depend upon the expenditure and encumbrance needs of the various projects to be financed.

Lease Revenue/Revenue Bonds are issued by the Financing Authority primarily to finance various capital improvements and, with the exception of the 2001A Bonds, the financed capital improvements are to be leased to the City and are secured by lease revenue from "lessee" departments in the General Fund, Nonmajor Governmental Funds, and the SARA. The lease revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Total principal and interest remaining on these bonds as of June 30, 2015 are approximately $1,046,408,000, with the final payment due on May 1, 2042.

The outstanding balance remaining on these aforementioned bonds includes payments for the 2001A and 2001F bonds, which are payable through a pledge agreement (2001A) and a reimbursement agreement (2001F) by the Agency, which were assumed by the SARA. A description of these bonds is as follows:

- **Convention Center Lease Revenue Bonds with Reimbursement Agreement.** In connection with the issuance of the 2001F Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement, which was assumed by the SARA, under which the SARA is obligated to use redevelopment property tax or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Series 2001F bonds (tax-exempt) mature in 2022 and have an outstanding balance of $100,260,000 as of June 30, 2015.

  Due to SARA's cash flow deficiencies, the City's General Fund paid $12,628,000 to the SARA in order for the SARA to meet its obligation under the reimbursement agreement to the City.

- **Fourth Street and San Fernando Garage Revenue Bonds with Pledge Agreement.** In March 2001, the Financing Authority issued Revenue Bonds, Series 2001A in the amount of $48,675,000 to finance the construction of the Fourth Street and San Fernando Parking Facility Project. The Agency entered into an Agency Pledge Agreement with the Financing Authority, which was assumed by the SARA, whereby the payments are payable from and secured by surplus "Agency Revenues". Under the terms of the Agency Pledge Agreement, SARA's payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the parking facility. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the former Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution, or indenture pursuant to which the outstanding tax allocation bonds were issued; plus (ii) all legally available revenues of SARA.

  SARA makes payments on the Financing Authority Series 2001A bonds pursuant to the amortization schedule attached as Exhibit A to the Agency Pledge Agreement. However, the City records debt payments pursuant to the annual debt service schedule, which results in a timing difference in the amount of $1,895,000 for balances outstanding as of June 30, 2015. At June 30, 2015, the Financing Authority's bonds payable is $29,880,000, whereas the corresponding receivable from the SARA is $27,985,000.

  Due to SARA's cash flow deficiencies in fiscal year ended June 30, 2015, the City's Parking System advanced $1,682,000 to the SARA to make the payment under the Agency Pledge Agreement to the Financing Authority (see Note III.G.3).

Special Assessment and Special Tax Bonds are issued by the City to finance public improvements in special assessment or tax districts established by the City and are secured by assessments or special taxes levied on properties located within the special districts. The assessments and special taxes, as applicable, are calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. Total principal and interest remaining on the bonds as of June 30, 2015 is approximately $277,769,000, with the final payment due on May 1, 2042.

Lease-Purchase Agreement (Energy Conservation Equipment). On May 20, 2014, the City Council authorized the execution of a master equipment lease-purchase agreement (the “Agreement”) with Banc of America Public Capital Corp (“Bank”) under which the City could enter into separate schedules for the acquisition, purchase, financing, and leasing of energy conservation equipment to be installed at City-owned facilities in a principal amount not to exceed $30,000,000 with the Bank or one of its affiliates, collectively the “Lessor”. The schedules are referred to as “Leases”. The financing was secured as a result of the Energy Services Agreement that the City entered into with Chevron Energy Solutions to design the projects and procure the equipment to be acquired and installed. In August 2014, Chevron Energy Solutions was acquired by Oaktree Capital Management, and the organization began operation as OpTerra Energy Services (OpTerra) on September 1, 2014. A Consent to Assignment agreement among the City, Chevron, and OpTerra was executed to allow the assignment of the Energy Services Agreement from Chevron to OpTerra.

The City entered into a $19,300,000 taxable Lease with the Lessor on May 29, 2014 to finance the acquisition and installation of energy conservation equipment at City-owned facilities including community centers, pools, joint community centers/libraries, the South Service Yard, the Museum of Art, and, most significantly, for the replacement of streetlights. The total blended interest rate for the 20-year taxable Lease was 5.01%, and interest rates ranged from 3.21% for improvements with 5-year useful lives to 6.01% for improvements with 20-year useful lives. Total principal and interest remaining on the bonds as of June 30, 2015 is approximately $25,930,000, with the final payment due on June 1, 2034.

Other Long-Term Obligation payments are primarily made from general revenues recorded in the General Fund, except for payments related to the City’s New Market Tax Credit financing obligation, which will be paid from the Integrated Waste Management fund and the Hayes Mansion Construction loan, which will be paid from the nonmajor special revenue fund, Community Facility Revenue.

Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2015 are as follows (dollars in thousands):

	July 1, 2014	Additional Obligations and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2015	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San José International Airport:					
Revenue bonds	$ 1,384,680	$ 125,645	$ (173,185)	$ 1,337,140	$ 23,660
Issuance premiums/discounts:					
For issuance premiums	2,864	19,192	(229)	21,827	87
For issuance discounts	(11,506)	-	1,804	(9,702)	(61)
Clean Water Financing Authority:					
Revenue bonds	37,865	-	(5,520)	32,345	5,795
Issuance premiums/discounts:					
For issuance premiums	1,060	-	(237)	823	236
State of California - Revolving Fund Loan	18,720	-	(4,123)	14,597	4,198
Accrued vacation, sick leave and compensatory time	6,744	4,163	(4,048)	6,859	5,565
Estimated liability for self-insurance	5,964	2,164	(1,204)	6,924	1,284
Net other postemployment benefits (OPEB) obligation	41,381	509	-	41,890	-
Pollution remediation obligation	714	-	-	714	714
Business-type long-term obligations	$ 1,488,486	$ 151,673	$ (186,742)	$ 1,453,417	$ 41,478

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Airport's Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Airport's Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and monies derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in fiscal year 2015 totaled approximately $143,563,000, which is comprised of $60,378,000 of net general airport revenues and $83,185,000 of other available funds. Bond debt service payable from general airport revenues in fiscal year 2015 totaled approximately $70,880,000, which is net of $25,202,000 of bond debt service paid from the accumulated passenger facility charges ("PFC").

The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year will be at least 125% of annual debt service for such fiscal year. Under the Master Trust Agreement, "debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Under the Master Trust Agreement, annual debt service excludes Available PFC Revenues, as defined in the Master Trust Agreement, for such fiscal year. Total principal and interest remaining on the bonds as of June 30, 2015 is approximately $2.55 billion, with the final payment due on March 1, 2047.

As of June 30, 2015, the reserve requirement in the general account of the Bond Reserve Fund is satisfied, in part, by approximately (a) $4,300,000 surety bond from Ambac Indemnity Corporation (currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., "Ambac"), and (b) approximately $6,600,000 surety bond from National Public Finance Guaranty Corporation ("NPFG"), as successor to MBIA Insurance Corporation. The ratings of Ambac and NFPG were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the general account. The Master Trust Agreement does not require that the rating of any surety bond held in the general account be maintained after the date of deposit.

The NFPG surety bond expires on March 1, 2016 and the Ambac surety bond expires on March 1, 2018. In connection with the issuance of the Airport Revenue Bonds Series 2014A, 2014B and 2014C in October 2014, the City deposited additional cash in the amount of $6,600,000 into the general account held with the trustee to account for the expiration of the NFPG surety bond in March 2016. If no additional bonds are issued and no additional amount is deposited in the general account prior to March 1, 2018, the City would have to make a deposit to the general account from the accumulated Airport surplus funds or provide new qualified reserve facility to replace the amount of the expiring Ambac surety bond. The City will also be obligated to replenish the general account prior to the expiration date of the Ambac surety bond in the event of non-payment or cancellation of the Ambac surety bond including upon the liquidation of Ambac. See Note III.F.10 regarding Ambac Financial's filing for bankruptcy protection and other proceedings.

San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds are issued primarily to finance the construction of capital improvements at the Plant and the City has pledged its net system revenues as security for its obligations under the Improvement Agreement to make base payments and additional payments with respect to the Clean Water Financing Authority revenue bonds. The net system revenues available to pay debt service in the fiscal year ended June 30, 2015 totaled approximately $65,015,000. Bond debt service, plus debt service on the State Revolving Fund Loan, payable from net system revenues in the fiscal year totaled approximately $11,379,000. The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service. The City's allocable percentage of annual debt service is currently 100%. Total principal and interest remaining on (1) the bonds as of June 30, 2015 is approximately $36,189,000, with the final payment due on November 15, 2020 and (2) the loan as of June 30, 2015 is approximately $15,195,000 with the final payment due on May 1, 2019.

9. Annual Requirements to Maturity

The annual requirements to amortize all bonds and loans outstanding as of June 30, 2015 are as follows (dollars in thousands):

	Governmental Activities					
	City of San José General Obligation Bonds and HUD Loan [1]		City of San José Financing Authority Bonds [1,2,3]		Special Assessment & Tax Bonds with Limited Governmental Commitment	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 19,650	$ 18,757	$ 27,085	$ 28,892	$ 4,790	$ 8,729
2017	19,804	17,849	29,495	27,857	5,035	8,476
2018	19,900	16,963	31,875	26,734	5,305	8,204
2019	19,900	16,081	35,610	25,436	5,580	7,918
2020	19,900	15,177	36,180	23,983	5,885	7,613
2021 - 2025	98,388	61,966	168,880	97,787	29,945	32,864
2026 - 2030	98,270	38,174	120,315	70,406	19,695	26,272
2031 - 2035	83,405	14,949	121,210	45,422	24,630	19,355
2036 - 2040	23,714	1,633	109,115	15,549	30,080	10,970
2041 - 2045	-	-	4,210	367	14,950	1,473
Total	$ 402,931	$ 201,549	$ 683,975	$ 362,433	$ 145,895	$ 131,874

	Governmental Activities		Business-Type Activities			
	Lease-Purchase Agreement		Airport Revenue Bonds [3]		Wastewater Treatment System Revenue Bonds and Loans	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 1,224	$ 946	$ 23,660	$ 71,792	$ 9,993	$ 1,414
2017	1,286	884	24,700	71,022	10,130	1,122
2018	1,352	819	25,910	70,107	9,498	847
2019	1,420	750	24,280	69,104	6,737	591
2020	1,460	678	25,660	67,873	5,175	352
2021 - 2025	8,301	2,222	156,755	317,704	5,409	116
2026 - 2030	3,609	397	219,655	271,602	-	-
2031 - 2035	521	61	429,335	193,674	-	-
2036 - 2040	-	-	322,970	67,719	-	-
2041 - 2045	-	-	65,530	14,556	-	-
2046 - 2050	-	-	18,685	1,698	-	-
Total	$ 19,173	$ 6,757	$ 1,337,140	$ 1,216,851	$ 46,942	$ 4,442

[1] Projected interest payments for variable rate debt are based on the following rates in effect on June 30, 2015:
- HUD Loan (0.48275%)
- Financing Authority Lease Revenue Bonds: Series 2008C (0.60%), Series 2008D (0.714%), Series 2008E (0.714%), and Series 2008F (0.759%)

[2] Includes fixed spread/fee in addition to index rate in effect on June 30, 2015. Does not include projection of future spreads/fees or expenses.

[3] Does not include commercial paper notes.

For governmental and business-type activities, the specific year for payment of estimated liabilities for the Hayes Mansion construction loan, accrued vacation, sick leave and compensatory time, accrued landfill postclosure costs, estimated liability for self-insurance, the net OPEB obligation and the pollution remediation obligation are not practicable to determine.

10. Ambac Assurance Surety Bonds Held in Bond Reserve Funds

Ambac Assurance, a subsidiary of Ambac Financial, issued a reserve fund surety bond that is on deposit in the General Account of the Bond Reserve Fund, securing the Series 2011A-1, Series 2011A-2, Series 2012A, and Series 2014A/B/C Airport Revenue Bonds. According to the Master Trust Agreement for these bonds, in the event that such surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve (as defined in the Master Trust Agreement), the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

Ambac Assurance also issued a reserve fund surety bond that is on deposit in the reserve fund established for the City of San José Financing Authority Revenue Bonds, Series 2001A (4th and San Fernando Parking Facility) (the "CSJFA Series 2001A Bonds"). According to the Indenture of Trust for the CSJFA Series 2001A Bonds, prior to the expiration of the surety bond, the Financing Authority is to (1) replace the surety bond with a new Qualified Reserve Account Credit Instrument (as defined in the Indenture of Trust) or (2) deposit or cause to be deposited with the trustee an amount of moneys equal to the Reserve Requirement (as defined in the Indenture of Trust), to be derived from Revenues (as defined in the Indenture of Trust). In the event that the Financing Authority fails to do either of the above, then the trustee is to draw on the surety bond before such expiration to provide moneys to fund the reserve in the amount of the Reserve Requirement.

Ambac Assurance, a subsidiary of Ambac Financial, has issued reserve fund surety bonds securing the Agency's Senior Tax Allocation Bonds Series 1999, Series 2005B, and Series 2006D. For further information see Note IV.C.3.

On May 1, 2013, Ambac Financial emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. Starting in March 2010, certain of the policy liabilities of Ambac were allocated to a segregated account which has been subject to a plan of rehabilitation. Policy obligations not allocated to such segregated account, including the obligations in respect of the surety bonds provided by Ambac on deposit in the bond reserve funds described above, are not subject to, and therefore will not be impacted by such rehabilitation proceeding. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.

11. New Debt Issuances and Short-Term Debt Activities

<u>Governmental Activities</u>

City of San José Financing Authority Lease Revenue Commercial Paper Notes Payable

The City's Commercial Paper ("CP") Program utilizes a lease revenue financing structure. Under this program, the Financing Authority is able to issue commercial paper notes ("CP Notes") at prevailing interest rates for periods of maturity not to exceed 270 days. The CP Notes are secured by a pledge of lease revenues from various City assets and additionally supported by two direct-pay letters of credit ("LOCs") provided by State Street Bank and Trust Company ("State Street") and U.S. Bank National Association ("U.S. Bank") (together, the "Banks"). Letter of Credit and Reimbursement Agreements by and among the Financing Authority, the City and each Bank were to expire on August 28, 2015 and were subsequently extended to November 30, 2015 (the "Letter of Credit Expiration Date").

This program was initially established on January 13, 2004, whereby the City Council and the Financing Authority each adopted a resolution authorizing the issuance of the Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed $98,000,000. Since 2004, the City Council and the Financing Authority have taken actions to modify the program, including increasing the program's capacity and authorizing the issuance of taxable lease revenue commercial paper notes. On February 12, 2013, the City Council and the Financing Authority have approved a reduction of the capacity of the lease revenue commercial paper program from $116,000,000 to $85,000,000, with each Bank's LOC providing $42,500,000 in capacity.

The Financing Authority issues the CP Notes under State law pursuant to an Amended and Restated Trust Agreement between the Financing Authority and Wells Fargo Bank, National Association (as amended and supplemented, the "Trust Agreement") and an Amended and Restated Issuing and Paying Agent Agreement between the Financing Authority and Wells Fargo Bank, National Association. Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The City has leased to the Financing Authority various City-owned facilities pursuant to a Site Lease, as amended (the "Site Lease"). The Financing Authority subleased these same facilities back to the City pursuant to a Sublease, as amended (the "Sublease") in exchange for the rental payments, which support repayment of the CP Notes. The facilities subject to the Site and Sublease (pursuant to the Fourth Amendments to the Site Lease and to the Sublease, both dated February 1, 2013, which substituted leased assets) are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, and the South San José Police Substation (the "Pledged Properties"). In connection with the extension of the Letter and Credit and Reimbursement Agreements and the associated LOCs from November 30, 2015 to November 30, 2018, the City and the Banks have agreed to add the San José Tech Museum, to the Site Lease and Sublease as additional security for the Banks. It is anticipated that this transaction will be finalized on or before November 30, 2015.

The annual commitment fee payable to each Bank equals 0.52% per annum of the daily average Stated Amount of the Letter of Credit in effect from time to time for the period from August 28, 2015 to and including the Letter of Credit Expiration Date; provided, however, that in the event that the long-term unenhanced lease revenue debt ratings of the City are downgraded as specified in the agreements with the Banks, the annual commitment fee shall increase from a range of 0.62% to a maximum of 2.37%, depending on the level of rating downgrade.

Interest on any Principal Advances (draws under the Letter of Credit that are not reimbursed by the City on the same day) are calculated at various increasing interest rates depending on the number of days the Principal Advance remains outstanding.

Interest on any Term Loan (draws that are not reimbursed by the City one hundred eighty-one days after a Principal Advance or the Letter of Credit Expiration Date, whichever comes first) are payable at the Term Loan Rate from the date of such Term Loan Conversion Date, payable monthly in arrears on the first day of each calendar month and on the date on which the final installment of the principal of the Term Loan is payable. The principal amount of each Term Loan is amortized over such a three-year period; provided, however, that the unpaid amount of each Term Loan shall be paid by the City in each year only to the extent of the then fair rental value with respect to the Pledged Property subject to the Sublease for such Base Rental Period, and to the extent not so repaid, such Term Loan shall be paid by the City during each subsequent Base Rental Period, to the extent owed, to the extent of the then fair rental value with respect to the Components subject to the Sublease for each such Base Rental Period, and such Term Loan shall continue to be an obligation of the City pursuant to the Sublease to be paid on or before the expiration of the three-year amortization period. Per the terms of the Letter of Credit and Reimbursement Agreements, the Banks have the right to require that the rent payable for any of the Pledged Properties be redetermined in order to increase the amount of the rent payable. Additionally, each of the Letter of Credit and Reimbursement Agreements specifies other terms in order to promote prompt repayment to the Banks.

As of June 30, 2015, $29,617,000 of tax-exempt commercial paper notes was outstanding at an interest rate of 0.09% and $14,227,000 of taxable commercial paper notes was outstanding at an interest rate of 0.24%. The changes in commercial paper notes during the fiscal year ended June 30, 2015 are as follows (dollars in thousands):

July 1, 2014	Deletions	June 30, 2015
$46,403	$2,559	$43,844

2014 Tax and Revenue Anticipation Note

The City issued a short-term note (the "2014 Note") to facilitate the prefunding of employer retirement contributions in fiscal 2015. The $100,000,000 note was purchased by Bank of America, N.A. on July 1, 2014 at a variable interest rate. Security for repayment of the 2014 Note was a pledge of the City's 2014-2015 secured property tax plus all other legally available General Fund revenues available to the City, if required. The City fully repaid the 2014 Note on March 9, 2015.

Business-Type Activities

Airport Revenue Refunding Bonds

In October 2014, the City issued $125,645,000 in Airport Revenue Refunding Bonds, consisting of Series 2014A ($57,350,000 AMT Bonds), Series 2014B ($28,010,000 non-AMT Bonds), and Series 2014C ($40,285,000 non-AMT) for the purpose of refunding prior Airport Revenue Bonds, Series 2004C, Series 2004D and Series 2001A, respectively. The refunding produced an aggregate debt service savings of $37,800,000 and a net present value savings of $27,500,000. This refunding resulted in an accounting loss on the refunding of the prior debt issues in the amount of $2,838,000, which is reported as an increase in the deferred outflows of resources balance.

Airport Commercial Paper Notes Payable

In November 1999, the City authorized the issuance from time to time of Subordinated Commercial Paper Notes (the Subordinated Commercial Paper Notes) that are secured by a lien on Surplus Revenues (which are General Airport Revenues remaining after the payment of maintenance and operation costs of the Airport and the payment of debt service on the Airport Revenue Bonds ("Bonds") and the funding of any reserve funds established for the Airport Revenue Bonds). In 2008, the City authorized the Subordinated Commercial Paper Notes to be issued in an aggregate principal amount of up to $600,000,000 outstanding at any one time. The Subordinated Commercial Paper Notes may be issued at prevailing interest rates for periods of maturity not to exceed 270 days.

In February 2014, the City entered into a letter of credit and reimbursement agreement (the Reimbursement Agreement) with Barclays Bank PLC ("Barclays"), pursuant to which Barclays issued a $65,000,000 LOC supporting the Subordinated Commercial Paper Notes, effective on February 11, 2014, at which time the LOC provided by Wells Fargo Bank, N. A. terminated. The LOC provided by Barclays is stated to expire on February 10, 2017, unless such letter of credit is extended or terminated earlier pursuant to its terms.

The terms of the Barclays LOC are specified in the Reimbursement Agreement. In general, Barclays agrees to advance funds to the issuing and paying agent for the Subordinated Commercial Paper Notes to pay the principal and interest on maturing Subordinated Commercial Paper Notes in an amount not to exceed the stated amount of the LOC. In the event that the commercial paper dealer is unable to find investors to purchase Subordinated Commercial Paper

Notes to repay the advance from Barclays, the City is obligated to pay interest to Barclays based on a formula specified in the Reimbursement Agreement and repay principal in accordance with the schedule and the terms also specified in the Reimbursement Agreement.

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated Commercial Paper Notes be issued, that the City reimburse Barclays immediately for draws under the letter of credit and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the Reimbursement Agreement include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated Commercial Paper Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Bonds (other than where the Bonds shall continue to be rated by any two of Moody's, Fitch, or S&P), or downgrades by any of Moody's, Fitch or S&P of its ratings on the Bonds below "Baa2," "BBB" and "BBB," respectively for a period of 120 consecutive calendar days. All amounts payable by the City to Barclays under the Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is subordinate to the lien of the Bonds.

In connection with the LOC issued by Barclays, the City entered into a fee letter with Barclays to specify the facility fee rate and other charges payable by the Airport with respect to the LOC. The facility fee rate under the fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the Reimbursement Agreement. The facility fee rate in effect is 0.425% as of June 30, 2015.

The change in Airport commercial paper notes payable during fiscal year 2015 was as follows (dollars in thousands):

July 1, 2014	Deletions	June 30, 2015	Interest Rate
$41,159	$3,247	$37,912	0.13% - 0.32%

12. Landfill Postclosure Costs

The City has five closed landfills for which postclosure and monitoring services may be required for approximately a 30 year period, which began in fiscal year 1996, coinciding with the closure of the last landfill. An estimated liability of $6,045,000 related to the closed landfills is recorded in the government-wide Statement of Net Position as of June 30, 2015. The City's Environmental Compliance Officer performs an annual evaluation of the aforementioned liability. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City does not own or operate any open landfills at this time.

13. Estimated Liability for Self-Insurance

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees, unemployment claims, and employee health and dental insurance. During fiscal year 2015, the City maintained an all-risk property policy including boiler and machinery exposures, coverage for loss due to business interruption and flood. The City did not carry earthquake insurance as it was not available at reasonable rates. A summary of insurable coverage for the policy period October 1, 2014 to October 1, 2015 is provided below:

Coverages	Limit per Occurence	Deductible Per Occurrence
Property, including Business Interruption	$1 billion	$100,000
Flood Zone, Special Flood Hazard Area	$15 million per occurrence and annual aggregate	5% of values at risk ($1 million minimum deductible)
Flood Zone B	$25 million per occurrence and annual aggregate	2% of values at risk ($100,000 minimum deductible)
Flood, Other Locations	$100 million per occurrence and annual aggregate	$100,000

For the policy period of October 1, 2014 to October 1, 2015, the City maintained an airport liability policy covering the Airport, including operation of vehicles on premises, which provides a $200,000,000 combined single limit for bodily injury and property damage subject to a deductible of $0 each occurrence and annual aggregate, with a sublimit of $50,000,000 each occurrence and in the annual aggregate for personal injury, and a sublimit of $100,000,000 each occurrence and in the annual aggregate for war liability. A separate automobile policy provided coverage for the off-premise operations of Airport vehicles including shuttle bus fleets with a limit of $1,000,000 per occurrence, combined single limit for bodily injury and property damage, and no deductible. Physical damage coverage was available for the Airport Shuttle Bus Fleet and is subject to a $10,000 comprehensive and $25,000 collision deductible. As part of general support services, the City charges the Airport for the cost of liability and property insurance coverage. Settled claims have not exceeded the City's commercial insurance coverage in any of the past three years.

For the policy period of December 18, 2014 to December 18, 2015, the City purchased for the first time government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a $5,000,000 per occurrence limit for losses resulting from employee theft, forgery or alteration and inside the premises- theft of money and securities, and provides for a $1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders and counterfeit money. All claims have a $100,000 deductible per occurrence.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, newly discovered information and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information and changes in the law. The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims. The workers' compensation estimate includes allocated loss adjustment expenses, which represent the direct cost associated with the defense of individual claims, which may be years into the future and have been discounted to their present value using a rate of 3.1% for the amounts recorded.

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2015. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated.

Changes in the reported liability during the past two years are as follows (dollars in thousands):

Liability as of June 30, 2013	$ 138,421
Claims and changes in estimates during 2014	31,785
Claims payments	(27,680)
Liability as of June 30, 2014	142,526
Claims and changes in estimates during 2015	34,091
Claims payments and other adjustments	(22,589)
Liability as of June 30, 2015	$ 154,028

Owner Controlled Insurance Programs - On March 31, 2004, the City bound certain liability insurance coverage for the major components of the Airport's North Concourse Project through an owner-controlled insurance program ("OCIP") with Chartis, formerly American International Group ("AIG"), AIU Holdings, Inc. and AIU LLC ("AIU"). The OCIP is a single insurance program that provides insurance coverage for construction jobsite risk of the project owner, general contractors and all subcontractors associated with construction at the designated project site. The North Concourse Project has been completed and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project are in process.

The City was also required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of $3,900,000 available in a cash working fund. The full amount of the claims loss reserve had been deposited with the insurance carrier and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. The claims loss reserve funds the deductible of up to $250,000 per occurrence to a maximum loss exposure to the City of $3,900,000. The balance of the North Concourse reserve fund as of June 30, 2015 is $919,000. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

On March 15, 2007, the City obtained additional liability insurance through another OCIP for major components of the Airport's Terminal Airport Improvement Program ("TAIP") OCIP through Chartis. The coverage for this program is as follows:

	Terminal Area Improvement Projects	
Coverages	**Limits**	**Deductible Per Occurrence**
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$1 million per accident	$250,000
Excess Liability	$200 million	None

The liability under the TAIP OCIP is based upon an estimated payroll of $92,500,000 for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of $8,900,000. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of $8,900,000. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of $6,500,000 was deposited with Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. In August 2013, as part of the annual loss reserve analysis by Chartis, an amount of $1,398,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2015 is $2,253,000.

The TAIP Project has been completed and the policies expired on June 30, 2011. Chartis will continue to hold the remaining funds in the claims loss reserve until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims

14. Net Other Postemployment Benefits (OPEB) Obligation

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City did not have a net OPEB obligation at transition, July 1, 2007. The PFDRP and FCERS calculated a net OPEB obligation in accordance with GASB 45 as discussed in Note IV.A.3. At June 30, 2015, the City recorded net OPEB obligations totaling $449,528,000 in the government-wide financial statements, of which $407,638,000 is in governmental activities and $41,890,000 is in business-type activities.

15. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including five active leaking petroleum storage tank sites: Fire Stations #5 and #16, Las Plumas Warehouse, Family Shelter, and the Airport, as discussed in Note IV.B.1. Although the City has significant experience in estimating these types of cleanups, the calculation of the expected outlays related to this pollution remediation is based on estimates provided by both City engineers and consultants hired by the City. The amount of the estimated pollution remediation liability assumes that there will be no major increases in the cost of providing these cleanup services. As of June 30, 2015, the government-wide statement of net position reported a net pollution remediation obligation in the amount of $483,000 in governmental activities, and $714,000 in business-type activities.

16. New Market Tax Credit ("NMTC") Financing Obligation

In connection with the City's NMTC financing transaction to construct the San José Environmental Innovation Center ("EIC"), the City has a long-term lease obligation for its possession and beneficial use of the EIC facility. This master lease agreement commenced on November 8, 2011 has a 35-year term with a one-time renewal option of 10 years. Rental payment made by the City for the use of the EIC facility for the year ended June 30, 2015 was $407,000. The future minimum lease payments anticipated under the master lease agreement, as of June 30, 2015, are as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2016	$ 417
2017	427
2018	438
2019	449
2020	461
2021 - 2025	2,482
2026 - 2030	2,811
2031 - 2035	3,183
2036 - 2040	3,603
2041 - 2045	4,078
2046 - 2047	1,328
Total	$ 19,677

G. Interfund Transactions

The composition of interfund balances as of June 30, 2015, with explanations of transactions, is as follows (dollars in thousands):

1. Due from/Due to other funds

Receivable Fund	Payable Fund	Amount	
General Fund	Nonmajor Governmental Funds	$ 1,942	(1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	10,531	(2)
		$ 12,473	

(1) $1,501 represents accrual of gas tax transfers, $25 represents loan payment for convention and cultural facilities, $416 represents accrual of construction and conveyance tax transfer
(2) Represents short-term borrowing for working capital

2. Advances to/Advances from other funds

Receivable Fund	Payable Fund	Amount	
General Fund	San José Financing Authority Debt Service	$ 3,297	(1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	1,828	(2)
	General Fund	8,112	(2)
		$ 13,237	

(1) Represents a $3,297 loan to support the Rancho Del Pueblo golf course
(2) Represents a loan for the Roberto Antonio Balermino Park Project

3. Long-term Receivables from SARA

At June 30, 2015, the City's Low and Moderate Income Housing Asset Fund has advances receivable from the SARA as follows (in thousands):

	Amount
SERAF loan principal	$ 64,816
SERAF interest	1,064
SERAF loan - gross	65,880
Less allowance for collectability	(52,905)
SERAF loan - net	$ 12,975

In July 2009, the State Legislature passed AB X4 26, which required redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment into the county held Supplemental Educational Revenue Augmentation Fund ("SERAF") to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's SERAF obligation was $62,200,000 in fiscal year 2009-10 and $12,800,000 in fiscal year 2010-11. Payments were made by May 10 of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) with a combined amount of $74,816,000 to make the SERAF payment. Sources of the loan were from the City's

Low and Moderate Income Housing Asset Fund ($64,816,000), which was specifically authorized by the legislation, and idle moneys from City special funds ($10,000,000).

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, are invalidated on February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by SARA. As such, the $10,000,000 portion of the SERAF loan was recorded as part of an extraordinary loss in fiscal year 2011-12. In addition, fees and interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of $2,940,000 was also invalidated in fiscal year 2011-12. The City retained the $64,816,000 SERAF loan made from the Low and Moderate Income Housing Asset Fund in fiscal years 2009-10 and 2010-11 and the interest accrued at the LAIF rate associated with this loan in the amount of $1,064,263 at June 30, 2015. However, the State Department of Finance ("DOF") has determined that a significant portion of the SERAF loan in the amount of $52,905,000 should not be reported in the ROPS as an enforceable obligation. The City has recorded a collectability allowance against this amount. The remaining amount of $12,975,000 includes the interest accrued at the LAIF rate associated with this loan in the amount of $159,000 as of June 30, 2015. Under the loan agreement, SARA has the option to make interest payments on an ongoing basis, or to pay accrued interest upon final payment of the SERAF loan in fiscal year 2016.

Management continues to believe, in consultation with legal counsel, that the entire SERAF loan made from the Low and Moderate Income Housing Asset Fund in the amount of $65,880,000 including interest accrued are valid enforceable obligations payable by SARA under the requirements of the Redevelopment Dissolution Law.

In the event that future redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City has committed other sources of funding to cover costs related to the following obligations: the City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center Refunding), City of San José Financing Authority Revenue Bonds, Series 2001A (4th Street & San Fernando Parking Facility Project), Housing and Urban Development ("HUD") 108 loans, Education Revenue Augmentation Fund ("ERAF") loan payments, and the SARA's annual administrative budget and City Support Service expenses.

As of June 30, 2015, total long-term receivables from SARA are as follows (dollars in thousands):

Description			
Advances receivable from SARA:			
SERAF Loan	$	12,975	
Housing obligations funded by commerical paper proceeds		14,227	(1)
Other long-term receivables from SARA:			
Revenue bonds with pledge agreement		27,985	(2)
Lease revenue bonds with reimbursement agreement		100,260	(3)
Reimbursement advance		10,976	(4) *
Total long-term receivables from SARA	$	166,423	

(1) The Financing Authority has a receivable from SARA, which assumed the obligation from the Low and Moderate Income Housing Asset Fund, related to the commercial paper proceeds used for housing activities in the amount of $14,091,000, and accrued interest from the Financing Authority of $136,000.

(2) The Financing Authority has a long-term receivable related to the Series 2001A (4th and San Fernando Streets Parking Facility Project) pledge agreement.

(3) The Financing Authority has a long-term receivable related to the Series 2001F (Convention Center) reimbursement agreement.

(4) The long-term receivables related to advances to SARA under the Reimbursement Advance are as follows: $4,572,000 from the Parking System for the 2001A bond debt service payments and accrued interest; $1,615,000, $3,937,000 and $852,000 from the General Fund for ERAF payments, administrative costs for SARA, and various agreements, respectively.

* The amount includes $4,300,000 and $200,000 from the General Fund and the Low and Moderate Income Housing Asset Fund, respectively, for administrative and support service costs. An allowance for collectability was recorded for both amounts.

4. Due to SARA

The State Controller's final Asset Transfer Review requires the City to pay SARA the net revenue earned from parking and rent from the properties transferred to the Diridon Authority. As of June 30, 2015, the City has a payable in the amount $20,000 related to the net revenue earned from parking and rent from the properties transferred from SARA.

5. Long-term Advances from SARA

The City has a payable and SARA has a receivable related to an Agency advance of a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has a long-term receivable of $464,000 due from the City as of June 30, 2015.

6. Transfers in/Transfers out

Transfers are indicative of funding for capital projects, lease payments or debt service and subsidies of various City operations. The following schedules summarize the City's transfer activity for the year ended June 30, 2015 with explanations of transactions (dollars in thousands):

Between governmental and business-type activities:

Transfer from	Transfer to		Amount	
Housing Activities	Parking System	$	31	(1)
Nonmajor Governmental Funds	Parking System		31	(1)
Wastewater Treatment System	General Fund		297	(2)
	Nonmajor Governmental Funds		1,933	(3)
Municipal Water System	General Fund		283	(4)
	Nonmajor Governmental Funds		130	(5)
Parking System	General Fund		713	(6)
	Nonmajor Governmental Funds		207	(7)
		$	3,625	

(1) Transfer for costs associated with availability of public usage facilities in San Jose downtown
(2) Transfer for administrative costs
(3) Transfer for City Hall debt service payments
(4) Transfer for late fee collections from water utility customers
(5) Transfer for City Hall debt service payments
(6) Transfer of San José Arena parking revenue
(7) Transfer of $129 for City Hall debt service payments and $78 for the Downtown Property and Business Improvement District

Between governmental activities:

Transfer from	Transfer to		Amount	
General Fund	San José Financing Authority Debt Service	$	23,866	(1)
	Nonmajor Governmental Funds		25,360	(2)
	Internal Service Funds		1,000	(3)
Housing Activities	General Fund		1	(4)
	Nonmajor Governmental Funds		49	(5)
	Low and Moderate Income Housing Asset		1,826	(6)
Low and Moderate Income Housing Asset	General Fund		6	(7)
	Nonmajor Governmental Funds		464	(8)
Special Assessment Districts	General Fund		150	(9)
	San José Financing Authority Debt Service		3,405	(10)
Nonmajor Governmental Funds	General Fund		7,654	(11)
	Nonmajor Governmental Funds		13,325	(12)
	San José Financing Authority Debt Service		35,030	(13)
Internal Service Funds	General Fund		20	(14)
	Nonmajor Governmental Funds		279	(15)
		$	112,435	

(1) Transfer for debt service payment for the 2008F bond series
(2) Transfer of $17,741 for City Hall debt service, $7,619 for debt service payments, operations, and subsidies
(3) Transfer to fund vehicle and fleet replacement purchases
(4) Transfer for planning and administrative expenditures
(5) Transfer for production, improvement, or preservation of low- and moderate-income housing
(6) Transfer to fund various affordable housing projects
(7) Transfer for planning and administrative expenditures
(8) Transfer for City Hall debt service payment
(9) Transfer for administrative services
(10) Transfer for interest, principal and fees for the Series 2011 Convention Center bonds payments
(11) Various transfers for operations, interest earnings, and capital projects
(12) Transfer of $3,010 for City Hall debt service payments and $10,315 for operations, capital projects, and project savings
(13) Transfer of $284 for fees reimbursement and $34,746 for debt service payments
(14) Transfer of $14 for interest income and $6 for operations
(15) Transfer for City Hall debt service payment

H. Deferred Inflows of Resources

As of June 30, 2015, total deferred inflows of resources in the governmental funds related to the following unavailable resources (dollars in thousands):

Description		
Housing Activities loans receivable	$	20,949
Low and Moderate Income Housing Asset loans receivable		5,561
Special Assessments receivables		40,550
Community Development Block Grant (CDBG) loans receivable		1,597
Total deferred inflows of resources	$	68,657

I. Governmental Fund Balances

As of June 30, 2015, total fund balances for the City's major and nonmajor governmental funds are as follows (dollars in thousands):

	General Fund	Housing Activities	Low & Moderate Income Housing Asset	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Advances & Deposits	$ 203	$ -	$ -	$ 5	$ -	$ 139	$ 347
Restricted for:							
Affordable Housing	-	84,627	326,500	-	-	-	411,127
Animal Shelter Project	280	-	-	-	-	-	280
Capital Projects and Improvements	10,019	-	-	43,706	-	236,972	290,697
Employment and Training Services	-	-	-	-	-	1,079	1,079
Drug Abuse Prevention and Control	-	-	-	-	-	4,053	4,053
Community Development Services	-	-	-	-	-	3,318	3,318
Crime Prevention and Control	300	-	-	-	-	-	300
Library Services and Facilities	-	-	-	-	-	11,591	11,591
Small Business Loans	-	-	-	-	-	39	39
Parks, Recreation and Neighborhood Development	-	-	-	-	-	83,412	83,412
Underground Utility Projects	-	-	-	-	-	3,888	3,888
Storm Drainage Projects	-	-	-	-	-	47,769	47,769
Supplemental Law Enforcement Services	-	-	-	-	-	18	18
Debt Service	-	-	-	-	16,306	33,975	50,281
Subtotal	10,599	84,627	326,500	43,706	16,306	426,114	907,852
Committed to:							
Building Development Fee Programs	22,289	-	-	-	-	-	22,289
Capital Projects and Improvements	14,443	-	-	-	-	1,078	15,521
Parks, Recreation and Neighborhood Development	-	-	-	-	-	2,017	2,017
Development Enhancements	-	-	-	-	-	420	420
Convention Center, Auditorium, Theaters	-	-	-	-	-	6,856	6,856
Employee Compensation Planning	8,123	-	-	-	-	-	8,123
Fire Development Fee Program	5,901	-	-	-	-	-	5,901
Development Fee Program Technology	4,495	-	-	-	-	-	4,495
Residential Program Administration	-	-	-	-	-	1,673	1,673
Governmental Functions/Services	17,746	-	-	-	-	-	17,746
Police Department Staffing	5,740	-	-	-	-	-	5,740
Community Development Services	4,949	-	-	-	-	9,127	14,076
Fee Supported Programs- Public Works	5,046	-	-	-	-	-	5,046
Sanitation Projects	16	-	-	-	-	18,254	18,270
Sick Leave Payout Benefits	6,000	-	-	-	-	-	6,000
Subtotal	94,748	-	-	-	-	39,425	134,173
Assigned to:							
Advances to Financing Authority	3,297	-	-	-	-	-	3,297
Advances to SARA	4,751	-	-	-	-	-	4,751
Development Enhancements	-	-	-	-	-	20	20
Community and Culture Projects	-	-	-	-	-	4,142	4,142
Hayes Mansion Operations	-	-	-	-	-	5,187	5,187
Ice Center Operations	-	-	-	-	-	8,067	8,067
Loans to Other Agencies	1,896	-	-	-	-	-	1,896
Capital Projects and Improvements	-	-	-	-	-	53,248	53,248
San Jose Arena Projects	-	-	-	-	-	51	51
Governmental Functions/Services	133,454	-	-	-	-	-	133,454
Subtotal	143,398	-	-	-	-	70,715	214,113
Unassigned	67,006	-	-	-	-	-	67,006
Total Fund Balances	**$ 315,954**	**$ 84,627**	**$ 326,500**	**$ 43,711**	**$ 16,306**	**$ 536,393**	**$ 1,323,491**

City Reserves Policy. The City adopted the Reserves Policy in October 2004. It formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. A contingency reserve fund was established in the General Fund to account for one-time purposes or as part of multi-year financial plan to balance the budget and avoid operating deficits.

In addition, cash and emergency reserve funds were established by the City Charter to address known but unspecified expenses and emergency needs. The minimum requirements for each fund were also established accordingly.

The ***Contingency Reserve Fund*** was created to meet unexpected circumstances such as a General Fund revenue shortfall. The policy established a minimum of three percent of the operating budget as the reserve balance. As of June 30, 2015, the contingency amount accounts for $33,600,000 of the unassigned fund balance.

The ***Cash Reserve Fund*** was created for the payment of any authorized expenditures of the City for any fiscal year in anticipation of and before the collection of taxes and other revenues of the City for such fiscal year, and for the payment of authorized expenses of the City for any fiscal year, which became due and payable and must be paid prior to the receipt of tax payments and other revenues for such fiscal year. A reserve shall be built up in said fund from any available sources other than restricted sources in an amount which the Council deems sufficient for said purposes. As of June 30, 2015, the cash reserve amount accounts for $6,000 of the unassigned fund balance.

The ***Emergency Reserve Fund*** was created for the purpose of meeting any public emergency involving or threatening the lives, property or welfare of the people of the City or property of the City. A reserve shall be built up in said fund from any available sources, other than restricted sources, in an amount which the Council deems desirable. As of June 30, 2015, the emergency reserve amount accounts for $3,387,000 of the unassigned fund balance.

IV. Other Information

A. Defined Benefit Retirement Plans

A. 1. City Sponsored Defined Benefit Pension Plans

1. General Information about the Pension Plans

The City sponsors and administers two single employer defined benefit retirement systems, the Police and Fire Department Retirement Plan (the “PFDRP”) and the Federated City Employees’ Retirement System (the “FCERS”), and collectively, “the Retirement Systems”, which with the exception of certain unrepresented employees together cover all full-time and certain part-time employees of the City. The Retirement Systems provide general retirement benefits under single employer Defined Benefit Pension Plans, as well as the Postemployment Healthcare Plans. The Retirement Systems are accounted for in the Pension Trust Funds.

The Retirement Systems are administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City who serves at the pleasure of the Boards of Administration for the Retirement Systems. The compensation paid to the Chief Executive Officer and the investment professional staff within the Office of Retirement Services is set by the City Council. The Boards of Administration in recommending to the City Council the compensation amounts for these positions are required under the City Charter to consider compensation of equivalent positions in comparable United States public pension plans.

The separately issued annual reports of PFDRP and FCERS, together with the City’s Municipal Code Title 3 chapters 3.28 and 3.36, provide more detailed information about the Retirement Systems. Those reports may be obtained from the City of San José Office of Retirement Services, 1737 North First Street, Suite 600, San José, California 95112.

Benefits

The Defined Benefit Pension Plans provide general retirement benefits including pension, death, and disability benefits to members. Benefits are based on average final compensation, years of service, and cost-of-living increases as specified by the City's Municipal Code.

The contribution and benefit provisions and all other requirements are established by the City Charter and the City's Municipal Code. Amendments or changes to contribution requirement and benefits terms are approved by the City Council.

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act ("the Pension Act"). The Pension Act amended the City Charter to, among other changes, (1) increase pension contribution requirements for current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for current employees (the "Voluntary Election Plan" or "VEP") subject to Internal Revenue Service (IRS) approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the cost of living adjustments if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within the Federated Plan; (6) codify in the City Charter contribution requirements for current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within the Federated Plan; and (8) reserve to the voters the right to approve future changes to retirement benefits.

Significant portions of Measure B are currently subject to legal challenge by bargaining units representing current employees and retirees. Additionally, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board related to Measure B and other lawsuits related to Measure B and changes made to retiree healthcare benefits are pending. The status of the legal challenges to Measure B is discussed in Note IV.B.8.

PFDRP members are categorized into four membership types based on when they entered PFDRP. Police Tier 1 members are those members who entered PFDRP prior to August 4, 2013. Fire Tier 1 members are those members who entered PFDRP prior to January 2, 2015. Police Tier 2 members are those employees who were hired, rehired or reinstated on or after August 4, 2013. Fire Tier 2 members are those employees who were hired, rehired or reinstated on or after January 2, 2015.

FCERS members are categorized into four membership types based on when they entered FCERS. Tier 1 members are those members who entered FCERS prior to September 30, 2012. Tier 2 members are those employees who were hired, rehired or reinstated on or after September 30, 2012, but before September 27, 2013; Tier 2 members are eligible for the City's defined benefit retiree healthcare plan. Tier 2B members are those employees who were hired, rehired or reinstated on or after September 27, 2013; Tier 2B members are not eligible for the City's defined benefit retiree healthcare plan. Tier 2C members are City employees who were Tier 1 members that separated from City employment and who later were rehired as Tier 2 or Tier 2B employees, but during the period that these employees were Tier 1 employees, they vested in the dental benefit provided under Tier 1.

The following tables summarize the pension, disability, and death benefits for the members:

	PFDRP			
	Police Tier 1	**Police Tier 2**	**Fire Tier 1**	**Fire Tier 2**
Pension				
Hire Date	Prior to August 4, 2013	Hired, rehired or reinstated on or after August 4, 2013	Prior to January 2, 2015	Hired, rehired or reinstated on or after January 2, 2015
Minimum Service to Leave Contribution in Plan	10 years (20 years must have elapsed from date of entry into system to collect pension)	10 Years of City Service in the Police and Fire Department Plan	10 years (20 years must have elapsed from date of entry into system to collect pension)	10 Years of City Service in the Police and Fire Department Plan
Age/Years of Service	50 with 25 years service 55 with 20 years service 30 yrs service at any age (with reciprocity, must be 50 yrs of age) Mandatory retirement at 70 years of age	60 with 10 Years of City Service in the Police and Fire Department Plan 50 with 10 years of City Service and actuarial equivalent reduction	50 with 25 years service 55 with 20 years service 30 yrs service at any age (with reciprocity, must be 50 yrs of age) Mandatory retirement at 70 years of age	60 with 10 Years of City Service in the Police and Fire Department Plan 50 with 10 years of City Service and actuarial equivalent reduction
Early Retirement	50-54 with 20 years of service (Discounted pension). Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A	50-54 with 20 years of service (Discounted pension). Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
"Deferred Vested"	55 with 10 years service only if 20 years have elapsed from date of membership. (You can begin receiving your benefits at age 50 if you have at least 25 years of service.)	At least 10 Years of City Service in the Police and Fire Department Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system). Can begin at age 50 with actuarial equivalent reduction	55 with 10 years service only if 20 years have elapsed from date of membership. (You can begin receiving your benefits at age 50 if you have at least 25 years of service.)	At least 10 Years of City Service in the Police and Fire Department Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with actuarial equivalent reduction
Benefit Formula	First 20 years of Service: 50% of final compensation (2.5% per year); Next 21-30 yrs service: 4% per year of service X final Compensation (90% max)	2.0% x Years of City Service in the Police and Fire Department Plan x Final Compensation (65% max) •Years of Service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation	First 20 years of Service: 50% of final compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X final Compensation (90% max) – All years convert to 3% after 20 years of service.	2.0% x Years of City Service in the Police and Fire Department Plan x Final Compensation (65% max) • Years of Service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation
Cost of Living Adjustments	3% per year	CPI up to 1.5% per year	3% per year	CPI up to 1.5% per year
Final Compensation	Highest one-year average	Highest three-year average	Highest one-year average	Highest three-year average

	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Disability Retirement (Service Connected)				
Minimum Service	None	None	None	None
Allowance	<20 yrs service: 50% of final compensation; Next 21-30 yrs service: 4% per year of service X final compensation (90% max)	50% of Final Compensation	50% of Final Compensation	<20 yrs service: 50% of final compensation; Beginning of 21st year of service: 3% per year of service X final compensation (90% max)
Disability Retirement (Non-Service Connected)				
Minimum Service	2 years	5 Years of City Service	5 Years of City Service	2 years
Allowance	<20 years service: 32% of final compensation plus 1% for each full year in excess of 2.50% max); >20 yrs service: 2.5% x first 20 years of Service x final compensation; Next 21-30 yrs service: 4% per year of service X final Compensation (90% max)	2% x Years of Service x Final Compensation. (Minimum of 20% and maximum of 50%)	2% x Years of Service x Final Compensation. (Minimum of 20% and maximum of 50%)	<20 years service: 32% of final compensation plus 1% for each full year in excess of 2. (50% max) Beginning of 21st year of service: 3% per year of service X final Compensation (90% max)

	Police Tier 1
Death Before Retirement	
Nonservice-Connected Death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or $1,000, whichever is greater [SJMC 3.36.1250 (C-E)]
Nonservice-Connected Death with more than 2 yrs of service, but not eligible for a service retirement	To surviving spouse/domestic partner : 24% +.75% for each year in excess of 2 x Final Compensation (37.5% maximum) [SJMC 3.36.1210 (F), 1280 (B)] and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1210 (G), 1300 (B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1210(G), 1300 (D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1210(G), 1300 (F1)] If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate [SJMC 3.36.1210(E),1210(I)] or $1,000 whichever is greater
Death before retirement, but while eligible for service retirement - Non-service connected death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on the years of service [SJMC3.361200(F),1270(B)] For example: Member's benefit = 76% Survivorship benefit = 38% of Final Compensation Member's benefit = 80% Survivorship benefit = 40% of Final Compensation Member's benefit = 82% Survivorship benefit = 41% of Final Compensation Member's benefit = 85% Survivorship benefit = 42.5% of Final Compensation and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1200 (G), 1300 (B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1200(G), 1300 (D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1200(G), 1300 (F1)] If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate [SJMC 3.36.1200 (E), 1200 (I)] or $1,000, whichever is greater

	Police Tier 1
Death Before Retirement (continued)	
Service-Connected Death regardless of year of service	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on the years of service SJMC3.36.1200(F),1270(B)] and to surviving children : 1 Child: Final Comp x 25% [SJMC 3.36.1200 (G), 1300 (B)] 2 Children: Final Comp x 50% [SJMC 3.36.1200 (G) , 1300 (D2)] 3 Children: Final Comp x 75% [SJMC 3.36.1200 (G) , 1300 (F2)] If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate [SJMC 3.36.1200 (E), 1200(I)] or $1,000 w hichever is greater
Death After Retirement	
Service-connected Disability Retirees	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on the years of service [SJMC 3.36.1230, 1270(B)] and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1230(D), 1300(B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1230(D), 1300 (D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1230 (D),1300(F1)] If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate [SJMC 3.36.1230(E)]
Non-service connected Disability Retirees	To surviving spouse/domestic partner: Final Comp x 24% + .75% for each year in excess of 2 (37.5% maximum) [SJMC 3.36.1240 (C), 1280(B)] and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1240(D), 1300(B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1240(D), 1300(D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1240(D), 1300(F1)] If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate [SJMC 3.36.1240(E)]
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces their allow ance to provide a higher survivorship allow ance to their spouse/domestic partner.
Post-Retirement Marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on his pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

	Police Tier 2
Death Before Retirement	
Non-service-Connected Death - Not Eligible for Retirement and less than tw o years of service	Return of accumulated employee contributions, plus interest, to spouse, domestic partner, children or estate
Non-service-Connected Death - Not Eligible for Retirement and tw o or more years of service	To surviving spouse/domestic partner: Monthly allow ance based on annual amount equal to the greater of: •2.0% x Years of City Service x Final Compensation (30% max) or •10% of Final Compensation If no surviving spouse/domestic partner: Amount divided among the eligible surviving children If no children: Member's estate w ill receive the accumulated employee contributions, plus interest
Non-Service-Connected Death - Eligible for Retirement	To surviving spouse/domestic partner: Monthly allow ance based on annual amount equal to the greater of: •2.0% x Years of City Service x Final Compensation (30% max) or •10% of Final Compensation If no surviving spouse/domestic partner: Amount divided among the eligible surviving children If no children: Member's estate w ill receive the accumulated employee contributions, plus interest

	Police Tier 2
Killed in the Line of Duty	
Employee killed in the line of duty	To surviving spouse/domestic partner: Monthly allowance based on annual benefit equal to the greater of: •50% of Final Compensation or •Benefit employee would have been eligible for if had retired at the time of death If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest
Death After Retirement	
Service Retirees	At time of retirement, employee may elect 50%, 75% or 100% survivorship benefits to a spouse/domestic partner or children. Amount to be determined by the Board's actuary.

	Fire Tier 1
Death Before Retirement	
Service-Connected Death regardless of year of service	To surviving spouse/domestic partner: 37.5% to 45% of member's Final Compensation depending on the years of service [SJMC3.36.1200(F),1270(B)] and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1200 (G), 1300 (B)] 2 Children: Final Comp x 50% [SJMC 3.36.1200 (G) , 1300 (D2)] 3 Children: Final Comp x 75% [SJMC 3.36.1200 (G) , 1300 (F2)] If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate [SJMC 3.36.1200 (E), 1200(I)] or $1,000 whichever is greater
Nonservice-Connected Death with less than 2 yrs of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or $1,000, whichever is greater [SJMC 3.36.1250 (C-E)]
Nonservice-Connected Death with more than 2 yrs of service, but not eligible for a service retirement	To surviving spouse/domestic partner : 24% +.75% for each year in excess of 2 x Final Compensation (45% maximum) [SJMC 3.36.1210 (F), 1280 (B) (D)] and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1210 (G), 1300 (B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1210(G), 1300 (D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1210(G), 1300 (F1)] If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate [SJMC 3.36.1210(E),1210(I)] or $1,000 whichever is greater
Death before retirement, but while eligible for service retirement – Nonservice Connected death	To surviving spouse/domestic partner: 37.5% to 45% of member's Final Compensation depending on the years of service [SJMC3.361200 (A),(F),1270(B)] For example: Member's benefit = 81% Survivorship benefit = 40.5% of Final Compensation Member's benefit = 84% Survivorship benefit = 42% of Final Compensation Member's benefit = 87% Survivorship benefit = 43.5% of Final Compensation Member's benefit = 90% Survivorship benefit = 45% of Final Compensation and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1200 (G), 1300 (B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1200(G), 1300 (D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1200(G), 1300 (F1)] If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate [SJMC 3.36.1200 (E), 1200 (I)] or $1,000, whichever is greater

	Fire Tier 1
Death After Retirement	
Service Retirees Service-connected Disability Retirees	To surviving spouse/domestic partner: 37.5% to 45% of member's Final Compensation depending on the years of service [SJMC 3.36.1230, 1270(B)] and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1230(D), 1300(B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1230(D), 1300 (D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1230 (D),1300(F1)] If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate [SJMC 3.36.1230(E)]
Non-service connected Disability Retirees	To surviving spouse/domestic partner: Final Comp x 24% + .75% for each year in excess of 2 (37.5% maximum) [SJMC 3.36.1240 (C), 1280(B)] and to surviving children: 1 Child: Final Comp x 25% [SJMC 3.36.1240(D), 1300(B)] 2 Children: Final Comp x 37.5% [SJMC 3.36.1240(D), 1300(D1)] 3 Children: Final Comp x 50% [SJMC 3.36.1240(D), 1300(F1)] If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate [SJMC 3.36.1240(E)]
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

	Fire Tier 2
Death Before Retirement	
Non-service-Connected Death - Not Eligible for Retirement and less than two years of service	Return of accumulated employee contributions, plus interest, to spouse, domestic partner, children or estate
Non-service-Connected Death - Not Eligible for Retirement and two or more years of service	To surviving spouse/domestic partner: Monthly allowance based on annual amount equal to the greater of: •2.0% x Years of City Service x Final Compensation (30% max) or •10% of Final Compensation If no surviving spouse/domestic partner: Amount divided among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest
Non-Service-Connected Death - Eligible for Retirement	To surviving spouse/domestic partner: Monthly benefit equivalent to pension the employee would have received if retired at the time of death. If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest
Killed in the Line of Duty	
Employee killed in the line of duty	To surviving spouse/domestic partner: Monthly allowance based on annual benefit equal to the greater of: •50% of Final Compensation or •Benefit employee would have been eligible for if had retired at the time of death If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest
Service Retirees	At time of retirement, employee may elect 50%, 75% or 100% survivorship benefits to a spouse/domestic partner or children. Amount to be determined by the Board's actuary.

	FCERS			
	Federated Tier 1	Federated Tier 2	Federated Tier 2B	Federated Tier 2C
Pension				
Hire Date	Prior to September 30, 2012	Hired, rehired or reinstated between September 30, 2012 and September 27, 2013	Hired, rehired or reinstated after September 27, 2013*	Hired, rehired or reinstated after September 27, 2013**
Minimum Service to Leave Contributions in System	5 years	5 years Federated City Service	5 years Federated City Service	5 years Federated City Service
Age/Years of Service	55 with 5 years service 30 yrs service at any age	65 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction	65 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction	65 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction
"Deferred Vested"	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)	65 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction	65 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction	65 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction
Benefit Formula	2.5% x Years of Service x Final Compensation (75% max) •"Final Compensation" is the average monthly (or biweekly) base pay for the highest year of Federated City Service (year of service=1749 hours worked)	2.0% x Years of Federated City Service x Final Compensation (65% max) •"Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation	2.0% x Years of Federated City Service x Final Compensation (65% max) •"Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation	2.0% x Years of Federated City Service x Final Compensation (65% max) •"Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation
Cost of Living Adjustments	3% per year	CPI up to 1.5% per year	CPI up to 1.5% per year	CPI up to 1.5% per year
Final Compensation	Highest one-year average	Highest three-year average	Highest three-year average	Highest three-year average
Disability Retirement (Service Connected)				
Minimum Service	None	None	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)	50% of Final Compensation less any deductions for income from service performed for other employers or for non-federated city service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.	50% of Final Compensation less any deductions for income from service performed for other employers or for non-federated city service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.	50% of Final Compensation less any deductions for income from service performed for other employers or for non-federated city service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.

	Federated Tier 1	Federated Tier 2	Federated Tier 2B	Federated Tier 2C
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years	5 Years Federated Service	5 Years Federated Service	5 Years Federated Service
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) If under 55 years old, subtract 0.5% for every year under age 55. **For those entering the System 9/1/98 or later, the calculation is as follows: 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 service. (Maximum 75% of final compensation)	2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 50%, less any deductions for income from service performed for other employers or for nonfederated city service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.)	2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 50%, less any deductions for income from service performed for other employers or for nonfederated city service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.)	2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 50%, less any deductions for income from service performed for other employers or for nonfederated city service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.)

	Federated Tier 1
Death Before Retirement	
Non-service-Connected Death with less than 5 years of service	Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)
Greater than 5 years of service or service-connected death	To surviving spouse/domestic partner: Years of Service x 2.5% x Final Compensation (40% minimum, 75% maximum, except that "deferred vested" members not eligible for 40% minimum) *If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)
Death After Retirement	
Standard allowance to surviving spouse/domestic partner or children (Minimum 5 years of service)	To surviving spouse/domestic partner: 50% of Retiree's Allowance *If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.
Special Death Benefit	$500 death benefit paid to estate or designated beneficiary in addition to benefits above.

	Federated Tier 2, 2B, and 2C
Death Before Retirement	
Non-service-Connected Death Not Eligible for Retirement	Return of employee contributions, plus interest.
Eligible for Retirement	To surviving spouse/domestic partner: 2.0% x Years of Federated Service x Final Compensation (65% max) If no surviving spouse/ domestic partner: Member's estate receives employee's contributions, plus interest.
Service-Connected Death	To surviving spouse/domestic partner: Monthly benefit equivalent to 50% of Final Compensation.
Death After Retirement	
Survivorship allowance to surviving spouse/domestic partner or children that was elected by the member at retirement. (Minimum 5 years of service)	Retiree may choose survivorship allowance at retirement that reduces the retiree's allowance to provide a survivorship allowance determined by the FCERS actuary for a 50%, 75% or 100% continuance that is actuarially equivalent to the spouse/domestic partner or child(ren) designated at the time of retirement. No additional retirement benefits.

* Members who have not met the City's eligibility for either retiree healthcare or dental benefits prior to September 27, 2013, will not be eligible for retiree healthcare or dental benefits. Spouses, domestic partners and dependents will also be ineligible for retiree healthcare and dental benefits.

** Members who have not met the City's eligibility for retiree healthcare prior to September 27, 2013, will not be eligible for retiree healthcare benefits. Spouses, domestic partners and dependents will also be ineligible for retiree healthcare benefits. Employees who have met the eligibility requirement for retiree dental benefits will receive the retiree dental benefits.

*** At age 65, Members of FCERS will be required to enroll in Medicare Parts A & B. If a Member does not meet this requirement within 6 months of the date Member turns 65, health care benefits will cease until such requirements are met.

Employees Covered - The current membership in the Defined Benefit Pension Plans as of June 30, 2015, is as follows:

	Police		Fire		
PFDRP	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Totals**
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits*	1,271	-	837	-	2,108
Terminated and/or vested members not yet receiving benefits	218	32	40	-	290
Active members	841	88	626	22	1,577
Total	2,330	120	1,503	22	3,975

FCERS	**Tier 1**	**Tier 2**	**Tier 2B**	**Tier 2C**	**Totals**
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits*	3,901	-	-	-	3,901
Terminated and/or vested members not yet receiving benefits**	1,047	46	52	-	1,145
Active members***	2,363	233	635	5	3,236
Total	7,311	279	687	5	8,282

* The combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count.

** Two deferred vested members in Tier 2 have a portion of their benefits under Tier 1.

*** 23 active members in Tier 2 have a portion of their benefits under Tier 1.

The Retirement Systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974, a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans.

2. Contributions

Under GASB Statement No. 68, the City’s and the participating employees’ contributions to the Defined Benefit Pension Plans are based upon an actuarially determined percentage of each employee's base salary to arrive at an actuarially determined contribution ("ADC) and will be sufficient to provide adequate assets to pay benefits when due. Prior to GASB Statement No. 68, the contributions to the Defined Benefit Pension Plans were known as the annual required contribution ("ARC”).

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of 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 pension benefits to PFDRP and FCERS. The lump sum prepayment for the fiscal year ended June 30, 2015 was calculated to be actuarially equivalent to the bi-weekly payments that would otherwise have been the City’s required contributions to the pension plans. The Boards of Administration for the PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City at the beginning of the fiscal year.

As noted above, the San José Municipal Code has been amended to set forth Police Tier 2 pension benefits, Fire Tier 2 pension benefits, and FCERS Tier 2 pension benefits. The new tiers include significant benefit changes from the existing PFDRP and FCERS Tier 1 plans. In addition, the contribution rates for PRDRP and FCERS Tier 2 members are calculated based on a 50/50 split of all costs, including unfunded actuarial accrued liability (UAAL). Currently, PFDRP and FCERS Tier 1 members split normal cost with approximately 72.7% paid by the City and approximately 27.3% paid by Tier 1 members. The responsibility for funding the UUAL is generally not shared with the Tier 1 employees. The PFDRP prepayment made by the City on July 1, 2014 was assumed to have included Fire Tier 2 members.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the fiscal year ended June 30, 2015 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2013, except for the period June 21, 2015, through June 30, 2015, which were based on the June 30, 2014 valuation. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2015 is as follows (dollars in thousands):

	PFDRP							
	City [1]				Participants			
Defined Benefit Pension Plan	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Actuarial Rate:								
06/21/15-06/30/15	73.01%	11.27%	74.95%	11.17%	11.26%	11.27%	11.83%	11.16%
07/01/14-06/20/15	72.14%	10.80%	73.48%	10.94%	11.27%	10.80%	11.65%	10.94%

Defined Benefit Pension Plan	FCERS City [(1)] Tier 1	FCERS City [(1)] Tier 2	FCERS Participants Tier 1	FCERS Participants Tier 2
Actuarial Rate:				
06/21/15-06/30/15	66.16%	5.70%	6.33%	5.70%
07/01/14-06/20/15	60.25%	5.53%	5.64%	5.53%

(1)*The actual contribution rates paid by the City for PFDRP and FCERS Tier 1 members for fiscal year ended June 30, 2015 differed 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.*

Defined Benefit Pension Plan	Annual Pension Contribution City	Annual Pension Contribution Participants	Annual Pension Contribution Total
PFDRP	$ 129,279	$ 20,747	$ 150,026
FCERS	$ 114,751	$ 13,621	$ 128,372

In fiscal year ended June 30, 2011, the Retirement Systems' Boards approved the establishment of a "floor funding method" for payment of actuarially determined contribution ("ADC") for pension benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ADC as the greater of the annual dollar contribution amount established in the valuation, or the ADC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for the fiscal year ended June 30, 2015 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year.

The City's ADC for PFDRP determined in the June 30, 2013 valuation for the fiscal year ended June 30, 2015 was the greater of $128,217,000 (if paid at the beginning of the fiscal year) or 73.48% for Fire Tier 1 and 10.94% Fire Tier 2 members and 72.14% for Police Tier 1 members of actual payroll for the fiscal year. The total actuarial payroll for Police Tier 1 and Fire Tiers 1 and 2 members for the fiscal year was $182,536,000 ($106,177,000 for Police Tier 1 and $76,359,000 for Fire Tiers 1 and 2 members). The actual payroll for the fiscal year of $174,486,000 was less than the actuarial payroll of $182,536,000, resulting in an annual contribution of $128,217,000, as of July 1, 2014, excluding year end contributions receivable, and prior year contribution adjustments in the amount of $451,000.

The "floor funding method" does not apply to the Police Tier 2 members. In September 2014, the PFDRP Board approved a funding policy for Police Tier 2 setting the ADC to be 10.80% of actual payroll. The actual payroll for Police Tier 2 for the fiscal year was $5,653,000, resulting in an annual contribution of $611,000.

The City's ADC for FCERS Tier 1 determined in the June 30, 2013 valuation for fiscal year ended June 30, 2015 was the greater of $100,671,000 (if paid at the beginning of the fiscal year) or 50.85% of actual Tier 1 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of $200,439,000 was less than the actuarial payroll of $205,277,000 resulting in an ADC of $106,671,000 as of July 1, 2014, excluding year end contributions receivable and prior year contribution adjustments.

The "floor funding method" does not apply to FCERS Tier 2, 2B, and 2C members. Actual employer contributions for Tiers 2, 2B and 2C for the fiscal year were $923,000, $1,615,000 and $21,000, respectively.

3. Net Pension Liability

The City's net pension liability for each Defined Pension Plan is measured as the total pension liability, less the pension plans' fiduciary net position as of the measurement date of June 30, 2014. The City's net pension liability as of June 30, 2015 of each of the Defined Pension Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 and rolled forward to June 30, 2014 using standard update procedures by the actuary for the respective plans. In summary, the City's net pension liability at June 30, 2015 is as follows (dollars in thousands):

PFDRP	$ 569,191
FCERS	1,128,411
CalPERS	1,056
Total net pension liability	$ 1,698,658

Changes in Net Pension Liabilities - The components of the net pension liabilities of the PFDRP and FCERS plans (i.e., the PFDRP's and FCERS's liabilities determined in accordance with GASB Statement No. 68 less the plans' fiduciary net positions) as of the measurement date, June 30, 2014, were as follows (dollars in thousands):

	Increase (Decrease)		
PFDRP	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2013	$ 3,578,031	$ 2,789,525	$ 788,506
Changes for the Year:			
Service costs (middle of year)	75,030	-	75,030
Interest (includes interest on service cost)	251,700	-	251,700
Contributions-employer	-	123,583	(123,583)
Contributions-employees	-	21,115	(21,115)
Expected return on assets	-	197,832	(197,832)
Net difference between projected and actual investment earnings	-	207,146	(207,146)
Benefit payments, including refunds of member contributions	(167,397)	(167,397)	-
Administration expenses	-	(3,631)	(3,631)
Net Changes	159,333	378,648	(219,315)
Balance at 6/30/2014	$ 3,737,364	$ 3,168,173	$ 569,191

FCERS	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a-b)
Balance at 6/30/2013	$ 3,013,763	$ 1,761,546	$ 1,252,217
Changes for the Year:			
Service costs (middle of year)	43,334	-	43,334
Interest (includes interest on service cost)	214,487	-	214,487
Contributions-employer	-	107,544	(107,544)
Contributions-employees	-	13,596	(13,596)
Expected return on assets	-	126,359	(126,359)
Net difference between projected and actual investment earnings	-	137,329	(137,329)
Benefit payments, including refunds of member contributions	(155,936)	(155,936)	-
Administration expenses	-	(3,201)	(3,201)
Net Changes	101,885	225,691	(123,806)
Balance at 6/30/2014	$ 3,115,648	$ 1,987,237	$ 1,128,411

Sensitivity of the Net Pension Liabilities to Changes in Discount Rates - The discount rates used to measure the total pension liabilities were 7.125% and 7.25%, for the PFDRP and FCERS plans, respectively. It is assumed that PFDRP and FCERS members' contributions and City's contributions will be made based on the actuarially determined rates based on the PFDRP and FCERS Board's funding policies. Based on those assumptions, the PFDRP's and FCERS's fiduciary net positions are 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 were applied to all periods of projected benefit payments to determine the total pension liabilities.

The June 30, 2013 PFRDP valuation included changes in the expected rates of return from 7.25% to 7.125% as of the measurement date; and changes in the payroll wage inflation assumption from 0.00% for all years to 2.00% for fiscal year 2015-2016 and 3.50% thereafter.

The June 30, 2013 FCERS valuation included changes in the expected rates of return from 7.50% to 7.25% as of the measurement date; and changes in the payroll wage inflation assumption from 3.25% for all years to 2.00% for the next five years and 2.85% thereafter.

The following presents the net pension liabilities, calculated using the discount rates of 7.125% and 7.25% in effect as of the measurement date, as well as what the net pension liabilities would be if they were calculated using discount rates that are 1.00% lower (6.125%) and (6.25%) or 1.00% higher (8.125%) and (8.25%) than the rates used, for the PFDRP and FCERS plans, respectively (dollars in thousands):

PFDRP - Sensitivity Analysis	1% Decrease (6.125%)	Measurement Date Rate (7.125%)	1% Increase (8.125%)
Total pension liability	$ 4,274,449	$ 3,737,364	$ 3,298,686
PFDRP fiduciary net position	3,168,173	3,168,173	3,168,173
Net pension liabiltiy	$ 1,106,276	$ 569,191	$ 130,513
PFDRP fiduciary net position as a percentage of the total pension liability	74.1%	84.8%	96.0%

FCERS - Sensitivity Analysis	**1% Decrease (6.25%)**	**Measurement Date Rate (7.25%)**	**1% Increase (8.25%)**
Total pension liability	$ 3,535,216	$ 3,115,648	$ 2,770,925
FCERS fiduciary net position	1,987,237	1,987,237	1,987,237
Net pension liabiltiy	$ 1,547,979	$ 1,128,411	$ 783,688
FCERS fiduciary net position as a percentage of the total pension liability	56.2%	63.8%	71.7%

For their respective actuarial valuations as of June 30, 2014, both FCERS and PFDRP utilized a discount rate of 7.00%. For more details on the current discount rate, please refer to the annual reports issued by the Retirement System.

Pension Plans Fiduciary Net Position – Detailed information about the pension plans' fiduciary net position is available in the separately issued PFDRP and FCERS financial reports.

Pension Expense – For the year ended June 30, 2015, the City recognized pension expenses as follows (dollars in thousands):

	FCERS	**PFDRP**	**Total**
Service costs	$ 43,334	$ 75,030	$ 118,364
Interest	214,487	251,700	466,187
Contributions-employee	(13,596)	(21,115)	(34,711)
Amortization of differences between projected and actual earnings on investments	(27,466)	(41,429)	(68,895)
Expected return on assets	(126,359)	(197,832)	(324,191)
Adminstrative expenses	3,201	3,631	6,832
Total pension expense	**$ 93,601**	**$ 69,985**	**$ 163,586**

Deferred outflows/inflows of resources - As of June 30, 2015, $129,279,000 and $114,751,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the PFDRP and FCERS, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. As of June 30, 2015, $165,716,000 and $109,864,000 was reported as deferred inflows of resources related to the net differences between projected and actual earnings on the PFDRP and FCERS investments, respectively.

The deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows (dollars in thousands):

	Deferred Outflows			Deferred Inflows		
	Contributions subsequent to measurement date			Difference between projected and actual earnings on investments		
	PFDRP	FCERS	Total	PFDRP	FCERS	Total
2016	$ 129,279	$ 114,751	$ 244,030	$ (41,429)	$ (27,466)	$ (68,895)
2017	-	-	-	(41,429)	(27,466)	(68,895)
2018	-	-	-	(41,429)	(27,466)	(68,895)
2019	-	-	-	(41,430)	(27,466)	(68,896)
	$ 129,279	$ 114,751	$ 244,030	$ (165,717)	$ (109,864)	$ (275,581)

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rates of return on PFDRP and FCERS investments of 7.125% and 7.25%, respectively, were selected by estimating the median nominal rates of return based on long-term capital market assumptions provided by the PFDRP's and FCERS's investment consultants, 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 arithmetic real rates of return for each major asset class included in the plans' target asset allocation for each plan as of the measurement date of June 30, 2014, are summarized in the following table:

	Asset Class		Long-Term Expected Real Rate of Return (net of fees)	
	PFDRP	**FCERS**	**PFDRP**	**FCERS**
Equity and real estate	0%	40%	0.0%	8.2%
Global and private equity	37%	0%	6.1%	0.0%
Fixed income	25%	15%	2.9%	2.2%
Inflation-linked assets	17%	0%	4.3%	0.0%
Absolute return strategies	20%	25%	3.1%	3.8%
Real assets	0%	20%	0.0%	5.9%
Cash	1%	0%	0.5%	0.0%
Total	100%	100%		
Total Arithmetic Expected Return			**5.4%**	**5.7%**
Total Geometric Expected Return			**4.7%**	**5.1%**

The separately issued annual reports of PFDRP and FCERS provide more information about the most recent long-term expected rates of return on plan investments.

4. Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability as of June 30, 2015 are from the actuarial valuation report with a valuation date of June 30, 2013:

	PFDRP	**FCERS**
Description	**Method/Assumption**	**Method/Assumption**
Measurement date	June 30, 2014	June 30, 2014
Valuation date	June 30, 2013	June 30, 2013
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Actuarial assumptions:		
Inflation rate	2.00% for FY 2015 and 2016, and 3.50% thereafter	2.00% for five years and 2.85% thereafter
Assumed rate of return on investments	7.125% per annum (net of investment expenses)	7.25% per annum
Post-retirement mortality	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years (set back 3 years)	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.
(a) Service:	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years.	
(b) Disability:	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 2 years.	
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2011 actuarial experience analysis	Tables based on current experience
Salary increases		
Wage Inflation	2.00% for FY 2015 and 2016, and 3.50% thereafter.	The base annual rate of salary increase is the wage inflation rate plus a rate increase for merit/ longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. The wage inflation rate is assumed to be 2.00% for the next five years and 2.85% thereafter.
Merit Increase	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%	2.0% for five years and 2.85% thereafter. For the amortization schedule, payroll is assumed to grow 2.43% per year
Cost of Living Adjustment	Tier 1 – 3% per year Tier 2 – 1.5% per year	Tier 1 – 3% per year Tier 2 – 1.5% per year

A. 2. California Public Employees' Retirement System (CalPERS)

Plan Description. The Mayor and members of the City Council are eligible to participate in the Public Employees' Retirement Fund ("Fund") of the State of California's Public Employees' Retirement System ("CalPERS"), a cost-sharing multiple-employer plan. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS and by City resolution. Retiree health benefits are not provided to Mayor/Councilmembers. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on a final average compensation period of 36 months. Members with five years of total service are eligible to retire at age 50 for Classic members and at age 52 for PEPRA members with statutorily reduced benefits. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Classic Plan	**PEPRA Plan**
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	2%@55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	19.216%	6.25%

As of June 30, 2015, there were four current San José City Council members enrolled in the Classic Plan and three current members in PEPRA Plan.

Contributions. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by public employees during the year, with an additional amount to finance any unfunded accrued liability.

For the year ended June 30, 2015, the amount contributed to the CalPERS plans' were as follows (dollars in thousands):

	Classic Plan	PEPRA	Total
Contributions - employer	$ 100	$ 7	$ 107
Contributions - employee (paid by employer)	36	7	43
Total	$ 136	$ 14	$ 150

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liabilities of $1,056,000 for its proportionate shares of the net pension liability of the Plan. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures by CalPERS' actuary. The City's proportion of the net pension liability was actuarially determined at the valuation date. The City's proportionate share of the net pension liability as of June 30, 2013 and 2014 was as follows (dollars in thousands):

	Classic Plan	
Proportion - June 30, 2013	$	1,290
Proportion - June 30, 2014		1,056
Change - Increase (Decrease)	$	(234)

For the year ended June 30, 2015, the City recognized pension expense of $95,000. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Pension contributions subsequent to measurement date	$	107	$	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		-		(4)
Net differences between projected and actual earnings on plan investments		-		(232)
Total	$	107	$	(236)

$107,000 reported as deferred inflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

Year ended June 30	Deferred Inflows of Resources	
2016	$	(60)
2017		(60)
2018		(58)
2019		(58)
Total	$	(236)

Actuarial Assumptions – The total pension liability in the June 30, 2013 actuarial valuations was determined for the Classic and PEPRA Plans using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Projected Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50%, Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under GASB 68 section.

According to GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. The difference was deemed immaterial to the City's financial statements.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	5.00%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (in thousands):

Classic Plan -Sensitivity Analysis	**1% Decrease (6.50%)**	**Measurement Date Discount Rate (7.50%)**	**1% Increase (8.50%)**
Net pension liabiltiy	$ 1,646	$ 1,056	$ 567

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

A. 3. Defined Contribution Retirement Plan

In December 2012, the City adopted Ordinance No. 29184 amending Title 3 of the San José Municipal Code to amend various Sections of Chapter 3.28 and to add a new Chapter 3.49 for the purpose of establishing an option between the Tier 2 defined benefit plan and a defined contribution 401(a) plan that excludes participation in retiree healthcare, for Unclassified Executive Management and Professional Employees (Unit 99) who are hired on or after January 20, 2013. An employee is eligible to participate in 401(a) plan if the employee is hired directly into Unit 99 on or after January 20, 2013 and must not have previously been a member of either of City's defined benefit plans. An eligible employee must sign an irrevocable election form on his or her first day of employment with the City electing to participate in 401(a) plan. If no irrevocable election form is signed, the employee will be automatically placed into the Tier 2 defined benefit plan.

Both eligible employees and the City are required to contribute 3.75% of participants' annual compensation. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested upon the employee entering the 401(a) plan. The City contracts with an advisor to manage the 401(a) plan with all assets being held in trust by a third party custodian in the name of each of the Plan's participants. Each of the 401(a) plan's participants directs the investments of their separate account. The City must authorize changes to the 401(a) plan.

There were 35 participants in the 401(a) plan as of June 30, 2015. In 2014-2015, the City and the participating employees contributed $81,114 each to the 401(a) plan.

A. 4. Postemployment Healthcare Plans

1. Plan Description

In addition to the Defined Benefit Pension Plans, the City also sponsors and administers two single employer postemployment healthcare plans, the Police and Fire Department Postemployment Healthcare Plans, which includes a Postemployment Healthcare 401(h) Plan, the Police Department Postemployment Healthcare Plan (Section 115 Trust) and the Fire Department Postemployment Healthcare Plan (Section 115 Trust) and the Federated City Employees' Postemployment Healthcare Plan, which includes an Internal Revenue Code (IRC) 401(h) Plan and an IRC 115 Trust. These Postemployment Healthcare Plans cover eligible full-time and certain part-time employees of the City, and are accounted for in the Pension Trust Funds.

The separately issued annual reports of PFDRP and FCERS, together with the City's Municipal Code, provide more detailed information about the Postemployment Healthcare Plans. As stated in Section IV.A.1 of this note, those reports may be obtained from the City of San José Office of Retirement Services.

The Postemployment Healthcare Plans provide medical and dental benefits to eligible retirees and their beneficiaries. Benefits are 100% of the premium cost for the lowest priced medical insurance plan and 100% of the premium cost for a dental insurance plan available to an active City employee.

The current membership in the Postemployment Healthcare Plans as of June 30, 2015, is as follows:

	Police		Fire		
PFDRP	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Totals**
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits*	1,199	-	793	-	1,992
Terminated and/or vested members not yet receiving benefits	7	-	2	-	9
Active members	842	87	626	22	1,577
Total	2,048	87	1,421	22	3,578

FCERS	**Tier 1**	**Tier 2**	**Tier 2B**	**Tier 2C**	**Totals**
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits*	3,391	-	-	-	3,391
Terminated and/or vested members not yet receiving benefits	142	-	-	-	142
Active members	2,363	233	-	5	2,601
Total	5,896	233	-	5	6,134

* The number of combined domestic relations order recipients is not included in the count above as their benefit payment is included in the member's count.

** 17 active members in Tier 2 have a portion of their benefit under Tier 1.

2. OPEB Funding Policy

Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For Postemployment Healthcare Plans, the assumptions include those about future employment trends, mortality rates, level of salary increases, healthcare cost trend, and investment rates of return. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Projections of postemployment healthcare benefit costs for financial reporting purposes are based on the substantive plan as understood by the employer and plan members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point.

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of 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 PFDRP and FCERS. The lump sum prepayment for the fiscal year ended June 30, 2015 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City at the beginning of the fiscal year.

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Effective June 28, 2009, the bargaining units representing the FCERS members entered into agreements ("Retiree Healthcare Agreements") with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 43 annual required contributions ("ARC") over a five-year period ending in fiscal year 2012-2013. The Retiree Healthcare Agreements also provide that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the Retiree Healthcare Agreements further provides that by the end of the five-year phase-in the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

Effective June 18, 2013, the bargaining units representing the FCERS members entered into an amendment to the Retiree Healthcare Agreements that extended the incremental increase limitation. The 0.75% limitation was initially extended to December 20, 2014, but in October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015, keeping the contribution rates the same throughout the fiscal year. At the end of the fiscal year 2014-2015, the bargaining units and the City jointly agreed to keep the contribution rates the same as fiscal year 2014-2015 until December 20, 2015, at which point the parties would being to pay the full ARC; however, the contribution rate may change based on the ongoing negotiations between the City and the bargaining units. The contribution rates under the Retiree Healthcare Agreements are applied to unrepresented employees.

Effective June 26, 2011, the Fire members entered into a Memorandum of Agreement ("MOA") with the City to phase-in to fully contributing the GASB Statement No. 43 ARC over a five year period; fiscal year 2014-2015 was the fourth year of the phase-in. Effective June 28, 2009, the Police members of the PFDRP entered into a MOA with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the ARC over the next five years; fiscal year 2013-2014 was the fifth year of the phase-in. In both MOAs, the City and members of the PFDRP agreed that the member and City cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35%, of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for the members or 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11%, respectively. On February 24, 2015, the City and the Police bargaining unit agreed to roll back the Police employee contributions rates from a total of 10.0% to 9.51% and the employer contribution rates from a total of 11% to 10.31%, effective March 15, 2015 and through fiscal year 2015-2016.

In fiscal year ended June 30 2011, the Retirement Systems' Boards approved an establishment of a "floor funding method" for payment of the ARC for postemployment healthcare benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ARC as the greater of the annual dollar contribution amount established in the valuation, or the ARC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year June 30, 2015 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year. The "floor funding method" does not apply to PFDRP Police Tier 2 or FCERS Tier 2, Tier 2B, and Tier 2C members.

During the fiscal year ended June 30, 2015, the PFDRP and FCERS's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation studies as of June 30, 2013 was prepared by the actuary for the respective plans. For PFDRP, the annual contribution determined in the June 30, 2013 valuation for fiscal year ended June 30, 2015 was the greater of $18,122,000 (if paid at the beginning of the fiscal year), or the contribution rates as a percentage of actual payroll listed below for the fiscal year. For FCERS, the annual contribution determined in the June 30, 2013 valuation for fiscal year ended June 30, 2015 was the greater of $21,598,000 (if paid on 07/01/2014) ($17,891,000 for Tier 1, $1,087,000 for Tier 2 and $2,620,000 for Tier 2B) or the contribution rates as a percentage of actual payroll listed below for the fiscal year.

The total actuarial payroll for Police Tier 1 and Fire Tiers 1 and 2 members for the fiscal year was $182,536,000 ($106,177,000 for Police Tier 1 and $76,359,000 for Fire Tiers 1 and 2 members). The actual payroll for the fiscal year of $174,486,000 was less than the actuarial payroll of $182,536,000, resulting in an annual contribution of $18,122,000, as of July 1, 2014, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments. In September 2014, the PFDRP Board approved a funding policy for Police Tier 2, setting the annual required contribution to be based on actual payroll. The actual payroll for Police Tier 2 for the fiscal year was $5,653,000, resulting in an annual contribution of $608,000.

The actual payroll for FCERS Tier 1 for the fiscal year of $194,333,000 was less than the actuarial payroll of $196,896,000 resulting in an annual contribution of $21,301,000 as of July 1, 2014. Employer contributions for Tier 2, 2B and 2C for the fiscal year were $1,899,000, $3,710,000 and $49,000, respectively.

The contribution rates in effect for PFDRP and the FCERS for the fiscal year ended June 30, 2015 are as follows:

PFDRP	**CITY**		**Participant**	
	Police	**Fire**	**Police**	**Fire**
Actuarial Rate:				
Postemployment Healthcare Plan:				
06/21/15 - 06/30/15	10.31%	10.62%	9.51%	9.74%
03/15/15 - 06/20/15	10.31%	9.27%	9.51%	8.49%
07/01/14 - 03/14/15	11.00%	9.27%	10.00%	8.49%

FCERS	CITY			Participant		
	Tier 1 and Tier 2	Tier 2B	Tier 2C	Tier 1 and Tier 2	Tier 2B	Tier 2C
Actuarial Rate:						
Postemployment Healthcare Plan:						
07/01/14 - 06/30/15	9.41%	12.66%	12.86%	8.76%	0.00%	0.39%

For the PFDRP, the June 30, 2013 valuation establishes, for the fiscal year ended June 30, 2015, the City's ARC rate as a percentage of pay on a GASB valuation basis to be 17.76% compared to the contribution rates listed above on a phase-in funded basis.

For the FCERS, the June 30, 2013 valuation establishes, for the fiscal year ended June 30, 2015, the City's ARC rate as a percentage of pay on a GASB valuation basis to be 23.16% compared to the contribution rates listed above on a phase-in funded basis.

3. Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The City's annual other postemployment benefit cost and net OPEB obligation for PFDRP and FCERS as of and for the fiscal year ended June 30, 2015, were as follows (dollars in thousands):

	PFDRP	FCERS
Annual required contribution	$ 33,295	$ 35,644
Interest on net OPEB obligation	14,976	11,646
Adjustment to annual required contribution	(12,474)	(13,984)
Annual OPEB cost	35,797	33,306
Contributions made	(20,908)	(26,959)
Implicit rate subsidy	(2,050)	(4,134)
Increase in net OPEB obligation	12,839	2,213
Net OPEB obligation – beginning of year	249,623	184,853
Net OPEB obligation – end of year	$ 262,462	$ 187,066

The following is three-year trend information for the City's single employer Postemployment Healthcare Plans (dollars in thousands):

	Fiscal year ended	Annual OPEB Cost	Total Employer Contributions	Percent Annual OPEB Cost Contributed	Net OPEB Obligation
PFDRP	6/30/13	$ 56,712	$ 15,980	28%	$ 234,259
	6/30/14	35,494	20,131	57%	249,623
	6/30/15	35,797	22,958	64%	262,462
FCERS	6/30/13	$ 57,112	$ 24,308	43%	$ 159,502
	6/30/14	49,382	24,031	49%	184,853
	6/30/15	33,306	31,093	93%	187,066

4. OPEB Funded Status and Funding Progress

As summarized in the table below, as of June 30, 2014, the most recent actuarial valuation date, PFDRP and FCERS was 13% and 27% funded, respectively, on an actuarial basis for OPEB.

As of June 30, 2014, the PFDRP's most recent actuarial valuation, which combines the 401(h) and 115 Subtrusts within the valuation, shows the Postemployment Healthcare Plan's UAAL decreased by $12.4 million primarily due to the change in claims cost assumptions and the change in demographic experience. The discount rate used for GASB purposes remained the same at 6.00% in the June 30, 2014 OPEB valuation and in the June 30, 2013 OPEB valuation. The

Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the PFDRP's invested assets (7.00%) resulting in a blended discount rate of 6.00%. Changes in claims cost assumptions refers to the changes in expected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This also includes the effect of updating the claims cost trend assumption.

As of June 30, 2014, the FCERS' most recent valuation, the FCERS' Postemployment Healthcare Plan's UAAL decreased by $184 million primarily due to changes in the discount rate, demographic experience and change in health assumptions. The OPEB discount rate increased from 5.30% used in the June 30, 2013 OPEB valuation to 6.30% used in the June 30, 2014 OPEB valuation. The FCERS' OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets 3.0% and the expected return on the Plan's invested assets (7.00%) resulting in a blended discount rate of 6.30%. Demographic experience refers to the change in actual data and elections from June 30, 2013 to June 30, 2014 as compared to the changes expected in the prior valuation. Change in health assumptions refers to the change in expected current and future healthcare claims and expense costs based on the 2014 and 2015 medical premium experience and the additional data on the coverage of children.

The specific funding status for each OPEB plan is summarized in the table below, as of the June 30, 2014 valuation date (dollars in thousands):

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	UAAL	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
PFDRP	6/30/2014	$ 93,605	$ 706,709	$ 613,104	13%	$ 188,189	326%
FCERS	6/30/2014	199,776	729,406	529,630	27%	234,677	226%

The Schedule of Funding Progress, presented as RSI following the Notes to Basic Financial Statements, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

5. OPEB Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The contribution rates for fiscal years ended June 30, 2015, were based on the actuarial valuations performed on June 30, 2013 except for the period June 22, 2015 through June 30, 2015, which were based on the June 30, 2014 valuation.

The significant actuarial methods and assumptions used to compute the actuarially determined PFDRP's OPEB annual required contributions and the funded status are as follows:

PFDRP

Description	Method/Assumption	Method/Assumption
Valuation date	June 30, 2014	June 30, 2013
Actuarial cost method	Entry age normal, level of percent of pay	Entry age normal, level of percent of pay
Amortization method	30 years, level percent of pay	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2014, open	30 years as of June 30, 2013, open
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor
Discount rate*	6.00%	6.00%
Projected total payroll increases:		
Wage inflation:	3.25% for FY 2015 and for all years	2.00% for FY2014 and 2015, and 3.50% thereafter
Merit increase:	Merit component added based on an individual's years of service ranging from 9.25% to 2.00%	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%
Healthcare cost trend rate:		
Medical	Future medical inflation assumed to be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65	Future medical inflation assumed to be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65
Dental	Dental inflation is assumed to be 4.00%	Dental inflation is assumed to be 4.00%

* Determined as a blended rate of the expected long-term investment returns on plan assets and on the City’s investments, based on the funded level of the plan at the valuation date.

The significant actuarial methods and assumptions used to compute the actuarially determined FCERS's OPEB annual required contributions and the funded status are as follows:

FCERS		
Description	**Method/Assumption**	**Method/Assumption**
Valuation date	June 30, 2014	June 30, 2013
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level dollar	Level dollar
Remaining amortization period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period
Actuarial asset valuation method	Market value	Market value
Assumed rate of return on investments (net)	7.00% per annum	7.25% per annum
Discount rate (net)*	6.30%	5.30%
Wage inflation rate	2.85%	2.0% for five years and 2.85% thereafter
Salary increases	The assumption of 2.85% wage inflation plus a rate increase for merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more year of service.	The base annual rate of salary increase is 2.0% wage inflation rate for the first five years and 2.85% thereafter plus a rate increase for merit/longevity for 0 to 15+ ranging from 4.50% to 0.25% at the 15th year of service*
Projected total payroll increases	N/A	N/A
Healthcare cost trend rate:		
Medical	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.5% to 4.25% per annum graded down over a 14 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.0%	Dental inflation is assumed to be 4.0%

* Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments. As of June 30, 2015, the Airport was obligated for purchase commitments of approximately $8,300,000 primarily for pavement maintenance, terminal area development, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber $72,000,000 on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

Fuel Storage Facility. Until December 22, 1998, the City and Chevron U.S.A., Inc. ("Chevron"), operated adjacent fuel storage facilities at the Airport. The City's facilities have not been in operation since December 22, 1998, when the facilities were closed in response to the federal deadline for upgrade or closure of underground storage tanks ("UST"). Since the discovery in fiscal year 1985-86 that petroleum products had been released into the soil and groundwater from either or both the City and Chevron fuel storage facilities, the City and Chevron have operated a groundwater extraction system to control migration (spread) of the contamination and to remediate (clean up) contaminated groundwater. This interim remediation system consists of an extraction and treatment system to remove floating jet fuel product from groundwater and to prevent its offsite migration. Chevron operates and maintains the system. Through June 1998, the City and Chevron shared in the cost of operating this system. The agreement expired but Chevron continued the work.

A new joint agreement was entered into by the City and the Chevron in November 2009. Chevron was designated as the lead in the remediation efforts. The agreement provides for a 50-50 cost sharing responsibility for actual future costs until successful closure of the site. As of June 30, 2014, the City, through the Airport Fund has paid its 50% of the remediation costs totaling $2,024,000. The Airport Fund did not incur any remediation costs for the fiscal year ended June 30, 2015. The agreement also required the City to pay its 50% share of the past costs that Chevron has incurred during the period after expiration of the prior agreement and before the new agreement was in place, which occurred in fiscal year 2010.

Chevron is responsible for administering the new agreement including retaining a corrective action contractor. The agreement is also structured to facilitate reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (the "Plume Fund"). Chevron has received a reimbursement amounting to $2,948,000 and is requesting the remaining $52,000 of the eligible $3,000,000 reimbursement.

Due to the proximity of the closed City jet fuel farm to the adjacent Chevron jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the Chevron site to be closed, and investigation/remediation to be done on both sites at once. The new jet fuel farm was constructed off-Airport across Highway 101 and was placed in service in December 2009. The Chevron fuel farm was subsequently closed upon commencement of the new fuel farm.

Chevron demolished its fuel farm during fiscal year 2010 and removed its USTs. The City removed its USTs in September 2011. Chevron completed the site's interim remedial action in November 2012 pursuant to the plan, which was approved by the County of Santa Clara ("County") in February 2012. The approved plan is a fixed area remedial excavation to remove the secondary source materials beneath and adjacent to the former USTs. In March 2013, four groundwater monitoring wells were installed within the area of excavation to monitor and evaluate the effectiveness of the remedial excavation on water quality. Quarterly monitoring and sampling was done through the fourth quarter of 2013. Following four quarters of monitoring and sampling, the site conditions were evaluated for closure using the framework of the State Water Resources Control Board Low-Threat Underground Storage Tank Closure Policy, which became effective August 17, 2012. Following approval of closure from the County, the monitoring wells were destroyed in Spring 2015. In June 2015, Chevron and the City received a letter from the County confirming the completion of the investigation and cleanup of the site.

Chevron will deduct the Airport's share in the remaining remediation costs from the Airport's half of the Plume Fund reimbursement.

Master Plan. In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the "Master Plan"). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (the "ALP") displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo and general aviation. Implementation of the Master Plan has been ongoing, collectively comprising of improvements to the Airport's terminal facilities, roadways, parking facilities and airfield facilities, and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the Terminal Area Improvement Program and other Airport Development Program revisions. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

In June 2010, the City Council approved the most recent amendment to the Master Plan that updated projected aviation demand and facility requirements. This amendment to the Master Plan modified specific components of the Airport Development Program. Pursuant to the amended Master Plan, the former interim long-term public parking and employee parking lots on the northwest side of the Airport (which have been relocated to the east side terminal area) are designated for development of facilities to accommodate projected growth in general aviation demand. The 29-acre Signature fixed based facility development is located in this portion of the Airport, and an additional 15 acres north of the FAA air traffic control tower remains available for future general aviation development opportunities.

FAA Audit of Use of Revenue. Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed to cap the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of $5,600,000 that would be applied equally to the Airport cost allocation plan over a seven year period beginning in fiscal year 2012-13. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-15 in an effort to address FAA concerns.

On August 14, 2015, the FAA responded to the City's proposal to resolve the cost allocations issue. See subsequent event for a full description of the FAA's response. The City continues discussions with the FAA with regard to the cost allocations issue, but cannot predict the final outcome of the audit.

Litigation. Between May 2013 and January 2014, SJJC Aviation Services, LLC filed three lawsuits seeking to block the Signature fixed base operation project at the Airport. SJJC Aviation Services, LLC is an incumbent tenant at the Airport that conducts fixed base operations under the name "Atlantic Aviation," and the Signature fixed base operation will be in competition with Atlantic Aviation at the Airport.

The first lawsuit (the "RFP lawsuit"), filed in May 2013 in the Superior Court of the State of California in Santa Clara County, challenged the City's request for proposal ("RFP") process and the resulting award of the lease and operating agreement to Signature. The Superior Court entered judgment dismissing the RFP lawsuit with prejudice on May 2, 2014, and SJJC Aviation Services subsequently filed an appeal to the Sixth District Court of Appeal on May 16, 2014. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

The remaining two lawsuits filed in May and December 2013 in the Superior Court of the State of California in Santa Clara County, seek to block the Signature project under the California Environmental Quality Act ("CEQA"). In both CEQA lawsuits, SJJC Aviation Services alleges that the City violated CEQA by approving the Signature project without adequate environmental review. The Superior Court subsequently consolidated the two CEQA lawsuits. The City successfully defended its CEQA environmental review and received a judgment in its favor on December 23, 2014, and SJJC Aviation Services subsequently filed an appeal to the Sixth District Court of Appeal on February 5, 2015. The City's brief on the appeal is currently due on November 16, 2015, but a hearing date for the appeal has not yet been set.

The City believes that the SJJC Aviation Services challenges to the RFP process and the environmental review for the Signature project are without merit.

There are several pending lawsuits in which the Airport is involved in the normal course of its operation. The Airport's and the City's management believe that any potential exposure will not have a material effect on the Airport's financial position or changes in financial position.

2. San José – Santa Clara Regional Wastewater Facility

For fiscal years 2016-2020, the Five Year capital improvement program includes approximately $12,680,000 for the South Bay Water Recycling ("SBWR") project, a regional water reclamation program to recycle highly treated wastewater for irrigation and industrial uses in the cities of San José, Santa Clara, and Milpitas, California. This program is part of an action plan, developed by the City and other agencies tributary to the Plant and adopted by the Regional Water Quality Control

Board ("RWQCB"), to control the amount of effluent discharged by the Plant into San Francisco Bay.

The SBWR distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately $140,000,000 funded by the tributary agencies, grants, and bond proceeds.

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which described the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 million gallons per day and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I non-potable reuse system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated cost for implementing these projects was $127,500,000. As of June 30, 2015, $120,873,000 has been expended or encumbered on the expansion of Phase I of the SBWR. These costs were funded by the City, Santa Clara, and the tributary agencies using the Plant through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

In fiscal year 2014-2015, the City and the Santa Clara Valley Water District (“SCVWD”) accepted a report that had been commissioned by both the City and the SCVWD related to SBWR, entitled: “South Bay Water Recycling Strategic and Master Planning (“Strategic Report”). The Strategic Report contemplates near term projects (fiscal years 2016 to 2020) at an estimated cost of $49 million and long term improvements and expansion of the existing system (fiscal years 2020 to 2035) at an estimated cost of $243.2 million for long-term nonpotable reuse projects and an additional $522 million for long-term potable use projects. The City’s capital improvement program for 2016-2020 includes approximately $4.7 million for reliability improvements to the SBWR identified in the Strategic Report that are proposed to be funded from SBWR revenues, including, but not limited to, rehabilitation and/or replacement of pump station components, control and communication systems, pipelines, and other system related infrastructure. No specific plan for the development or source of financing of the other near term improvements, nor the long-term improvements identified in the Strategic Report has been developed to date. Further, the responsibility for the development of the long-term improvements has not been established and may involve the formation of a separate entity responsible for the oversight and funding of these improvements.

Plant Master Plan. In November 2013, the City Council approved the Plant Master Plan (“PMP”), a 30-year planning-level document focused on long-term rehabilitation and modernization of the Plant. The PMP recommends more than 114 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately $2 billion. On September 24, 2013, the City Council approved a consultant agreement with MWH Americas, Inc. to assist and support the City in developing and implementing this Capital Improvement Program (“CIP”). Over the last year, City staff has worked with program management and financial consultants to develop a long-term funding strategy to provide sustained funding for implementing the CIP program. On June 2, 2015, a funding strategy was recommended to and approved by the City Council. For the next five years, the City’s portion of the funding for the Adopted CIP is programmed into the 2016-2020 sewer rate models with moderate rate increases beginning 2015-2016.

Revenues for the 2016-2020 Adopted CIP are derived from several sources: utilization of available resources in the City of San José Sewer Service and Use Charge sub-fund and Sewage Treatment Plant Connection Fee sub-fund; contributions from the City of Santa Clara and other tributary agencies for the treatment of sewage from their respective jurisdictions by the Plant; interest earnings; Calpine Metcalf Energy Center Facilities repayments; federal grants from the U.S. Bureau of Reclamation; and bond and commercial paper proceeds.

Contributions from the City of Santa Clara and the tributary agencies are made pursuant to agreements with each agency based on the anticipated operation and maintenance, and capital budget. The tributary agencies' proportional contribution for the operation and maintenance cost is based on the amount and characteristics of the sewage discharged into the Plant. Each tributary agency's capital contribution is based on each agency's reserved capacity in the Plant. The balance of the Plant budget is shared between the cities of San José and Santa Clara based on the respective City's assessed property value relative to the total assessed property value in both jurisdictions. In the 2016-2020 Adopted CIP, contributions from the City of Santa Clara and other agencies total $203,400,000.

In addition to contributions, a bond issuance combined with Commercial Paper ("CP") proceeds totaling $517,300,000, has been programmed in the 2016-2020 CIP. Debt service on the bonds/CP is estimated to be approximately $1,600,000 in 2015-2016 and 2016-2017, rising to approximately $109,500,000 in 2017-2018, $55,700,000 in 2018-2019, and $48,100,000 in 2019-2020, reflecting the amortization of the interest and principal loan amount, in addition to the retirement of commercial paper loans. The bond issuance does not reflect a more comprehensive financing plan that will be required to accomplish the full 30-year PMP. Staff is currently pursuing loan funding for PMP projects through the Clean Water State Revolving Fund. If successful, debt service projections in the 2016-2020 CIP would be adjusted accordingly.

Recycled Water Facilities and Programs Integration Agreement between the City of San José and the Santa Clara Valley Water District. The City and the SCVWD entered into an agreement on March 2, 2010 ("Integration Agreement") to collaborate on design, construction and operation of an advanced treated recycled water facility and related facilities now called the Silicon Valley Water Treatment Facility ("SVWTF"). In 2003, the City and SCVWD began collaborating on design, construction and operation of an advanced treated recycled water facility and related facilities, to be located on lands owned by the Plant, in order to demonstrate the treatment capability of a local facility to produce highly purified water that could be blended with existing recycled water to expand irrigation and industrial uses. The City, as the administering agency for the Plant, and the SCVWD desired to financially support the production and use of recycled water in Santa Clara County consistent with each party's separate and distinct interests: for wastewater treatment and disposal for the City, and water quality and supply for the SCVWD, as well as to coordinate and cooperate to achieve the most cost effective, environmentally beneficial utilization of recycled water to meet both agencies' needs. The term of the Integration Agreement is from July 1, 2010 through June 30, 2050, and co-terminus with the Ground Lease and Property Use Agreement between the City and SCVWD for construction and operation of the SVWTF on Plant lands.

SCVWD and the City's capital investment towards the construction of the SVWTF were $50,000,000 and $11,000,000, respectively, as of the date of the signed agreement on March 2, 2010. SCVWD determines the operational and maintenance budget for the SVWTF, and operates the facility. Separate formulas were established to determine each party's respective share of the annual operation and maintenance cost for the SVWTF following the first full fiscal year the SVWTF becomes operational, which was fiscal year 2014-2015. The formula provides that for each fiscal year when the SBWR is operating at a net loss, the City would pay to the SCVWD an amount to support SCVWD's operational cost up to $2,000,000. In the event that the SBWR operates at net revenue, the City would share its revenue with the District with the first 50% towards the District's costs and the second 50% divided between the two agencies based on their respective capital investment in the recycled water infrastructure. The City's capital investment in the SBWR system and SVWTF is $250,000,000, and SCVWD's capital investment in SVWTF is $50,000,000.

As of June 30, 2015, the SVWTF completed its full year of operations. Commencing in January 2016, the City and SCVWD are to provide the other agency with audited financial statements for the prior fiscal year (June 30, 2014 – June 30, 2015) for the operation of the SBWR and the SVWTF. Since the definition of net operating cost and revenue under the Integration Agreement excludes certain costs and revenues that might otherwise be considered in either party's overall budget, each party must prepare a separate statement following the publication of the annual audited financial statements, to establish each party's respective cost share for the operation of the SVWTF.

3. Bay Area Water Supply and Conservation Agency

The City belongs to the Bay Area Water Supply and Conservation Agency ("BAWSCA"), which represents the interests of 24 cities and water districts, and two private utilities that purchase water wholesale from the San Francisco regional water system. On January 31, 2013, BAWSCA issued bonds in the amount of $335,800,000 to raise the funds necessary to prepay capital commitments owed to the City and County of San Francisco by BAWSCA member agencies thereby realizing a present value savings of approximately $62,300,000 over all member agencies. For the City, this translates into an annual net savings of purchased water cost of approximately $107,000.

Prior to the bond issuance, there were $356,000,000 in capital cost recovery payments that were outstanding and being repaid as a part of San Francisco's wholesale commodity charge. The capital cost recovery payments were being repaid at a fixed interest rate of 5.13% and were part of the Wholesale Revenue Requirement to the Water Supply Agreement negotiated with San Francisco in 2009. The bonds refinanced this debt at an average interest rate of 3.14%.

The BAWSCA issued revenue bonds that are secured by a surcharge on BAWSCA member agencies. San Francisco will collect the surcharge and send the amount to BAWSCA for payment to bond holders. The surcharge will be in place for the term of the bonds, which ends in 2034. The surcharge is on the San Francisco wholesale water bill and is accounted for by the City as operational costs.

BAWSCA's annual debt service amount is $24,675,000. The City's annual bond surcharge is estimated to be $751,000 based on all member agencies actual wholesale water use in fiscal year ended June 30, 2014. The annual surcharge for each agency will be based on the actual wholesale water purchase percentage from the last full year for which data is available with an annual reconciliation based on the actual water purchased. A true-up adjustment based on the actual fiscal year ended June 30, 2014 water use will be included in the fiscal year ending June 30, 2016 bond surcharge. The current best projection on the City's annual surcharge for the future is $782,000.

4. New Market Tax Credit

In November 2011, the City participated in the federal New Markets Tax Credit program ("NMTC") to secure additional funds to finance the construction of the Environmental Innovation Center ("EIC") on City owned property. The NMTC program allocates community development entities ("CDEs") tax credits to be claimed by investors when the investment is made available for community development in the form of a loan. The following describes the City's participation in the financing transaction.

The City caused the formation of an independent nonprofit entity called the EIC QALICB, Inc. to be the recipient of the loan for the construction of the EIC. The City and EIC QALICB, Inc. entered into a ground lease of the EIC for a term of 99 years and the City then leased back the EIC from the EIC QALICB, Inc. for a term of 35 years, beginning November 8, 2011. JP Morgan Chase Bank, N.A. formed Chase Community Equity, LLP, to be a 99.9% member of the Chase NMTC SJEIC Investment Fund, LLC, and provided the Chase NMTC SJEIC Investment Fund, LLC with an initial investment of $7,705,000. Chase NMTC SJEIC Investment Fund, LLC then borrowed $19,610,000 from the City, and invested the total amount of $26,699,000 in three CDEs. The CDEs loaned the EIC QALICB, Inc. $25,945,000 to construct the EIC. In exchange for JP Morgan Chase Bank's participation in the NMTC transaction, JP Morgan Chase Bank can claim a tax credit of $10,412,000 against federal income taxes over a seven year compliance period through November 2018.

The City's loan to Chase NMTC SJEIC Investment Fund, LLC ($19,610,000) was comprised of a one-day loan ($8,022,000) to the City, and funds originally set aside by the City for construction of the EIC ($11,588,000). The City was able to repay the one-day loan once the EIC QALICB, Inc. paid the City for the ground lease ($8,022,000). The EIC QALICB, Inc. paid for the ground lease from its loan proceeds ($25,945,000). The remainder of the loan proceeds ($16,078,000) paid for the construction of the EIC, and to fund reserves to pay the CDEs and JP Morgan Chase Bank for costs to comply with NMTC requirements during the seven year compliance period.

The EIC QALICB relies on the City's master lease rent to meet the loan repayments. The loan is secured by the EIC QALICB's ground lease. In the event of a loan default, the lenders may foreclose on the loan and assume the ground lease subject to the master lease with the City. Under the master lease, the City did not have an obligation to remit rent payments until it had beneficial use of the property. The master lease does not provide for an automatic extension of the lease term in the event that the City fails to make rent payments to the EIC QALICB. In order to be able to make the payments on the loan in the absence of rent payments from the City, the EIC QALICB had set aside sufficient funds in reserve to meet its loan repayment obligations during construction.

Pursuant to the New Markets Tax Credit financing, the EIC QALICB, Inc. agreed to indemnify the JP Morgan Chase Bank, and the CDEs against a recapture of the tax credits by the Internal Revenue Service in the amount of $10,412,000 and for any other fees or penalties and costs that may be incurred. The events that would trigger a recapture of the tax credits are limited to: (1) the EIC QALICB, Inc. failing to qualify as an entity eligible for the NMTC program, (2) redemption by the City or JP Morgan Chase of any portion of its investment, (3) changes in the NMTC program resulting in less tax credits to JP Morgan Chase, (4) City engaging in prohibited use of the EIC, (5) failure to invest the funds in the construction of the project, and (6) any willful misconduct or gross negligence or fraud causing a recapture or disallowance. The risk of a tax credit recapture event is remote because the EIC QALICB, Inc. has used all the proceeds from the financing into the construction of the EIC, and all parties to the financing have a vested interest in meeting the NMTC program requirements.

After November 2018, the City has the option to purchase 100% interest in the Chase SJEIC Investment Fund, LLC for the greater of $1,100 or any amount still owed to the CDEs by the EIC QALICB, Inc. under the indemnification agreement between the CDEs and the EIC QALICB. If the City exercises its option to purchase 100% interest in the Investment Fund following a tax credit recapture, the City's potential liability would be $10,412,000 not including any other fees or penalties and costs that may be incurred.

5. Retirement Systems – Unfunded Commitments

As of June 30, 2015, PFDRP had unfunded commitments to contribute capital for real estate investments in the amount of $31,728,000, private equity investments in the amount of $79,277,000 and opportunistic credit investments in the amount of $89,218,000. FCERS had unfunded commitments to contribute capital for private market fund investments in the amount of $71,000,000.

6. Federal Financial Assistance Programs

The City participates in a number of federally assisted grant programs, primarily with the U.S. Department of Housing and Urban Development (HUD), the Federal Aviation Administration (FAA), the Department of Transportation, the Department of Homeland Security, the Department of Labor, the Department of Energy, and the Department of Justice. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City's grant programs are audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the fiscal year ended June 30, 2015, these programs are still subject to financial and compliance audits by Federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

7. Encumbrances

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to contracts not yet performed and purchase orders not yet filled (executory contracts; and open purchase orders). Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year-end are not accounted for as expenditures and liabilities but, rather, as restricted or committed governmental fund balance. As of June 30, 2015, total governmental fund encumbrance balances for the City are as follows (dollars in thousands):

General Fund	$	44,395
Housing Activities		3,604
Low and Moderate Income Housing Asset		1,964
Special Assessment Districts		43
Nonmajor governmental funds		75,047
Total governmental funds	$	125,053

8. Lawsuits and Other Proceedings Related to Measure B

Significant portions of Measure B are currently subject to legal challenges by individual employees, bargaining units representing current employees and retirees that were filed in the Santa Clara County Superior Court and consolidated under the caption of *San José Police Officers' Association v. City of San José, Board of Administration for Police and Fire Department* (the "SJPOA Caption"). Additionally, as discussed below, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board related to Measure B. In connection with the litigation related to Measure B, the City has agreed to delay implementation of the increased pension contributions from current employees from June 23, 2013 to a date no sooner than the resolution of all appeals. In June, 2015, the IRS notified the City that it declined to issue a private letter ruling requested by the City related to implementation of the VEP referenced above in Note IV.A.1.1.

For the cases under the SJPOA Caption, on April 30, 2014, a consolidated judgment for the cases under the SJPOA Caption was filed ("Consolidated Judgment"), following the judge's filing of a Statement of Decision on February 20, 2014 and a Tentative Decision on December 20, 2013.

The Consolidated Judgment is summarized as follows:

- The 4% increase in employee pension contributions towards the UAL, up to a maximum of 16% (or 50% of the total liability, whichever is less) was found to be invalid as were the alternative plans (the "VEP) to which existing employees could elect to opt because they were tied to the 4% increase. However, the savings provision specifying a mandatory compensation reduction in lieu of additional employee pension contributions was upheld.
- The modified disability retirement provisions were upheld.
- The elimination of the SRBR in both Retirement Systems was upheld.
- The minimum contribution toward retiree healthcare was upheld with respect to the inclusion of unfunded liabilities, but the judgment modified Measure B's language to delete the term "minimum of" to reflect that employees are required to only pay 50% of the cost as opposed to a higher percentage.
- The definition of Low Cost Plan as applied to the retiree healthcare benefit was upheld.
- The ability to suspend the retirement COLA provisions for up to five years in a fiscal and service level emergency was found to be invalid.
- The provision related to voter approval of retirement benefit increases and the severability provision were upheld.

Various parties challenging Measure B under the SJPOA Caption have filed notices of appeal of the Consolidated Judgment and the City Council authorized filing a notice of appeal. The appeal is pending in the Sixth District, California Court of Appeal.

In addition to these cases, the San José Police Officers' Association ("SJPOA") filed a petition for a writ of mandamus alleging that the City violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the ballot in June 2012. The POA sought an order preventing the City from proceeding with the Charter changes approved in Measure B, but that request was denied by the Court. This case remains pending in the Superior Court.

On April 15, 2013, the California Attorney General issued an opinion granting the SJPOA's application to bring a *Quo Warranto* action on behalf the People of the State of California alleging that the City violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the ballot in June 2012. The SJPOA filed its complaint in the *Quo Warranto* action on April 29, 2013 and the City subsequently filed its answer. This case also remains pending in the Superior Court.

Other Litigation Related to Retirement Benefits

In July 2014, the San José Retired Employees Association (the "Association"), along with four individually named retirees, filed a verified complaint against the City in the Santa Clara County Superior Court. The complaint alleges that the City changed the basic retiree healthcare benefit to a new plan that "fundamentally alters" the nature and quality of the benefit provided to retirees, because the plan has increased co-pays and deductibles. The complaint further alleges that the affected retirees had a vested right to the plan in existence when they were employed by the City, and to the premium amount paid by the City for their healthcare benefit. The action seeks monetary damages for the increase in co-pays, deductibles and premium payments made by the affected retirees, as well as injunctive and writ relief prohibiting the City from continuing to provide the new health benefit to retirees.

The City was subsequently served with the complaint. The City filed a demurrer to the complaint, but this litigation is currently stayed, by stipulation of the parties, to allow for ongoing settlement negotiations.

Proposed Decisions in Cases Before the Public Employment Relations Board Related to Measure B

Various bargaining units have filed unfair practice charges against the City with the State Public Employment Relations Board ("PERB") related to the placement of Measure B on the June 2012 ballot. These charges were issued pursuant to State regulations governing PERB procedures. Under these provisions, the bargaining unit, an individual, or the employer may file unfair labor practice charges with PERB, and PERB is required to issue a complaint "if the charge…is sufficient to establish a prima facie case." PERB accepts the allegations of the charging party as true in determining whether to issue the complaint and there is no factual determination by PERB of the accuracy or validity of the allegations prior to the issuance of a complaint. Following the issuance of a complaint, the subject of the complaint files an answer and the matter is assigned to an administrative law judge for a hearing and proposed decision. Both parties have the right to appeal the administrative law judge's decision to the PERB Board, and the right to seek subsequent appellate review in the Court of Appeals and California Supreme Court.

On November 10, 2014, the City received service of the administrative law judge's proposed decision in two of these cases brought by the International Association of Firefighters, Local 230 ("Local 230") and the International Federation of Professional and Technical Engineers, Local 21 ("Local 21"), on behalf of three of the City's bargaining units. In both proposed decisions, the administrative law judge ruled that the City had violated the Meyers-Milias-Brown Act by adopting the resolution placing Measure B on the ballot without satisfying its duty to meet and confer in good faith with the applicable bargaining units. The administrative law judge's proposed decision in each of these cases would, among other remedies, order the City to rescind the resolution that placed Measure B on the June 2012 ballot. Both proposed decisions recognize that PERB does not have the authority to rescind the results of the June 2012 election at which the voters approved Measure B.

On May 6, 2015, a different administrative law judge issued a proposed decision in the PERB cases brought by the International Union of Operating Engineers, Local No. 3 ("OE#3") and the American Federation of State, County and Municipal Employees, Local No. 2620 ("AFSCME"), on behalf of two of the City's bargaining units, alleging that the City failed to negotiate in good faith the terms of Measure B as well as non-ballot retirement benefits, including retiree healthcare for new employees, mandatory Medicare enrollment for those eligible, and healthcare plan design and cost-sharing. The administrative law judge in the OE#3 and AFSCME cases found that the City had not violated its good faith obligations in negotiating Measure B. The administrative law judge did find that the City failed to negotiate the non-ballot retirement benefit issues in good faith by prematurely declaring impasse.

The administrative law judges' decisions were in the process of being reviewed by the entire PERB Board. Because of the ongoing settlement negotiations, the parties stipulated to a stay of the PERB process pending the efforts to resolve all of the Measure B litigation, including these PERB cases.

Measure B - Settlement Framework

In April 2015, the City commenced litigation settlement discussions with the SJPOA and Local 230. In August 2015, the City Council formally approved an Alternative Pension Reform Settlement

Framework agreement with the SJPOA and Local 230 ("Settlement Framework"). The Settlement Framework is subject to a final overall global settlement with all parties related to Measure B litigation and then either Court approval or voter approval of a ballot measure incorporating the provisions of the Settlement Framework as discussed below.

The Settlement Framework includes provisions that would make the following changes, among others, to the PFDRP: modify Tier 2 pension benefits for sworn employees to levels similar to other San Francisco Bay Area agencies to attract and retain sworn employees; allows Tier 1 employees who terminated employment with the City and either subsequently returned or who return in the future to return as members of Tier 1; preserves 50/50 risk sharing with employees in Tier 2 through the cost sharing of a 50/50 split in normal costs and any future unfunded liability associated with the Tier 2 benefit; closes the retiree healthcare defined benefit plan to new and existing Tier 2 employees, and allows an opt-out for Tier 1 employees into a defined contribution Voluntary Employee Beneficiary Association (VEBA) subject to legal and IRS approval; implements a new lowest cost healthcare plan in order to reduce retiree healthcare costs; continues the elimination of the Supplemental Retiree Benefit Reserve, in lieu of the SRBR, establish a "Guaranteed Purchasing Power" provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement; reinstates the PFDRP's previous definition of disability, which is comparable to other agencies; and created an Independent Medical Panel appointed by the Retirement Board, which will determine disability eligibility instead of the Retirement Board.

It is estimated that, over 30+ years, the City could realize savings of approximately $1.7 billion from the implementation of the Settlement Framework related to the PFDRP as follows: the revised Tier 2 compared to Tier 1 ($1.15 billion), the revised retiree healthcare program compared to the current retiree healthcare program ($244.5 million), and from the elimination of the SRBR ($270 million). With the exception of the estimated savings related to the elimination of the SRBR, it is important to note that these estimates were provided to the City by the City's actuary and were based in part on assumptions that may not be used by the PFDRP's actuary. Actual costs or savings will be determined by the PFDRP's actuary using assumptions approved by the PFDRP Board and on the actual experience of the PFDRP over the 30+ projection period.

Pending a global settlement with all parties, the Settlement Framework also provides that the parties will seek a stipulated order from the trial court in the *Quo Warranto* action declaring that the City Council resolution placing Measure B on the June, 2012 ballot is null and void solely on the basis of the City's failure to adequately negotiate the ballot language with SJPOA and Local 230 prior to placing the measure on the ballot, thereby invalidating the election result approving Measure B. Prior to the stipulated order being submitted to the Court, the City and the bargaining units would develop a ballot measure for the November, 2016 election to amend the Charter to include at least the following provisions: (1) a requirement for voter approval of defined benefit pension enhancements; (2) a requirement for actuarial soundness; (3) prohibiting retroactivity of defined benefit pension enhancements; and (4) other provisions within the Alternative Pension Reform Settlement Framework that the parties mutually agree to include. The Settlement Framework also contemplates that the parties seek stays of the appeal of the case under the SJPOA caption as well as the PERB proceedings described above.

In the event that there is not a global settlement with all parties, or the invalidation of Measure B through the *Quo Warranto* action fails, then the parties to the Settlement Framework (the City, SJPOA and Local 230) agree to pursue implementation of the Settlement Framework through a Charter amendment at the November 2016 election.

In addition under the Settlement Framework, the City agreed to pay to the SJPOA and Local 230 their attorneys' fees in the amount of $1.5 million following the City Council's approval of the Settlement Framework, which payment has been made. Further, the City agreed to binding arbitration to resolve any additional claims for attorneys' fees of the SJPOA and Local 230 related to the Measure B litigation and administrative proceedings. To date, SJPOA and Local 230 have not requested to go to arbitration related to any additional claims for attorney's fees.

The City and the bargaining units representing FCERS members, as well as the San José Retired Employees Association, are currently engaged in separate litigation settlement discussions. With respect to the litigation and other proceedings related to Measure B discussed above, including implementing the settlement as described in the Settlement Framework, the City cannot predict the outcome or the timeframe in which they will be resolved.

C. Successor Agency to the Redevelopment Agency of the City of San José

1. Cash and Investments Held by SARA

The SARA's cash and investments consist of the following at June 30, 2015:

Cash and investments	$	28,382
Restricted cash and investments		134,507
Total cash and investments	$	162,889

A summary of SARA's cash and investments at June 30, 2015 is as follows (dollars in thousands):

	Moody's Credit Rating	Maturity (in days) Under 30	31 - 180	181 - 365	Fair Value
Investments:					
State of California Local Agency Investment Fund	Not Rated	$ -	$ -	$ 43,400	$ 43,400
Money Market Mutual Fund	Aaa	12	6,228	-	6,240
Commercial Paper	P1	29,963	2,261	-	32,224
Federal Home Loan Bank - Discount	Aaa	11,203	55,199	-	66,402
Subtotal investments		$ 41,178	$ 63,688	$ 43,400	148,266
Certificates of Deposit					4,023
Bank deposits					10,600
Total cash and investments					$ 162,889

The SARA invested in MUFG Union Bank Discounted Commercial Paper in the amount of $29,963,000 which represents 20.2% of the SARA's investments at June 30, 2015.

2. Property Held for Resale and Capital Assets Held by SARA

Property held for resale is recorded as an asset at the lower of cost or net realizable value. The SARA recorded certain capital assets originally received from the Agency as property held for resale. On September 8, 2014, the DOF approved the SARA's Long-Range Property Management Plan ("LRPMP"), which specifies the disposition of various SARA owned properties, and in fiscal year 2014-2015, the SARA initiated the sale of non-governmental purpose properties.

The following is a summary of capital assets activity for the year ended June 30, 2015 (dollars in thousands):

	July 1, 2014	Additions	Disposal/ Transfer	Reclassification	June 30, 2015
Capital assets, not being depreciated:					
Land	$ 86,863	$ -	$ (4,282)	$ 45	$ 82,626
Construction in progress	977	-	-	-	977
Total capital assets, not being depreciated	87,840	-	(4,282)	45.00	83,603
Capital assets, being depreciated:					
Buildings	149,620	-	(80,361)	13,540	82,799
Building and other Improvements	23,212	-	(26,440)	3,336	108
Equipment	1,145	-	-	-	1,145
Total capital assets, being depreciated	173,977	-	(106,801)	16,876	84,052
Less accumulated depreciation:					
Buildings	17,869	4,130	(16,388)	13,540	19,151
Building and other Improvements	6,687	1,549	(11,525)	3,336	47
Equipment	1,145	-	-	-	1,145
Total accumulated depreciation	25,701	5,679	(27,913)	16,876	20,343
Total capital assets, being depreciated, net	148,276	(5,679)	(78,888)	-	63,709
Total capital assets, net	$ 236,116	$ (5,679)	$ (83,170)	$ 45	$ 147,312

Various Agency-owned real estate assets with an aggregate book value of $19,231,000 were used to secure the Letters of Credit obtained from JPMorgan Chase Bank (“JPMorgan”) supporting the Agency’s 1996 and 2003 variable rate revenue bonds. As security for payments due to the County of Santa Clara under the Settlement Agreement executed in March 2011, the Agency also (i) executed and recorded for the benefit of the County, subordinated Deeds of Trust on various Agency-owned real estate assets, (ii) assigned to the County one-half (1/2) of the Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties, with an aggregate book value of $19,096,000.

In addition, the Convention Center – South Hall, José Theatre, and Arena Lot 5A are used to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development.

Prior to the dissolution of the Redevelopment Agency, the Agency provided funding to design and construct building improvements for specific City-owned government-use properties, which consist primarily of the King Library and Edenvale Community Center. The Agency capitalized the building improvements in the amount of $106,802,000 with an accumulated depreciation of $27,913,000 as of June 30, 2015. These assets were not included in the Long-Range Property Management Plan approved by the DOF. As these were City-owned assets and the City is responsible for the management and maintenance of the assets, the net book value of $78,888,000 was transferred to the City at June 30, 2015.

On October 6, 2014, Century Residential LLC paid off the promissory notes in the amount of $4,522,000, and exercised the option to purchase Century Housing land from the City for $1. As a result, a loss of $4,281,700 from the sale of the asset was recorded.

On August 27, 2015, the SARA Oversight Board approved the Amended Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the asset disposition process, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. This action has been reviewed and approved by the DOF.

3. Summary of SARA's Long-Term Debt

The following is a summary of long-term debt of the SARA as of June 30, 2015 (dollars in thousands, unless otherwise noted):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2015 Balance
Senior Tax Allocation Bonds (TAB):							
1993 Merged Refunding	Advance refunding	$ 692,075	12/1/1993	8/1/2015	6.00%	$18,195	$ 18,195
1997 Merged	Merged area project	106,000	3/27/1997	8/1/2028	5.50- 5.63%	$10 - 715	4,795
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	$0 - 7,165	12,920
2002 Merged	Merged area project	350,000	1/24/2002	8/1/2015	4.50%	$11,290	11,290
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00- 5.00%	$25 - 34,100	126,650
2004 Merged Refunding Series A	Refunding TABs	281,985	5/27/2004	8/1/2019	4.25- 5.25%	$9,580 - 31,900	116,285
2005 Merged Refunding Series A, B	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20- 5.00%	$295 - 30,435	135,210
2006 Merged Series A-T, B	Merged area project	81,300	11/14/2006	8/1/2035	4.50- 5.65%	$0 - 27,000	80,300
2006 Merged Refunding Series C, D	Refunding TABs	701,185	12/15/2006	8/1/2032	3.75- 5.00%	$710 - 141,610	697,025
2007 Merged Refunding Series A-T, B	Merged area project	212,930	11/7/2007	8/1/2036	4.25- 5.10%	$2,400 - 26,640	199,200
2008 Merged Series A, B	Merged area project	117,295	11/13/2008	8/1/2035	6.13- 7.00%	$3,925 - 11,300	97,155
1997 Housing Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75- 5.85%	$415 - 3,670	15,955
2003 Housing Series J, K	Low-moderate income housing	69,000	7/10/2003	8/1/2029	3.80- 5.25%	$2,270 - 3,965	32,855
2005 Housing Series A, B	Low-moderate income housing	129,720	6/30/2005	8/1/2035	3.75- 5.46%	$695 - 10,570	110,575
2010 Housing Series A, B	Low-moderate income housing	67,405	4/15/2010	8/1/2035	4.00- 5.50%	$0 - 7,390	57,795
Total Senior Tax Allocation Bonds							1,716,205
Subordinate Tax Allocation Bonds (TAB):							
1996 Merged Area Revenue, Series A/B	Merged area projects	59,000	6/27/1996	7/1/2026	Variable	$2,600 - 4,000	39,200
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	$1,425 - 6,505	42,710
2010 Housing, Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	$3,060 - 5,210	80,850
Total Subordinate Tax Allocation Bonds							162,760
Other Long-term Debt:							
Pledge Agreement - Revenue Bonds 2001A	4th/ San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.50- 5.25%	$1,895 - 3,205	27,985
Reimbursement Agreement - Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	5.00%	$10,530 - 14,730	100,260
CSCDA 2006 ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2006	8/1/2016	5.67%	$1,905	1,905
HUD Section 108 Loans	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	$435 - 465	900
HUD Section 108 Loans (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	$700 - 1,135	9,930
HUD Section 108 Loans (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	$920 - 1,570	13,402
City of San José (SERAF) Loan	Fund the State's SERAF Payment	52,000	2010-2011	6/30/2015	Variable	$52,905,352	52,905
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2016	Variable	$12,974,578	12,975
City of San José - Commercial paper program	Fund the housing projects	14,227	2010-2012	6/30/2018	Variable	$4,722 - 4,750	14,227
Other Long-term Obligation - County Settlement Agreement	Settlement Agreement	29,685	6/30/2011	6/30/2017	Variable	$4,712	29,685
City of San José - Reimbursement agreement	Reimbursement	15,446	2014-2015	6/30/2016	LAIF Rate	$0 - 15,449	15,446
Total Other Long-Term Debt							279,620
Total Long-Term Debt							$ 2,158,585

Senior Merged Area Tax Allocation Bonds (Senior TABs) are all secured primarily by a pledge of redevelopment property tax revenues (i.e. former tax increment), consisting of a portion of all taxes levied upon all taxable properties within each of the tax generating redevelopment project areas constituting the Merged Area Redevelopment Project, and are equally and ratably secured on a parity with each TAB series.

As of June 30, 2015, assuming 1% growth in assessed value throughout the term of each constituent project area and excluding debt service override levies as the SARA is not receiving the levies from the County currently, the total accumulated 80% redevelopment property tax revenue through the period of the bonds would be approximately $3,169,441,000 (Urban Analytics, December 2014). These revenues have been pledged until the year 2036, the final maturity date of the bonds. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2015 is approximately $2,236,327,000. The 80% redevelopment property tax revenue recognized and received for non-housing senior debt during the year ended June 30, 2015 in the amount of $132,933,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the Senior TABs amounted to $131,491,000 for the year ended June 30, 2015.

Variable-Rate Demand Bonds (Subordinate)

1996 Merged Area Revenue Bonds – In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B (collectively, the "1996 A/B Bonds"), for $29,500,000 each, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996 Bonds are subordinate to the TABs.

The 1996 A/B Bonds currently have a flexible rate of interest in callable commercial paper mode. The total interest on the 1996 A/B Bonds amounted to $46,000 for the year ended June 30, 2015. At June 30, 2015, the interest rate was 0.10% for the 1996A Bonds and 0.12% for the 1996B Bonds.

2003 Merged Area Revenue Bonds – In August 2003, the Agency issued Merged Area Revenue Bonds Series A and Series B (collectively, the "2003 A/B Bonds"), for an aggregate $60,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003 Merged Area Revenue Bonds are ratably and equally secured by a pledge of the subordinated revenues and are subordinate to the debt service payment of Senior Obligations of the SARA.

The 2003 A/B Bonds currently have a flexible rate of interest in callable commercial paper mode. The total interest on 2003 A/B Bonds amounted to $90,000 for the year ended June 30, 2015. As of June 30, 2015, the interest rate was 0.33% for the taxable 2003A Bonds and 0.10% for the 2003B Bonds.

These variable-rate revenue bonds (1996 and 2003 Bonds) are payable upon maturity at a purchase price equal to principal plus accrued interest. The SARA's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the SARA's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

The credit facilities that support the SARA's variable-rate bonds as of June 30, 2015 are as follows (dollars in thousands):

		Credit Facility Description	
		Provider	Expiration Date
Redevelopment Agency Revenue Bonds:			
Series 1996A (Merged Area)	$ 19,600	JPMorgan Chase Bank, N.A.	3/31/2017
Series 1996B (Merged Area)	19,600	JPMorgan Chase Bank, N.A.	3/31/2017
Series 2003A (Merged Area)	27,710	JPMorgan Chase Bank, N.A.	3/31/2017
Series 2003B (Merged Area)	15,000	JPMorgan Chase Bank, N.A.	3/31/2017
Total variable-rate revenue bonds	$ 81,910		

In connection with the issuance of the 1996A/B Bonds and 2003A/B Bonds, on April 4, 2014 JPMorgan delivered amendments to the letters of credit ("LOCs") and reimbursement agreements for each series of bonds. These amendments included an extension of the Letters of Credit, which were set to expire on June 1, 2014, to March 31, 2017, and a lowering of the annual commitment fee from 2.80% to 2.55% effective June 1, 2014. JPMorgan required the interest rate to continue as a flexible rate in callable commercial paper mode.

In the event the LOCs are not renewed or a substitute LOC cannot be obtained from another financial institution the full amount of the outstanding 1996A/B Bonds and 2003A/B Bonds becomes "due and payable". In the event the LOC is not extended and insufficient funds exist to pay the amount due and payable, the interest rate on the bonds increases to a default rate of 11.5%.

The SARA is required to pay the credit facility provider an annual commitment fee for each credit facility at 2.55%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility. In addition, in fiscal year 2010, the former Agency made the required deposit with JPMorgan, a liquidity reserve in the amount of $5,000,000 as an added source of security for the bank. Parcels of the former Agency owned land and the City's California Theatre were also used to secure the LOCs.

Under the amended reimbursement agreements, the reserve requirement is based on the debt service coverage ratio (DSCR) and is reduced as the DSCR increases. On April 11, 2014, the SARA paid down $1,000,000 in principal on the Series 2003A Bonds utilizing the liquidity reserve. The liquidity reserve balance is $4,001,000 as of June 30, 2015, of which $4,000,000 stands as the reserve requirement.

Housing Set-Aside Tax Allocation Bonds (comprised of Series 1997E, Series 2003J/K, Series 2005A/B, Series 2010A-1, A-2, and B, and the 2010 Subordinate Series 2010C, collectively the "Housing TABs") are issued to finance affordable housing projects and are secured by a pledge of and lien upon the 20% redevelopment property tax revenue (i.e. former tax increment) that was set-aside to finance the low and moderate income housing asset fund.

As of June 30, 2015, assuming 1% growth in assessed value throughout the term of each constituent project area and excluding debt service override levies as the SARA is not receiving the levies from the County currently, the total accumulated 20% tax increment revenue through the period of the bonds would be approximately $840,719,000 (Urban Analytics, December 2014). These revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Senior Housing Set-Aside Tax Allocation Bonds and Subordinate Tax Allocation Bonds as of June 30, 2015 is approximately $446,936,000. The 20% redevelopment property tax revenue recognized and received during the year ended June 30, 2015 was $34,301,000 to cover current and future debt service and the reserve requirement. The total debt service payments on senior housing set-aside tax allocation bonds amounted to $19,626,000 for the year ended June 30, 2015.

Housing Set-Aside Tax Allocation Bonds (Subordinate) – On April 29, 2010, the Agency issued $93,000,000 in Taxable Subordinate Housing Set-Aside Tax Allocation Variable Rate Bonds, Series 2010C (the "2010C Bonds") through a direct purchase by Wells Fargo Bank. The 2010C Bonds were used to (1) refinance the Bank of New York Term Loan and (2) finance and refinance the City's gap loans made in connection with certain affordable housing developments. The 2010C Bonds were secured by 20% housing set-aside tax allocation revenues on a basis subordinate to the senior bonds and were issued as multi-modal, variable rate bonds with a taxable interest rate that resets weekly. The 2010C Bonds have a single maturity anticipated to be no later than August 1, 2035, but with a scheduled Mandatory Purchase Date of April 29, 2013 and mandatory sinking fund redemption payments on August 1 of each year.

The 2010C Bonds were directly purchased by Wells Fargo Bank, therefore, the bond indenture did not require a credit facility to support the debt service payments until the bank's Mandatory Purchase Date of April 29, 2013, or such other date agreed to in writing by the SARA and Wells Fargo Bank. On August 15, 2012, the SARA and Wells Fargo Bank agreed to forbear from exercising its rights and remedies under the Continuing Covenant Agreement and Fiscal Agent Agreement, due to a Moody's downgrade, through November 15, 2012, and the Forbearance Agreement was subsequently extended three more times to coincide with interim extensions of the Mandatory Purchase Date.

On September 12, 2013, Wells Fargo Bank and the SARA entered into an Amended and Restated Continuing Covenant Agreement pursuant to which Wells Fargo Bank and the SARA agreed to extend the Mandatory Purchase Date for the 2010C Bonds to April 29, 2016. The SARA expects to extend the Mandatory Purchase Date in fiscal year 2015-2016 and as such has reclassified the debt as due within one year to coincide with the extended Mandatory Purchase Date. Pursuant to the Amended and Restated Contingency Covenant Agreement, the interest rate is equal to the sum of one-month LIBOR plus an applicable spread of 2.60%. At June 30, 2015, the interest rate was 3.36%.

HUD Section 108 Loans – In 1997, the SARA received loan proceeds of $5,200,000 under the provisions of the U.S. Department of Housing and Urban Development (HUD) Section 108. The proceeds were used to finance the following downtown projects: Security Building, Bassler & Haynes and Beach Buildings ("Eu Bldgs"), and the Masson Building.

In 2006, the SARA received loan proceeds aggregating to $31,000,000 under the provisions of HUD Section 108 program. The proceeds were used to finance the CIM Mix-used Project (Central Place/ Tower 88) ($13,000,000) and for reimbursement of costs incurred on the Story/King Retail Project ($18,000,000).

As of June 30, 2015, the outstanding loans due to HUD totaled to $24,232,000. The notes payable to HUD mature annually through August 2027 and bear interest at 20 basis points above the monthly LIBOR index. The average rate for June 2015 was 0.48%. The HUD loans are secured by City owned capital assets (Convention Center - South Hall and Fairmont Hotel Parking Garage) and SARA owned capital assets (José Theatre and Arena Lot 5A) with an aggregate fair market value of $37,850,000 at June 30, 2015, and CDBG grants that were awarded or will be awarded to the City. The loans are being repaid by the City through CDBG funds due to insufficiency of tax increment revenues.

Long Term Reimbursement Advance – In the event redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations in any fiscal year, the City has committed other sources of funding to cover costs related to the following obligations: agreements associated with the City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center) and City of San José Financing Authority Revenue Bonds, Series 2001A (4th and San Fernando Streets Parking Facility Project); Education Revenue Augmentation Fund ("ERAF") payments; and the SARA annual administrative budget and City support service expenses. In order to establish an obligation for the SARA to repay the City for these advances, in September 25, 2014, the City and the SARA entered into an Amended and Restated Long Term Reimbursement Agreement. Interest to the City is not applied to this obligation. The City has advanced $16,782,000 as of June 30, 2015 to the SARA for its enforceable obligations and other administrative expenses, and the SARA repaid $25,661,000 to the City.

A summary of the changes in long-term debt and other obligations for the year ended June 30, 2015 follows (in thousands):

	July 1, 2014	Additions	Reductions	June 30, 2015	Amount Due One Year
Senior Tax Allocation Bonds:					
1993 Merged Refunding	$ 18,195	$ -	$ -	$ 18,195	$ 18,195
1997 Merged	5,155	-	(360)	4,795	370
1999 Merged	12,920	-	-	12,920	-
2002 Merged	13,165	-	(1,875)	11,290	11,290
2003 Merged	127,545	-	(895)	126,650	905
2004 Merged Refunding	142,640	-	(26,355)	116,285	9,580
2005 Merged Refunding Series A, B	156,010	-	(20,800)	135,210	12,505
2006 Merged Series A-T, B	80,300	-	-	80,300	-
2006 Merged Refunding Series C, D	697,705	-	(680)	697,025	710
2007 Merged Refunding Series A-T, B	201,475	-	(2,275)	199,200	2,400
2008 Merged Series A, B	100,890	-	(3,735)	97,155	3,925
1997 Housing Series E	16,340	-	(385)	15,955	415
2003 Housing Series J	30,180	-	(2,515)	27,665	2,635
2003 Housing Series K	5,435	-	(245)	5,190	255
2005 Housing Series A	10,445	-	-	10,445	-
2005 Housing Series B	103,515	-	(3,385)	100,130	3,535
2010 Housing Series A	56,710	-	-	56,710	500
2010 Housing Series B	2,610	-	(1,525)	1,085	1,085
Subtotal senior tax allocation bonds	1,781,235	-	(65,030)	1,716,205	68,305
Subordinate tax allocation bonds:					
1996 Merged Series A, B	41,600	-	(2,400)	39,200	2,600
2003 Merged Revenue Series A, B	44,055	-	(1,345)	42,710	1,425
2010 Housing Series C	83,590	-	(2,740)	80,850	80,850
Subtotal subordinate tax allocation bonds	169,245	-	(6,485)	162,760	84,875
Other long-term debt:					
4th Street Parking Revenue, Series 2001A	29,880	-	(1,895)	27,985	1,980
2001 Convention Center Series F & G	110,300	-	(10,040)	100,260	10,530
CDCDA CRA/ERAF Loan 2005	2,355	-	(2,355)	-	-
CDCDA CRA/ERAF Loan 2006	3,705	-	(1,800)	1,905	1,905
HUD Section 108 Loan	1,305	-	(405)	900	435
HUD Section 108 Loan (CIM)	10,600	-	(670)	9,930	700
HUD Section 108 Loan (Story & King)	14,272	-	(870)	13,402	920
City of San José - SERAF Loans (Principal)	64,816	-	-	64,816	64,816
City of San José - SERAF Loans (Interest)	920	144	-	1,064	1,064
City of San José - Commercial paper program	14,227	-	-	14,227	4,750
Other Long-Term Obligation - County Pass Through (Principal)	23,562	-	-	23,562	14,137
Other Long-Term Obligation - County Pass Through (Interest)	-	6,123	-	6,123	6,123
City of San José - Reimbursement agreement (Principal)	24,311	16,752	(25,662)	15,401	-
City of San José - Reimbursement agreement (Interest)	15	30	-	45	-
Subtotal other long-term debt	300,268	23,049	(43,697)	279,620	107,360
Subtotal long-term debt before unamoritized	2,250,748	23,049	(115,212)	2,158,585	260,540
Issuance premium (discount), net	30,048	-	(3,927)	26,121	3,333
Total long-term debt payable	2,280,796	23,049	(119,139)	2,184,706	263,873
Environmental remediation obligation	337	-	(337)	-	-
Total Long-term Obligations	$ 2,281,133	$ 23,049	$ (119,476)	$ 2,184,706	$ 263,873

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2015, including mandatory sinking fund payments, are as follows (in thousands):

Fiscal Year Ending June 30,	Merged Tax Allocation Bonds		Housing Tax Allocation Bonds[1]		Merged Area Revenue Bonds[2]		Pledge and Other Agreements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 59,880	$ 71,516	$ 11,330	$ 13,872	$ 4,025	$ 255	$ 12,510	$ 6,087
2017	62,920	68,471	11,890	13,352	4,315	494	13,125	5,454
2018	65,905	65,374	12,510	12,803	4,595	841	13,765	4,783
2019	68,205	62,138	13,165	12,223	4,675	1,088	14,450	4,077
2020	71,330	58,668	13,840	11,615	4,765	1,250	25,975	5,707
2021 - 2025	396,385	234,789	77,395	47,574	28,280	5,074	48,420	3,546
2026 - 2030	423,870	130,733	84,895	27,783	20,155	1,990	-	-
2031 - 2035	301,060	44,275	63,280	9,468	11,100	267	-	-
2036 - 2040	49,470	1,338	9,725	216	-	-	-	-
Total	$ 1,499,025	$ 737,302	$ 298,030	$ 148,906	$ 81,910	$ 11,259	$ 128,245	$ 29,654

Fiscal Year Ending June 30,	Obligations with 3rd Parties		Obligations with the City		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 18,097	$ 6,255	$ 69,566	$ 1,564	$ 175,408	$ 99,549
2017	6,888	89	4,750	300	103,888	88,160
2018	6,512	81	4,727	200	108,014	84,082
2019	1,890	73	-	-	102,385	79,599
2020	1,990	72	-	-	117,900	77,312
2021 - 2025	11,615	197	-	-	562,095	291,180
2026 - 2030	2,707	5	-	-	531,627	160,511
2031 - 2035	-	-	-	-	375,440	54,010
2036 - 2040	-	-	15,401	45	74,596	1,599
Total	$ 49,699	$ 6,772	$ 94,444	$ 2,109	$ 2,151,353	$ 936,002

(1) Assumes the housing tax allocation bonds would not be payable on demand upon expiration of the 2010C Bonds on April 29, 2016. The schedule redemption of these bonds is incorporated in the annual requirements to maturity schedules.

(2) Assumes the merged area revenue bonds would not be payable on demand upon expiration of the LOC on March 31, 2017. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

Ambac Assurance Surety Bonds Held in Bond Reserve Funds – Ambac Assurance, a subsidiary of Ambac Financial, has issued reserve fund surety bonds securing the Agency's Senior Tax Allocation Bonds Series 1999, Series 2005B, and Series 2006D. According to the Master Trust Agreement for these bonds, in the event that a surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve (as defined in the Master Trust Agreement), the SARA is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

On May 1, 2013, Ambac Financial emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. On June 11, 2014, the Circuit Court for Dane County, approved the Plan of Rehabilitation of the Segregated Account as a remedy to rehabilitation proceedings undertaken by the Wisconsin Office of the Commissioner of Insurance. The Ambac surety bonds that are in the reserve funds for these bonds are not included in the Segregated Account Plan that was approved last year by the Wisconsin court.

Tax Sharing Agreement with the County of Santa Clara

Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (the "County Pass-Through Payment"). On December 16, 1993, the Agency, the County and the City entered into a Settlement Agreement which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (the "Amended Agreement"). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires SARA to transfer funds to the County to pay for such projects (the "Delegated Payment"). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency's Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

The Amended Agreement provides that the payments due to the County from the Agency are subordinate to all of the SARA's debt. The County and SARA are involved in litigation in Sacramento County Superior Court related to the Amended Agreement.

At July 1, 2014, the amount due to the County was $51,545,000. During the year ended June 30, 2015, the County withheld $31,226,000 in the Redevelopment Property Tax Trust Fund ("RPTTF") for payments of its prior years' pass-through payments. In addition, during the fiscal year 2014-2015, the SARA accrued pass-through amounts of $22,628,000 and accumulated interest of $1,150,000. The total amount due to the County under the pass-through agreement at June 30, 2015 is $44,097,000. However, the SARA is disputing these amounts with the County.

2011 Settlement Agreement

On March 16, 2011 the County, the Agency and the City, along with the Diridon Authority, entered into a Settlement Agreement (the "Settlement Agreement"). The Settlement Agreement related to a lawsuit filed by the County in which the County alleged, among other things, that the Agency had failed to make timely payment of the County Pass-Through Payment for fiscal years 2008-09, 2009-10 and 2010-11 in an aggregate amount, as of June 30, 2011, of $58,270,000.

Pursuant to the Settlement Agreement, the Agency agreed, among other things, to pay the County $21,500,000 of tax-exempt bond proceeds by March 30, 2011, pay an additional $5,000,000 of unrestricted funds and transferred title to certain property to the County, resulting in a remaining amount of $23,560,000 owed to the County, which the Agency agreed to make in five installments no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

The SARA did not have sufficient redevelopment property tax revenues to make the annual installment payments of $4,712,000 in the fiscal years 2014 and 2015, and has accumulated an interest accrual of $6,123,000. However, the SARA is disputing these amounts with the County.

4. Commitments and Contingencies Related to SARA

Litigation Against County Auditor-Controller SARA

The City on its own behalf and as the SARA has filed a lawsuit entitled *City of San José as Successor Agency to the San José Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al*. in the Sacramento County Superior Court. The suit seeks to recover special levies, which includes a contribution to the County's employees' retirement program (the "PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District (the "Water District Levy"), being withheld by the County from property taxes that were previously considered to be "tax increment" paid directly to the Agency. The lawsuit also seeks to determine the priority of the County's pass-through payments under the Amended Agreement. The Sacramento Superior Court agreed with SARA that the portion of the PERS levy attributable to the former Redevelopment Agency tax increment should not be withheld from SARA; however, the Court agreed with the County that the pass-through payments are not subordinate to other Agency debt pursuant to the Redevelopment Dissolution Law. The Court did not rule on the Water District Levy. Both the City and County have appealed the Sacramento Superior Court decision. A decision is expected in the 2016 calendar year. The County has continued to withhold the revenues associated with the special levies pending resolution of the appeal. At June 30, 2015, the County has withheld approximately $29,357,000 in special levies from the SARA.

D. Subsequent Events

1. Tax and Revenue Anticipation Note

On July 1, 2015, the City entered into the Note Purchase Agreement with Bank of America, N.A. (the "Bank") under which the Bank agreed to purchase the City's short-term note in the full principal amount of $100,000,000 (the "2015 Note") in accordance with the terms of the Note Purchase Agreement. The transaction was needed for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. Pursuant to the Note Purchase Agreement, the City issued and the Bank purchased the 2015 Note bearing interest at a variable rate based on a LIBOR rate, plus a margin of 0.28% for Bank fees. Under the Note Purchase Agreement, at the City's option on any interest payment date, the City may prepay the 2015 Note in whole or in part, with partial prepayment of principal not less than $5,000,000 and in $1,000,000 increments in excess thereof. Security for repayment of the 2015 Note is a pledge of the City's 2015-2016 secured property tax revenues (excluding property taxes levied for general obligation bonds) and all other legally available General Fund revenues of the City, if required. The 2015 Note has a stated maturity of June 30, 2016.

2. Norman Y. Mineta San José International Airport

On July 27, 2015, the City filed a rating change notification relating to Fitch's Rating Services upgrade of the underlying rating of the City's Airport Revenue Bonds, Series 2007A, 2007B, 2011A-1, 2011A-2, 2011B, Series 2014A, Series 2014B, and Series 2014C from "BBB+" to "A-" with a stable rating outlook.

On August 14, 2015, the City received a response from the FAA regarding the FAA audit of Use of Airport Revenue. The FAA considers two issues identified in the audit to be closed. With respect to the remaining outstanding issue concerning cost allocation methodology, the FAA accepted the corrective actions that the City has already taken, however, the FAA disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs. The City continues discussions with the FAA, but cannot predict the final outcome of the audit.

Effective September 16, 2015, the City reduced the Stated Amount of the Letter of Credit issued by Barclays to support the Subordinated Commercial Paper Notes from $65,000,000 to approximately $41,000,000, which covers the outstanding amount of approximately $38,000,000.

3. Successor Agency to the Redevelopment Agency of the City of San José

SB107, Administrative Cost Allowance

On September 22, 2015, Senate Bill 107, which amends various sections of the California Health and Safety Code related to the dissolution of redevelopment agencies, was signed into law by Governor Jerry Brown. SB 107 contains various provisions which may impact, among other things, (i) the repayment of prior loans made by the City to the Agency; (ii) the treatment of City loans to the SARA to pay enforceable obligations, including bonded debt, and administrative costs; and (iii) the treatment of certain voter-approved special taxes, including a contribution to the County's employee' retirement program ("PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District ("Water District Levy").

Based on an initial review of SB 107, SB 107 will specifically impact SARA and the City as follows: (i) monies owed by the Agency to the City's Park Trust Fund in the amount of approximately $8,111,800 will no longer be eligible to be reinstated as a loan; (ii) the interest rate on loans that may be reinstated will be reduced to three percent (3%) simple interest; (iii) the City will no longer be able to be repaid on an intra-year basis for loans made by the City to the SARA to pay enforceable obligations, including bonded debt, and administrative costs; (iv) the repayment of any new City loans will be subordinate to other approved enforceable obligations and repaid only after other approved enforceable obligations have been repaid; and (v) from and after September 22, 2015, the effective date of SB 107, if the portion of former tax increment attributable to voter-approved special taxes, including the PERS Levy and Water District Levy, is not necessary to pay the SARA's bonded debt, the withheld funds will not be available to the SARA to pay other enforceable obligations. Since June 2012, the County has withheld funds, formerly distributed as tax increment, from its distributions to the SARA, in amounts equivalent to the PERS Levy and the Water District Levy. The County's withholding of these funds is one of the issues being litigated in the lawsuit described in Note 10. The County may attempt to use SB 107 as a defense in the lawsuit and the City cannot predict the outcome of that litigation.

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General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
($000's)

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Over (Under)			
REVENUES						
Taxes:						
Property	$ 233,973	247,573	(315)	247,258	-	247,258
Sales	180,024	180,024	383	180,407	-	180,407
Utility	115,525	114,125	(1,480)	112,645	-	112,645
State of California in-lieu	435	435	(16)	419	-	419
Franchise	45,347	46,597	312	46,909	-	46,909
Business Tax	43,700	46,350	1,081	47,431	-	47,431
Other	11,750	14,185	549	14,734	-	14,734
Licenses, permits and fines	60,581	63,101	(1,101)	62,000	-	62,000
Intergovernmental	5,698	12,436	(1,051)	11,385	-	11,385
Charges for current services	40,287	42,371	360	42,731	-	42,731
Investment income	3,300	3,300	(1,694)	1,606	143	1,749 (1)
Other revenues	28,574	51,138	(10,140)	40,998	-	40,998
Total revenues	769,194	821,635	(13,112)	808,523	143	808,666
EXPENDITURES						
Current:						
General government	123,459	130,256	(33,668)	96,588	(24,796)	71,792 (2)
Public safety	522,890	500,810	(12,067)	488,743	(3,416)	485,327 (2)
Community services	119,397	136,577	(9,012)	127,565	(4,951)	122,614 (2)
Sanitation	1,192	2,170	(862)	1,308	(17)	1,291 (2)
Capital maintenance	140,122	146,846	(46,892)	99,954	(24,461)	75,493 (2)
Capital outlay	-	21,766	-	21,766	-	21,766 (2)
Debt service:						
Principal	3,418	13,624	(1)	13,623	-	13,623
Interest	1,250	1,250	-	1,250	-	1,250
Total expenditures	911,728	953,299	(102,502)	850,797	(57,641)	793,156
Excess (deficiency) of revenues over expenditures	(142,534)	(131,664)	89,390	(42,274)	57,784	15,510
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	1,220	40,811	(3,329)	37,482	-	37,482
Transfers in	9,807	9,639	(515)	9,124	-	9,124
Transfers out	(35,920)	(50,543)	317	(50,226)	-	(50,226)
Total other financing sources (uses)	(24,893)	(93)	(3,527)	(3,620)	-	(3,620)
Net change in fund balance	(167,427)	(131,757)	85,863	(45,894)	57,784	11,890
Fund balance - beginning	274,017	274,017	-	274,017	30,047	304,064
Beginning encumbrance	-	-	-	40,792	(40,792)	-
Fund balance - ending	$ 106,590	142,260	85,863	268,915	47,039	315,954

Explanation of differences:
(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.

See accompanying notes to the required supplementary information.

Housing Activities Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
($000's)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Intergovernmental	$ 21,804	18,065	(12,598)	5,467	-	5,467	
Investment income	642	642	1,806	2,448	24	2,472	(1)
Other revenues	8,564	7,962	8,348	16,310	(7,171)	9,139	(3)
Total revenues	31,010	26,669	(2,444)	24,225	(7,147)	17,078	
EXPENDITURES							
Current:							
Community services	37,809	44,760	(27,086)	17,674	(6,415)	11,259	(2), (3)
Total expenditures	37,809	44,760	(27,086)	17,674	(6,415)	11,259	
Excess (deficiency) of revenues over expenditures	(6,799)	(18,091)	24,642	6,551	(732)	5,819	
OTHER FINANCING SOURCES (USES)							
Transfers out	(49)	(1,907)	-	(1,907)	-	(1,907)	
Total other financing sources (uses)	(49)	(1,907)	-	(1,907)	-	(1,907)	
Net change in fund balance	(6,848)	(19,998)	24,642	4,644	(732)	3,912	
Fund balance - beginning	30,950	30,950	-	30,950	49,765	80,715	
Beginning encumbrance	-	-	-	2,430	(2,430)	-	
Fund balance - ending	$ 24,102	10,952	24,642	38,024	46,603	84,627	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.
(3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

Low and Moderate Income Housing Asset Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
($000's)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Charges for current services	$ 5	4	-	4	-	4	
Investment income	9,415	10,044	67	10,111	22	10,133	(1)
Other revenues	7,282	8,152	14,038	22,190	(12,661)	9,529	(3)
Total revenues	16,702	18,200	14,105	32,305	(12,639)	19,666	
EXPENDITURES							
Current:							
Community services	23,721	25,952	(12,825)	13,127	(5,701)	7,426	(2), (3)
Excess (deficiency) of revenues over expenditures	(7,019)	(7,752)	26,930	19,178	(6,938)	12,240	
OTHER FINANCING SOURCES (USES)							
Transfers in	-	1,826	-	1,826	-	1,826	
Transfers out	(470)	(470)	-	(470)	-	(470)	
Total other financing sources (uses)	(470)	1,356	-	1,356	-	1,356	
Net change in fund balance	(7,489)	(6,396)	26,930	20,534	(6,938)	13,596	
Fund balance - beginning	28,461	28,461	-	28,461	284,443	312,904	
Beginning encumbrance	-	-	-	1,218	(1,218)	-	
Fund balance - ending	$ 20,972	22,065	26,930	50,213	276,287	326,500	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.
(3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

Schedules of Employer Contributions – Defined Benefit Pension Plans

PFDRP Schedule of Employer Contributions*
(Dollar Amounts in Thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 129,279	$ 123,583	$ 105,297	$ 121,008	$ 77,918	$ 52,315	$ 53,103	$ 56,372	$ 51,192	$ 50,002
Contributions in relation to the actuarially determined contributions	129,279	123,583	105,297	121,008	77,918	52,315	53,103	56,372	51,192	50,002
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 180,226	$ 187,959	$ 190,726	$ 251,058	$ 255,223	**	$ 227,734	**	$ 210,018	$ 202,222
Contributions as a percentage of covered-employee payroll	71.73%	65.75%	55.21%	48.20%	30.53%		23.32%		24.38%	

**Actuarial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contribution rates for fiscal year 2011, the plan transitioned to annual actuarial valuations.

Valuation date	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005	June 30, 2003
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year							
Actuarial cost method	Entry age							
Amortization method	5-year smoothed market							
Discount rate	7.13%	7.25%	7.25%	7.50%	7.75%	8%	8%	8%
Salary increases	2.00% for one year and 3.5% thereafter plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service	.5% plus merit component based on length of service ranging from 9% for new hires to 5% for members with 8 or more years of service	1% plus merit component based on length of service ranging from 10% for new hires to 4.75% for members with 7 or more years of service
Amortization payment growth rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3%
COLA	3.0% for Police Tier 1& Fire Tier 1, 1.5% for Police Tier 2 & Fire Tier 2	3.0% for Police Tier 1& Fire, 1.5% for Police Tier 2	3.0% for Police Tier 1& Fire, 1.5% for Police Tier 2	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire
Mortality	Male and Female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years				Male and female RP- 2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2005, set back four years.		Male and female RP- 2000 combined employee and annuitant tables. To reflect mortality improveme nts since the date of the table and to project future mortality improveme nts, the tables are projected to 2004, set back three years	The 1994 male group annuity mortality table, with four-year set back, is used for male members. The 1994 female group annuity mortality table with one year set forward is used for female members

FCERS Schedule of Employer Contributions*
(Dollar Amounts in Thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 114,751	$ 107,544	$ 103,109	$ 87,082	$ 59,180	$ 54,566	$ 57,020	$ 54,958	$ 51,004	$ 41,267
Contributions in relation to the actuarially determined contributions	114,751	107,544	103,109	87,082	59,180	54,566	57,020	54,958	51,004	41,267
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 240,678	$ 233,200	$ 240,187	$ 300,811	$ 323,020	**	$ 291,405	**	$ 286,446	**
Contributions as a percentage of covered-employee payroll	47.68%	46.12%	42.93%	28.95%	18.32%		19.57%		17.81%	

* The actuarially determined employer contributions (ADC) provided above are based on the Board adopted contribution rates adjusted for the timing of actual contributions including year-end contributions receivable and prior year contribution adjustments. In addition, in fiscal year ended June 30, 2011, the ADC has been reduced to reflect the additional employee contributions pursuant to MOAs with certain bargaining units.

** Actuarial valuations have been performed biennially through June 30, 2007. Effective June 30, 2009, the plan transitioned to annual actuarial valuations.

Valuation date	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2007	June 30, 2005	June 30, 2003
Timing	Actually determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year						
Actuarial cost method	Entry age	Entry age	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	5-year smoothed market	5-year smoothed market
Discount rate	7.25%	7.50%	7.50%	7.95%	7.75%	8.25%	8.25%
Salary increases	2.0% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/ longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/ longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/ longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/ longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service
Amortization payment growth rate	2.43%	3.25%	3.25%	3.90%	3.83%	4.25%	4.25%
COLA	3%	3%	3%	3%	3%	3%	3%
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS oridnary disability table from their 2000-2004 study for miscellaneous employees	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS oridnary disability table from their 2000-2004 study for miscellaneous employees	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table

Schedule of Changes in the Employer's Net Pension Liability – Defined Benefit Pension Plans

(Dollar amounts in thousands):	2015		2014	
Total pension liability	**PFDRP**	**FCERS**	**PFDRP**	**FCERS**
Service cost (middle of year)	$ 74,895	$ 46,795	$ 75,030	$ 43,334
Interest (includes interest on service cost)	262,738	221,690	251,700	214,487
Differences between expected and actual experience	21,457	13,005	-	-
Changes of assumptions	56,311	108,674	-	-
Benefit payments, including refunds of member contributions	(176,253)	(164,562)	(167,397)	(155,936)
Net change in total pension liability	239,148	225,602	159,333	101,885
Total pension liability - beginning	3,737,364	3,115,648	3,578,031	3,013,763
Total pension liability - ending	$ 3,976,512	$ 3,341,250	$ 3,737,364	$ 3,115,648
Plan fiduciary net position				
Contibutions - employer	$ 129,279	$ 114,751	$ 123,583	$ 107,544
Contibutions - member	20,747	13,621	21,115	13,596
Net investment income	(27,690)	(16,642)	404,978	263,688
Benefit payments, including refunds of member contributions	(176,253)	(164,562)	(167,397)	(155,936)
Administrative expense	(4,191)	(3,898)	(3,631)	(3,201)
Net change in plan fiduciary net position	(58,108)	(56,730)	378,648	225,691
Plan fiduciary net position - beginning	3,168,173	1,987,237	2,789,525	1,761,546
Plan fiduciary net position - ending	$ 3,110,065	$ 1,930,507	$ 3,168,173	$ 1,987,237
Net pension liability - ending	$ 866,447	$ 1,410,743	$ 569,191	$ 1,128,411
Plan fiduciary net position as a percentage of the total pension liability	78.21%	57.78%	84.77%	63.78%
Covered employee payroll	$ 180,226	$ 240,678	$ 187,959	$ 219,434
Net pension liability as a percentage of covered employee payroll	480.75%	586.15%	302.83%	514.24%

Schedule of Investment Returns – Defined Benefit Pension Plans

	2015		2014	
	PFDRP	FCERS	PFDRP	FCERS
Annual money-weighted rate of return, net of investment expense	(0.85%)	1.07%	13.00%	7.49%

Schedules are intended to show information for 10 years commencing with the fiscal year ended June 30, 2014. Additional years will be displayed as they occur.

Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios – CalPERS

(Dollar amounts in thousands):	2015*
Proportion of the net pension liability	0.01697%
Proportionate share of the net pension liability	$ 1,056
Covered employee payroll	$ 692
Proportionate share of the net pension liability as percentage of covered-employee payroll	152.52%
Plan's fiduciary net position as a percentage of the total pension liability	76.28%

Notes to Schedule:

*Measurement date: June 30, 2014

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015. Additional years will be displayed as they become available.

Schedule of Employer Contributions – CalPERS

(Dollar amounts in thousands)	**2015**
Actuarially determined contribution	$ 107
Contributions in relation to the actuarially determined contributions	107
Contribution deficiency (excess)	$ -
Covered - employee payroll	$ 589
Contributions as a percentage of covered employee payroll	17.06%

Notes to Schedule:

Valuation date:	6/30/2012
Methods and assumptions used to determine contribution rates:	
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization method	Level Percentage of Payroll
Remaining Amortization period	19 Years as of the Valuation Date
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increase	3.30% to 14.20% Depending on Age, Service and Type of Employment
Investment rate of return	7.50%, net of administrative expenses
Retirement age	55 years
Mortality	RP-2000 Healthy Annuitant Mortality Table

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015.
Additional years will be displayed as they occur.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2015

Schedules of Funding Progress – Postemployment Healthcare Benefit Plans
($000's)

Police and Fire Department Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (1)	Unfunded AAL as a Percentage of Covered Payroll
6/30/12	$ 66,385	$ 997,321	$ 930,936	7%	$ 187,959	495%
6/30/13	75,035	700,525	625,490	11%	184,645	339%
6/30/14	93,605	706,709	613,104	13%	188,189	326%

Federated City Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (1)	Unfunded AAL as a Percentage of Covered Payroll
6/30/12	$ 137,798	$ 1,096,620	958,822	13%	$ 225,859	425%
6/30/13	157,695	870,872	713,177	18%	226,098	315%
6/30/14	199,776	729,406	529,630	27%	234,677	226%

(1) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.

I. Budgetary Information

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation.

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, nonpersonal) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department. The City's legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within the Comprehensive Annual Financial Report itself. As a result, the City prepares a separate report to demonstrate compliance with its legal level of budgetary control.

Annual budgets are prepared for the General Fund and all Special Revenue Funds. Capital project budgets are based on a project time frame rather than a fiscal year time frame. Debt Service Funds appropriations were adopted by the Council when the formal bond resolutions were approved. Therefore, Capital Project Funds and Debt Service Funds are not reported on budgetary basis.

II. Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States ("GAAP") basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process ("budgetary basis") to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on GAAP basis until the equipment, supplies or services are received.

- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When loan repayments are received, they are recorded as reductions to receivables on a GAAP basis, but are recognized as revenues on a budgetary basis.

- Net decreases were made to certain GAAP basis loans receivable to reflect carrying amounts at a discounted present value and allowances for bad debts. The discount is treated as an expenditure on a GAAP basis and is not included in the budgetary basis financial statements. In addition, the allowance for bad debts is not included in the budgetary basis financial schedules, but is an expenditure on a GAAP basis.

- Certain advances to the SARA are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these advances are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When repayments are received, they are recorded as reductions to advances to the SARA on a GAAP basis, but are recognized as revenues on a budgetary basis.

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial schedules.

- The Community Facility Revenue non-major special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial schedules.

- Certain line of credit transactions are recognized as expenditures in the budgetary basis financial schedules but are recorded as an asset in the GAAP basis financial statements. When the outside agency draws down on the line of credit, the City records an asset, advances to other agencies, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules. When the outside agency pays down the line of credit, the City records a reduction to its assets in the GAAP basis financial statements and revenues on the budgetary basis financial schedules.

- Certain grant revenues received in advance are recognized on the budgetary basis financial schedules, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

III. Budget Revisions

On October 6, 2015, the City Council approved certain fiscal year 2015 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedules of revenues, expenditures, and changes in fund balances - budget and actual reflect such budget revisions.

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

City Council
City of San José, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2015, except for our report on the schedule of expenditures of federal awards, schedule of passenger facility charge revenues and expenditures, and schedule of customer facility charge revenues and expenditures as to which the date is December 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

www.mgocpa.com

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 16, 2015

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

City Council
City of San José, California

Report on Compliance For Each Major Federal Program

We have audited the City of San José's, California (City), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Federal Awards Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 1, 2015

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Commerce				
Direct program:				
Economic Adjustment Assistance	11.307	07-39-02866	$ 484,981	
Economic Adjustment Assistance	11.307	Prior Year Ending Loan Balance	175,502	
Total U.S. Department of Commerce			660,483	
U.S. Department of Housing and Urban Development				
Direct programs:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-06-0021	7,498,597	
Housing and Economic Recovery Act 2008 - Neighborhood Stabilization Program I	14.218	B-08-MN-06-0008	6,195	
Subtotal CDBG - Entitlement Grants Cluster			7,504,792	$ 2,999,971
Emergency Solutions Grant Program	14.231	E13-MC-06-0021	(8,791)	
Emergency Solutions Grant Program	14.231	E14-MC-06-0021	636,359	
Subtotal Emergency Solutions Grant Program			627,568	577,245
Home Investment Partnerships Program	14.239	M12-MC060215	1,884,003	
Home Investment Partnerships Program	14.239	M13-MC060215	554,877	
Home Investment Partnerships Program	14.239	M14-MC060215	5,029,703	
Subtotal Home Investment Partnerships Program			7,468,583	790,332
Housing Opportunities for Persons with AIDS	14.241	CAH13F004	(12,455)	
Housing Opportunities for Persons with AIDS	14.241	CAH14F004	679,060	
Housing Opportunities for Persons with AIDS	14.241	CAH130005	399,603	
Subtotal Housing Opportunities for Persons with AIDS			1,066,208	1,034,190
Pass-through County of Santa Clara:				
ARRA - Neighborhood Stabilization Program II	14.256	B-09-CN-CA-0054	437,865	
Total U.S. Department of Housing and Urban Development			17,105,016	
U.S. Department of Interior				
Direct program:				
Title XVI Water Reclamation and Reuse Program	15.504	R11AC20130	399,287	
Total U.S. Department of Interior			399,287	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Justice				
Direct programs:				
Community-Based Violence Prevention Program	16.123	2012-MU-FX-0011	78,613	
2011 Federal Human Trafficking	16.320	2011-VT-BX-K006	91,532	
Office of Juvenile Justice - Capacity Building Grant	16.541	2012-NY-FX-0002	109,816	
Missing Children's Assistance	16.543	2011-MC-CX-K003	177,893	
Missing Children's Assistance	16.543	2014-MC-FX-K039	276,021	
Subtotal Missing Children's Assistance			453,914	
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2013-WE-AX-0033	130,564	
Public Safety Partnership and Community Policing Grants	16.710	2010ULWX0028	550,804	
Public Safety Partnership and Community Policing Grants	16.710	2011ULWX0007	252,559	
Subtotal Public Safety Partnership and Community Policing Grants			803,363	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0066	110,833	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0642	79,397	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0071	94,872	
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			285,102	
Total U.S. Department of Justice			1,952,904	
U.S. Department of Labor				
Pass-through State of California, Employment Development Department:				
Workforce Investment Act (WIA) Cluster:				
WIA Adult Program:				
WIA Adult	17.258	K594793201	191,866	
WIA Adult	17.258	K594793202	1,806,144	
WIA Adult	17.258	K491050202	844,896	
WIA Adult DW Transfer	17.258	K491050500	676,853	
WIA Adult DW Transfer	17.258	K594793500	21,918	
Subtotal WIA Adult Program			3,541,677	1,053,197
WIA Youth Activities	17.259	K594793301	1,813,978	
WIA Youth Activities	17.259	K491050301	1,101,919	
Subtotal WIA Youth Activities			2,915,897	1,298,460
WIA Dislocated Worker Formula Grants:				
WIA DLW RD1	17.278	K594793501	423,729	
WIA DLW RD2	17.278	K594793502	723,651	
WIA DLW 2	17.278	K491050502	1,998,896	
WIA RR	17.278	K594793541	414,158	
WIA RR	17.278	K594793293	12,854	
WIA RR	17.278	K594793540	75,180	
WIA RR	17.278	K594793292	1,276	
WIA RR	17.278	K491050541	73,833	
Subtotal WIA Dislocated Worker Formula Grants			3,723,577	1,168,651
Subtotal WIA Cluster			10,181,151	
Total U.S. Department of Labor			10,181,151	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation				
Direct programs:				
Federal Aviation Administration (FAA):				
Airport Improvement Program	20.106	3-06-0226-083-2014	881,696	
Airport Improvement Program	20.106	3-06-0226-084-2014	6,526	
Airport Improvement Program	20.106	3-06-0226-084-2014	5,713	
Airport Improvement Program	20.106	3-06-0226-084-2014	43,230	
Subtotal Airport Improvement Program			937,165	
Highway Planning and Construction Cluster:				
Pass-through California Department of Transportation:				
Highway Planning and Construction:				
TiMC (HPP 2017)	20.205	HPLUL-5005 (085)	1,467,029	
E. Santa Clara Street Bridge at Coyote Creek	20.205	BRLZ-5005(089)	6,672	
Pavement Maintenance - Federal	20.205	STPL-5005(134)	478,832	
TCSP Grant - Branham Lane/Monterey Highway	20.205	TCSP10-5005(100)	9,382	
San Carlos Multimodal Streetscape Improvements Phase I	20.205	RPSTPLE-5005(101)	112,543	
North First Street Bicycle Lane Improvements	20.205	HSIPL-5005(123)	25,842	
OCALA Improvements	20.205	HSIPL-5005(135)	55,081	
Park Avenue Bicycle Lane Improvements	20.205	HSIPL-5005(121)	13,204	
Autumn Street Extension	20.205	TCSPL-5005(122)	8,210	
Subtotal Highway Planning and Construction			2,176,795	
Recreational Trails Program:				
SAFETEA-LU Trail: Coyote Creek (237 to Story Road)	20.219	SCL 050083 HPLUL-5005(087)	98,194	
CMAQ Los Gatos Creek Reach	20.219	SCL110029	311,716	
Subtotal Recreational Trails Program			409,910	
Subtotal pass-through California Department of Transportation			2,586,705	
Pass-through Metropolitan Transportation Commission:				
Highway Planning and Construction:				
San Fernando Enhanced Bikeway & Pedestrian	20.205	RPSTPLE-5005(105)	32,256	
The Alameda - A Plan for the Beautiful Way	20.205	STPL-5005(103)	55,906	
Walk n' Roll San Jose! (Non-infrastructure)	20.205	CML-5005(107)	239,662	
Walk n' Roll (Non-Infrastructure) Phase 2	20.205	CML-5005(128)	41,769	
Walk n' Roll San Jose! (Infrastructure)	20.205	CML-5005(108)	289,832	
Bucknall Road	20.205	SRTSL-5005(124)	202,496	
Alameda "A Beautiful Way" Phase 2	20.205	CML-5005(129)	355,850	
Jackson Ave Complete Streets	20.205	CML-5005(125)	74,741	
Pedestrian Oriented Signals	20.205	CML-5005(127)	465,789	
St. John Bike/Ped Phase 2	20.205	CML-5005(131)	166,287	
San Carlos Multimodal Streetscape Improvements Phase 2	20.205	STPCML-5005(104)	351,165	
Safe Routes to School Program	20.205	CML-5005(133)	3,296	
Smart Intersections Program	20.205	N/A	13,084	
Park Avenue Multimodal Improvements	20.205	RPSTPLE-5005(130)	422,550	
Subtotal pass-through Metropolitan Transportation Commission			2,714,683	
Subtotal Highway Planning and Construction Cluster			5,301,388	

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation (continued)				
Pass-through California Office of Traffic Safety:				
State and Community Highway Safety				
Selective Traffic Enforcement Program	20.600	PT1554	178,956	
Total U.S. Department of Transportation			6,417,509	
National Endowment for the Arts				
Direct program:				
Promotion of the Arts_Grants to Organizations and Individuals:				
Our Town	45.024	13-4292-7081	25,000	
Total National Endowment for the Arts			25,000	
National Endowment for the Humanities				
Pass-through California State Library:				
Grants to States Programs:				
Reinventing the 21st Century Library - Out of the Stacks	45.310	40-8459 LS-00-14-0005-14	5,000	
I Am San Jose	45.310	40-8459 LS-00-14-0005-14	1,823	
Online Training for Adult Literacy Tutors	45.310	40-8291 LS-00-13-0005-13	2,497	
Subtotal Grants to States Program			9,320	
Total National Endowment for the Humanities			9,320	
U.S. Environmental Protection Agency				
Direct programs:				
Congressionally Mandated Projects	66.202	00T58101-0	200,594	
Surveys, Studies, Investigations and Special Purpose Grants	66.606	XP-96942501-7	38,297	
Subtotal direct programs			238,891	
Pass-through SF Bay Fund:				
The San Francisco Bay Water Quality Improvement Fund-Clean Creek	66.126	W9-00T60701	74,703	
Total U.S. Environmental Protection Agency			313,594	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services				
Direct program:				
Health Care and Other Facilities	93.887	C76HF16384	317,838	317,838
Total U.S. Department of Health and Human Services			317,838	
U.S. Department of Homeland Security				
Direct programs:				
Hazard Mitigation Grant	97.039	HMGP #1731-44-21	456,022	
Assistance to Firefighters Grant	97.044	EMW-2012-FO-06942	382,476	
Assistance to Firefighters Grant	97.044	EMW-2013-FR-000427	2,011,853	
Assistance to Firefighters Grant	97.044	EMW-2013-FO-05562	14,309	
Subtotal Assistance to Firefighters Grant			2,408,638	
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2011-FH-00831	2,878,725	
Subtotal direct programs			5,743,385	
Pass-through California Office of Emergency Services:				
California Disaster Assistance Act Program	97.036	FEMA-4158-DR	124,863	
Subtotal pass-through California Office of Emergency Services			124,863	
Pass-through the Bay Area UASI:				
Homeland Security Grant Program:				
FY 13 Urban Area Security Grant	97.067	N/A	135,634	
FY 14 Urban Area Security Grant	97.067	2014-SS-00093 FIPS 075-95017	121,760	
FY 14 Urban Area Security Grant	97.067	N/A	303,108	
Subtotal pass-through the Bay Area UASI			560,502	
Pass-through California Emergency Management Agency:				
FY 13 Urban Area Security Grant	97.067	2013-00110 FIPS 075-95017	454,869	
Subtotal pass-through California Emergency Management Agency			454,869	
Total U.S. Department of Homeland Security			6,883,619	
Total Expenditures of Federal Awards			$ 44,265,721	$ 9,239,884

See accompanying notes to the Schedule of Expenditures of Federal Awards.

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(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of the federal award programs of the City of San José, California (the City). The City's reporting entity is defined in Note I to its basic financial statements. The SEFA includes all federal awards received directly from federal agencies and federal awards passed-through other governmental agencies. In addition, the SEFA includes local, state and other expenditures matched along with the federal award expenditures.

(2) BASIS OF PRESENTATION

The accompanying schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds as described in Note I to the City's basic financial statements.

For reimbursable grants, the City recognizes revenues commencing on the date of grant approval (provided all eligibility requirements are met) since this is when the City is eligible to claim expenditures for reimbursements. Pass-through entity identifying numbers are presented where available.

During the year ended June 30, 2015, the City reversed certain accruals and received other cost reimbursements related to the Emergency Solutions Grant Program (CFDA No. 14.231) and the Housing Opportunities for Persons with AIDS (CFDA No. 14.241) in the amounts of $8,791 and $12,455, respectively. These amounts are reported as negative amounts in the SEFA for the year ended June 30, 2015.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the general, special revenue and capital projects funds and as expenses for non-capital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the SEFA agree to or can be reconciled with the amounts reported in the related federal financial reports.

(5) AIRPORT EXPENDITURES

The Federal Aviation Administration (FAA) reimburses the Airport for approximately 80% of allowable Airport Improvement Program (AIP) grant expenditures. Accordingly, 80% of total allowable AIP expenditures is presented in the accompanying SEFA.

(6) LOANS OUTSTANDING

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest.

Loans directly extended or guaranteed by the federal government are considered loans in accordance with OMB Circular A-133 §___.205 Basis for determining Federal awards expended, (b) Loans and Loan Guarantees (Loans). The City reports the Economic Adjustment Assistance (CFDA No. 11.307) loan program expenditures in the amount of $660,483 for the year ended June 30, 2015 in the SEFA. This is comprised of 100% participation in $175,502 loans outstanding and $244,981 cash and investment balance at June 30, 2015, and $240,000 administrative expenses paid out of the revolving loan fund's income during the fiscal year.

(7) PROGRAM TOTALS

The SEFA does not summarize all programs that receive funding from various funding sources or grants by Catalog of Federal Domestic Assistance (CFDA) number. The following table includes programs with various funding sources or grants by CFDA numbers not summarized in the SEFA.

CFDA Number - Program Title Grant Identifying Number or Pass-through Grantor	Federal Expenditures
Highway Planning and Construction Cluster:	
CFDA No. 20.205 - Highway Planning and Construction	
Pass-through California Department of Transportation	$ 2,176,795
Pass-through Metropolitan Transportation Commission	2,714,683
CFDA No. 20.205 - Highway Planning and Construction	4,891,478
CFDA No. 20.219 - Recreational Trails Program	
Pass-through California Department of Transportation	409,910
Total Highway Planning and Construction Cluster	$ 5,301,388
CFDA No. 97.067 - Homeland Security Grant Program	
Pass-through the Bay Area UASI	560,502
Pass-through California Emergency Management Agency	454,869
CFDA No. 97.067 - Homeland Security Grant Program Total	$ 1,015,371

(8) INTERNET CRIMES AGAINST CHILDREN (ICAC) GRANT

The following schedule represents expenditures and revenues for the Internet Crimes Against Children Task Force Program from the U.S. Department of Justice and the California Governor's Office of Emergency Services (Cal OES) for the year ended June 30, 2015.

Program Title and Expenditure Category	Grant Number Grant Period	Cumulative Expense through June 30, 2014	Actual 7/1/14-6/30/15 Non-match	Actual 7/1/14-6/30/15 Match	Cumulative Expense through June 30, 2015	Cumulative Program Revenue
Internet Crimes Against Children						
Task Force Program (Federal)	2011-MC-CX-K003					
Personnel Services	04/01/11 - 06/30/15	$ 414,677	$ 36,270	$ -	$ 450,947	$ 450,947
Operating Expenses		471,498	141,623	-	613,121	613,121
Equipment		85,083	-	-	85,083	85,083
Total		$ 971,258	$ 177,893	$ -	$ 1,149,151	$ 1,149,151
Internet Crimes Against Children						
Task Force Program (Federal)	2014-MC-FX-K039					
Personnel Services	07/01/14 - 09/30/15	$ -	$ 175,987	$ -	$ 175,987	$ 175,987
Operating Expenses		-	77,197	-	77,197	77,197
Equipment		-	22,837	-	22,837	22,837
Total		$ -	$ 276,021	$ -	$ 276,021	$ 276,021
Internet Crimes Against Children						
Task Force Program (State)	IC-1406-7928					
Personnel Services	07/01/14 - 06/30/15	$ -	$ -	$ -	$ -	$ -
Operating Expenses		-	94,770	-	94,770	94,770
Equipment		-	5,230	-	5,230	5,230
Total		$ -	$ 100,000	$ -	$ 100,000	$ 100,000

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CITY OF SAN JOSE, CALIFORNIA

Federal Awards Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of major programs:

Federal Domestic Catalog Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
20.205, 20.219	Highway Planning & Construction Cluster
97.044	Assistance to Firefighters Grant
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)

Dollar threshold used to distinguish between type A and type B programs:	$1,327,972
Auditee qualified as a low-risk auditee?	No

Section II Financial Statement Findings

None reported.

Section III Federal Award Findings and Questioned Costs

None reported.

CITY OF SAN JOSE, CALIFORNIA

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2015

Prior Years' Financial Statement Findings

None reported.

Prior Years' Federal Awards Findings

2014 Comment:	***2014-001 – CFDA Nos. 20.205 and 20.219, Highway Planning and Construction Cluster*** ***Davis-Bacon Act***
Condition/Effect:	During our audit of the City's compliance with the Davis-Bacon Act for the Highway Planning and Construction (HPC) Cluster, we tested 51 items from a population of 147 certified payrolls for the HPC Cluster. Our testing showed that the Office of Equality Assurance (OEA) did not perform timely follow-up of past due certified payroll reports with the prime contractors for 18 of the 51 items selected. Of the 18 items noted, the City appropriately did not disburse payments to the contractor until after receipt of certified payroll reports for 16 of the items tested. However, the OEA did not receive the required certified payroll reports prior to the City's project managers' instruction to disburse funds to the prime contractors for 2 of the items selected, which resulted in questioned costs. The 2 items were a combination of payments to both prime contractors and subcontractors.
Recommendation:	During the fiscal year, the City implemented a revision of its policies and procedures, which required contractors to provide to the project manager or inspector certified payroll reports for all of its employees and those employees of its contractors with each application for progress payment. The policies and procedures are designed to ensure that certified payroll reports are received before any disbursement to contractors. We recommend that the City continue to evaluate the effectiveness of its current internal control policies to ensure that payments are not disbursed until certified payrolls are received.
Status:	Corrected.
2014 Comment:	***2014-002 – CFDA No. 14.218, Community Development Block Grants/Entitlement Grants*** ***Reporting***
Condition/Effect:	The C04PR26 – CDBG Financial Summary for the year ended June 30, 2014 was submitted on December 17, 2014, which is 78 days after the due date, because the City had turnover during the fiscal year and reporting responsibilities were not appropriately transferred to remaining personnel.
Recommendation:	We recommend that the City develop a process to transition key duties to personnel in place to ensure that it meets all mandated reporting deadlines. In addition, the City should evaluate its internal control procedures on grant reporting requirements to ensure that procedures are properly documented and updated so that reporting requirements are completed during staff absence or turnover.
Status:	Corrected.

MGO Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's Report on Compliance With Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance in Accordance With the Passenger Facility Charge Audit Guide for Public Agencies

City Council
City of San José, California

Compliance

We have audited Norman Y. Mineta San José International Airport's (Airport), an enterprise fund of the City of San José (City), compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, applicable to its passenger facility charge program for the year ended June 30, 2015.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Airport's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2015.

Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 1, 2015

CITY OF SAN JOSE, CALIFORNIA

Schedule of Passenger Facility Charge Revenues and Expenditures

Year Ended June 30, 2015

	Passenger Facility Charge Revenues	Interest Earned	Total Revenues	Expenditures on Approved Projects	Under (over) Expenditures on Approved Projects
Fiscal year 2014-15 transactions:					
Quarter ended September 30, 2014	$ 2,760,166	$ 9,328	$ 2,769,494	$ 9,019,034	
Quarter ended December 31, 2014	4,645,175	13,154	4,658,329	-	
Quarter ended March 31, 2015	4,463,882	33,637	4,497,519	16,183,339	
Quarter ended June 30, 2015	7,422,273	36,200	7,458,473	-	
	$ 19,291,496	$ 92,319	$ 19,383,815	$ 25,202,373	(5,818,558)
			Balance, beginning of year		26,259,780
			Balance, end of year		$ 20,441,222

See accompanying notes to the Schedule of Passenger Facility Charge Revenues and Expenditures.

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CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures

Year Ended June 30, 2015

(1) GENERAL

The Schedule of Passenger Facility Charge Revenues and Expenditures presents only the activity of the Passenger Facility Charge (PFC) program of the Norman Y. Mineta San José International Airport (Airport), an enterprise fund of the City.

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of PFCs and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects. PFCs are fees imposed on enplaned passengers by the Airport for the purpose of generating revenue for Airport projects that increase capacity, increase safety, mitigate noise impact and enhance competition between and among air carriers in accordance with FAA approvals.

(2) BASIS OF ACCOUNTING

The accompanying schedule is presented using the accrual basis of accounting as described in Note I to the City's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate any PFC revenues as "Available PFC Revenues" by filing with the Trustee a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay bond debt service during such period. An amount of $25,202,373 from accumulated PFC Revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in the year ended June 30, 2015.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule of Passenger Facility Charge Revenues and Expenditures agree to or can be reconciled with the amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports.

(5) PFC APPROVED PROJECTS AND EXPENDITURES

The general description of the approved projects and the expenditures for the year ended June 30, 2015 are as follows:

Passenger Facility Charge Project Number/Description		Identifying Number	Passenger Facility Charge Approved Amount	Expenditures
#40A	Runway 12R/30L Reconstruction	01-12-C-00-SJC	$ 72,022,700	$ 3,642,776
#40B	Runway 12R/30L Extention	01-12-C-00-SJC	38,671,724	1,648,591
#52	Taxiway Z - Apron Reconstruction (Phase II)	01-11-C-00-SJC	825,000	-
#53	Terminal C Fire Protection	01-11-C-00-SJC	580,000	-
#54	Fiber Optic Cable to ARC & Fire Station 29	01-11-C-00-SJC	87,345	-
#55	Green Island Bridge	01-11-C-00-SJC	825,000	-
#56	Replacement of AACS and CCTV	01-11-C-00-SJC	4,418,645	-
#57	Skyport Grade Separation	01-11-C-00-SJC	18,218,154	-
#58	Terminal Drive Improvements	01-11-C-00-SJC	1,146,165	-
#59	Replacement of PASSUR	01-11-C-00-SJC	221,000	-
#60	Terminal C Restroom	01-11-C-00-SJC	2,485,000	-
#61	Interim Air Cargo Ramp Extension	01-11-C-00-SJC	1,100,000	-
#62	Runway 30R/12L Reconstruction	01-11-C-00-SJC	84,105,103	3,901,868
#63	Noise Attenuation Category II & III	01-11-C-00-SJC	4,500,000	-
#64	Taxiway Y Extension	01-11-C-00-SJC	12,890,000	429,980
#65	Extended Noise Attenuation	02-13-C-00-SJC	61,589,000	-
#67	Terminal B - North Concourse	06-15-C-00-SJC	495,095,000	14,100,158
#68	Terminal B Extension, Phase I	08-16-C-00-SJC	110,159,000	1,479,000
#69	Roadway Improvements: Grade Separations	08-16-C-00-SJC	10,244,000	-
	Total Passenger Facility Charge Projects		$ 919,182,836	$ 25,202,373

Independent Auditor's Report on Compliance With Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance

City Council
City of San José, California

Compliance

We have audited Norman Y. Mineta San José International Airport's (Airport), an enterprise fund of the City of San José (City), compliance with the compliance requirements described in the California Civil Code Section 1936, as amended by Senate Bill 1192 (Code), applicable to its customer facility charge program for the year ended June 30, 2015.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Airport's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Code. Those standards and the Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the year ended June 30, 2015.

Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Code. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 1, 2015

CITY OF SAN JOSE, CALIFORNIA

Schedule of Customer Facility Charges Revenues and Expenditures

Year Ended June 30, 2015

Revenues		
Customer facility charges	$	18,689,878
Facility rent		2,472,141
Investment income		49,823
Total revenues		21,211,842
Expenditures		
Transportation expenditures		2,095,224
Debt service expenditures		17,523,697
Total expenditures		19,618,921
Revenues over expenditures	$	1,592,921

See accompanying notes to the Schedule of Customer Facility Charges Revenues and Expenditures.

CITY OF SAN JOSE, CALIFORNIA

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures

Year Ended June 30, 2015

(1) GENERAL

California Civil Code Section 1936, as amended by Senate Bill 1192, and further amended by Assembly Bill 359 (Section 1936), permits an airport sponsor to require rental car companies to collect from a renter a Customer Facility Charge (CFC) to finance, design and construct a consolidated airport rental car facility; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

From January 1, 2008 through November 30, 2011, the Airport imposed a CFC of $10.00 per rental contract. Pursuant to Section 1936, the City increased the CFC to $6.00 per contract day, to a maximum of five days, on each rental effective December 1, 2011, and further increased the per contract day CFC to $7.50 per contract day, to a maximum of five days, on each rental, commencing January 1, 2014.

(2) BASIS OF ACCOUNTING

The accompanying schedule is presented using the accrual basis of accounting as described in Note I to the City's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of CFCs are reported in the City's basic financial statements as operating expenses in the Airport enterprise fund. CFC expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

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