CITY OF SAN JOSE, CALIFORNIA

Single Audit Reports

Basic Financial Statements with
Federal and Airport Compliance Sections

For the Year Ended June 30, 2016

CITY OF SAN JOSE, CALIFORNIA
For the Year Ended June 30, 2016
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FINANCIAL SECTION

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
150 Almaden Blvd., Suite 600
San Jose, CA 95113

T +1 408 275 9000
F +1 408 275 0582
www.GrantThornton.com

Honorable City Council
City of San José, California

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 (the "City") as of and for the year ended June 30, 2016, 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2016, 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.

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 balance – budget and actual for the General Fund, Housing Activities Fund, and Low and Moderate Income Housing Asset Fund; the schedule of employer contributions – defined benefit pension plans; the 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 required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

Supplementary 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 schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200,* Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the schedule of passenger facility charge revenues and expenditures, as required by the *Passenger Facility Charge Audit Guide for Public* Agencies, and the schedule of customer facility charge revenues and expenditures, as required by the *California Civil Code Section*

1936, as amended by Senate Bill 1192 and Assembly Bill 359 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 supplementary 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, 2016, 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 effectiveness of 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.

Grant Thornton LLP

San José, California
November 16, 2016, (except for our report on the 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, 2016)

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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, 2016. 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, 2016, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $4.868 billion. Of this amount, a deficit of $1.384 billion represent unrestricted net position, which is comprised of a deficit balance of $1.723 billion for governmental activities, and a positive balance of $339.4 million for business-type activities. In addition, the City's restricted net position totals $1.007 billion ($930.6 million for governmental activities and $76.7 million for business-type activities) and is dedicated to specific purposes. Lastly, net position of $5.245 billion is the City's net investment in capital assets ($4.479 billion for governmental activities and $766.1 million for business-type activities).

- The net position decreased by $21.8 million or 0.5 percent during 2015-2016 to $4.868 billion from $4.890 billion. Expenses continued to exceed revenues although tax revenues were increased by $52.2 million.

- Governmental funds reported a combined ending fund balances of $1.367 billion at June 30, 2016, which is $43.7 million or 3.3 percent more than the June 30, 2015 balance. The increase was attributable to an increase in the General Fund of $3.1 million, Housing Activities Fund of $1.8 million, Low and Moderate Income Housing Asset Fund of $22.0 million, Special Assessment Districts of $0.5 million, San José Financing Authority Debt Service Fund of $1.5 million, and the Nonmajor Governmental Funds of $14.9 million.

- Unassigned fund balance of governmental funds totals $65.4 million, which is 4.8 percent of combined governmental fund balances at June 30, 2016.

- Total long-term liabilities (excluding net pension liability) decreased by $67.9 million to $3.331 billion at June 30, 2016, which represents a decrease of 2.0 percent compared to $3.398 billion at June 30, 2015. The primary factors leading to the decrease in long-term liabilities for governmental activities of $34.6 million were the payments of scheduled debt service of $51.8 million, offset by increases in compensated absences liability of $8.2 million and OPEB liability of $17.7 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of $33.3 million were due to payments of $33.7 million for scheduled debt service and an increase in OPEB liability of $1.0 million.

- Net pension liability increased by $579.6 million or 34.1 percent during 2015-2016 to $2.278 billion from $1.699 billion. Deferred outflows of resources related to pensions increased by $283.7 million or 116.2%, and deferred inflows of resources related to pensions decreased by $275.5 million or 99.9% The changes were mainly due to a net loss of $402.8 million between projected and actual investment earnings on plan assets, and an increase of $199.5 million to the total pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.

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, 2016, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $4.868 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, 2016 and 2015
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Assets:						
Current and other assets……………	$ 1,762,904	$ 1,733,780	858,111	829,066	2,621,015	2,562,846
Capital assets………………………..	5,571,397	5,697,918	2,020,445	2,032,236	7,591,842	7,730,154
Total assets………………………	7,334,301	7,431,698	2,878,556	2,861,302	10,212,857	10,293,000
Deferred outflows of resources:						
Loss on refundings of debt…………	1,090	1,275	3,397	3,645	4,487	4,920
Deferred outflows of resources related to pensions…………	468,238	216,614	59,620	27,523	527,858	244,137
Total deferred outflows of resources	469,328	217,889	63,017	31,168	532,345	249,057
Liabilities:						
Current and other liabilities…………	176,594	184,587	90,803	93,683	267,397	278,270
Long-term liabilities………………….	1,910,414	1,945,015	1,420,159	1,453,417	3,330,573	3,398,432
Net Pension liability…………………	2,030,227	1,514,381	248,000	184,277	2,278,227	1,698,658
Total liabilities……………………	4,117,235	3,643,983	1,758,962	1,731,377	5,876,197	5,375,360
Deferred inflows of resources:						
Gain on refundings of debt…………	-	-	373	796	373	796
Deferred inflows of resources related to pensions…………	341	245,922	-	29,894	341	275,816
Total deferred inflow of resources	341	245,922	373	30,690	714	276,612
Net position:						
Net investment in capital assets	4,478,760	4,566,716	766,107	769,516	5,244,867	5,336,232
Restricted ……………………………	930,553	927,190	76,709	113,459	1,007,262	1,040,649
Unrestricted …………………………	(1,723,260)	(1,734,224)	339,422	247,428	(1,383,838)	(1,486,796)
Total net position…………………	$ 3,686,053	$ 3,759,682	1,182,238	1,130,403	4,868,291	4,890,085

At June 30, 2016, the City reported positive balances in 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 $5.245 billion comprise 107.7 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 2015-2016, net investment in capital assets decreased by $91.4 million due primarily to the depreciation expense of $299.1 million offset by additions (net) to capital assets of $162.2 million.

A portion of the City's net position, $1.007 billion or 20.7 percent, are subject to legal restrictions on their use, including $930.6 million in governmental activities and $76.7 million in business-type activities. Of the total net position at June 30, 2016, $1.384 billion or 28.4 percent represents unrestricted net position, which comprises a deficit balance of $1.723 billion for governmental activities, and a positive balance of $339.4 million for business-type activities. Primary factors contributing to the deficit unrestricted net position are the City's net pension liability.

During 2015-2016, the City's total net position decreased by $21.8 million. Notable changes in the statement of net position between June 30, 2016 and June 30, 2015 include:

- Capital assets decreased by $138.3 million or 1.8 percent compared to the prior fiscal year. Governmental capital assets decreased by $126.5 million and business-type capital assets decreased by $11.8 million. The decrease in governmental capital assets resulted from depreciation expense of $215.0 million for major infrastructure and other assets, partially offset by additions (net) to capital assets of $89.9 million, which included transfers of $7.9 million of properties on Autumn Street and the Circle of Palms public plaza from the SARA to the City for City's governmental use and the purchases of properties with net book value of $2.9 million from the SARA. The properties purchased were Plaza Hotel, Gallup property and Mesa property for the City's affordable housing programs. The decrease in business-type capital assets was primarily due to depreciation expense of $84.0 million, offset by additions (net) to capital assets of $72.3 million primarily at the Wastewater Treatment Facility and at the Airport.

- Current and other assets increased by $58.1 million or 2.3 percent due to an increase of $29.1 million for governmental activities and also an increase of $29.0 million for business-type activities. The increase in current assets for business-type activities is mainly due to an increase in cash and investments, as a result of revenues exceeding expenses by $51.8 million. The increase in governmental activities is mainly due to increases in cash, investments and receivable, as a result of revenues exceeding expenses by $43.7 million for governmental funds.

- Total long-term liabilities (excluding net pension liability) decreased by $67.9 million to $3.331 billion at June 30, 2016, which represents a decrease of 2.0 percent compared to $3.398 billion at June 30, 2015. The primary factors leading to the decrease in long-term liabilities for governmental activities of $34.6 million were the payments of scheduled debt service of $51.8 million, offset by net increases in compensated absences liability of $8.2 million and OPEB liability of $17.7 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of $33.3 million were due to payments of $33.7 million for scheduled debt service and an increase in OPEB liability of $1.0 million.

- Current and other liabilities for the City decreased by $10.9 million or 3.9 percent due to decreases of $8.0 million for governmental activities and $2.9 million for business-type activities. The decreases were primarily due to the payoff of commercial paper notes payable in the amounts $6.3 million and $3.2 million for governmental activities and business-type activities, respectively.

- Net pension liability increased by $579.6 million or 34.1 percent during 2015-2016 to $2.278 billion from $1.699 billion. Deferred outflows of resources related to pensions increased by $283.7 million or 116.2%, and deferred inflows of resources related to pensions decreased by $275.5 million or 99.9% The changes were mainly due to a net loss of $402.8 million between projected and actual investment earnings on plan assets, and an increase of $199.5 million to the total pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.

Unrestricted net position for governmental activities slightly increased by $11.0 million or 0.6 percent with a deficit balance of $1.723 billion at June 30, 2016. Primary factors contributing to the deficit unrestricted net position for governmental activities are the City's net pension liability. For business-type activities, unrestricted net position increased by $92.0 million with a positive balance of $339.4 million at June 30, 2016. The net increase in unrestricted net position in business-type activities was primarily due to revenue exceeding expenses by $51.8 million. Primary factors contributing to the increase are $35.8 million increase in fees and charges for services, and $9.2 million increase in capital grants and contributions.

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, 2016 and 2015
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Revenues:						
Program revenues:						
Fees, fines, and charges for services…………	$ 423,820	$ 398,994	445,372	409,586	869,192	808,580
Operating grants and contributions…………….	107,583	97,467	864	1,266	108,447	98,733
Capital grants and contributions……………….	69,848	129,901	15,437	6,225	85,285	136,126
General revenues:						
Property taxes……………………………………	404,878	384,523	-	-	404,878	384,523
Utility taxes………………………………………	113,474	112,645	-	-	113,474	112,645
Franchise fees……………………………………	48,949	46,909	-	-	48,949	46,909
Transient occupancy taxes………………………	41,125	36,980	-	-	41,125	36,980
Sales taxes shared revenue……………………	201,797	180,407	-	-	201,797	180,407
State of California in-lieu………………………	410	419	-	-	410	419
Business taxes……………………………………	50,864	47,431	-	-	50,864	47,431
Unrestricted interest and investment income….	7,790	4,125	6,383	3,252	14,173	7,377
Other revenue……………………………………	2,103	17,753	2,314	1,747	4,417	19,500
Total revenues…………………………………	1,472,641	1,457,554	470,370	422,076	1,943,011	1,879,630
Expenses:						
General government……………………………	122,363	127,480	-	-	122,363	127,480
Public safety………………………………………	555,072	466,519	-	-	555,072	466,519
Community services……………………………	274,838	236,840	-	-	274,838	236,840
Sanitation…………………………………………	145,516	141,244	-	-	145,516	141,244
Capital maintenance……………………………	395,393	507,523	-	-	395,393	507,523
Interest and fiscal charges………………………	56,768	60,266	-	-	56,768	60,266
Norman Y. Mineta San José International Airport…………………………………………	-	-	201,017	197,786	201,017	197,786
Wastewater Treatment System…………………	-	-	163,985	158,385	163,985	158,385
Municipal Water System…………………………	-	-	36,246	33,885	36,246	33,885
Parking System…………………………………	-	-	13,607	12,714	13,607	12,714
Total expenses…………………………………	1,549,950	1,539,872	414,855	402,770	1,964,805	1,942,642
Excess (deficiency) before transfers…………	(77,309)	(82,318)	55,515	19,306	(21,794)	(63,012)
Transfers………………………………………	3,680	3,501	(3,680)	(3,501)	-	-
Change in net position…………………………	(73,629)	(78,817)	51,835	15,805	(21,794)	(63,012)
Net position at beginning of year, as previously reported	3,759,682	5,452,867	1,130,403	1,311,023	4,890,085	6,763,890
Change in accounting principle…………………	-	(1,614,368)	-	(196,425)	-	(1,810,793)
Net position at beginning of year, as restated	3,759,682	3,838,499	1,130,403	1,114,598	4,890,085	4,953,097
Net position at end of year………………………	$ 3,686,053	$ 3,759,682	1,182,238	1,130,403	4,868,291	4,890,085

Governmental activities: Net position for governmental activities decreased by $73.6 million or 1.5 percent during 2015-2016 from $3.760 billion to $3.686 billion. Total expenses increased by $10.1 million and total revenues increased by $15.1 million. The increase in revenues was 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, 2015 to June 30, 2016 are as follows:

- Contributing factors resulting in increases to certain revenue categories are as follows: Fees, fines, and charges for services increased by $24.8 million or 6.2 percent, due to an increase of $7.9 million in the General Fund, which is explained in more detail in the General Fund section; an increase of $6.9 million in integrated waste management fund due to rate increases for garbage services and an increase of $8.4 million in revenues from additional conference activities in the Convention Center; Operating grants and contributions increased by $10.1 million or 10.4 percent primarily due to an increase of $12.7 million in interest repayment of developer loans in Low and

Moderate Income Housing Asset Fund. Property tax revenue increased by $20.4 million or 5.3 percent due to an increase in assessed property tax valuations. Sales tax revenue increased by $21.4 million or 11.9 percent indicating a modest improvement in consumer spending. Transient occupancy tax receipts from guests staying in the City's local hotels increased by $4.1 million or 11.2 percent. For the fourteen largest hotels in the City, the average room rate increased by approximately 13 percent during the year indicating signs of continued economic recovery.

- Contributing factors resulting in decreases to certain revenue categories are as follows: Capital grants and contributions decreased by $60.1 million or 46.2 percent primarily due to the fact that the transfers of capital assets from the SARA to the City were $68.1 million less when compared to prior fiscal year.

- Unrestricted interest and investment income increased by $3.7 million, an increase of 88.9 percent from the prior year. This is primarily due to a more favorable market condition during the fiscal year compared to the prior fiscal year.

- General government expenses decreased by $5.1 million or 4.0 percent during 2015-2016 due to an increase of $20.3 million in the General Fund, which is explained in more detail in the General Fund section, while in the prior year there was a write-off of construction-in-progress in the amount of $25.9 million for parks and library projects.

- Public safety expenses increased by $88.6 million or 19.0 percent primarily due to an increase in pension expenses of $59.0 million and an increase in the General Fund of $28.6 million, which is explained in more detail in the General Fund section.

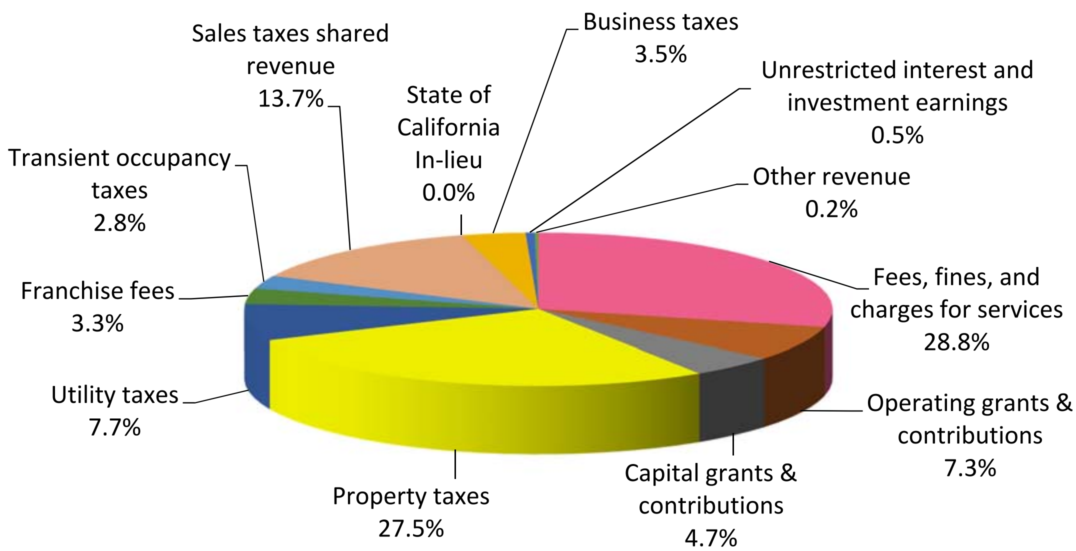
- Community services expenses increased by $38.0 million or 16.0 percent primarily due to an increase of $9.5 million in the General Fund, which is explained in more detail in the General Fund section, an increase of $2.6 million in the Low and Moderate Income Housing Asset Fund due to increases in personnel costs and the costs for homeless programs, an increase of $2.7 million in Housing Activity Fund due to increases in loan loss reserve, an increase of $3.0 million in Transient Occupancy Tax Fund due to an increase of $2.0 million to Team San Jose for marketing and promotion activities, an increase of $2.9 million in depreciation mainly due to an increase of $3.6 million on property SARA transferred to the City in fiscal year 2015, an increase of $8.8 million in pension expenses and an increase of $6.5 million in operating expenses in the Convention Center, which corresponded to increased conference activities and revenues in the Convention Center.

- Sanitation expenses increased by $4.3 million or 3.0 percent primarily due to increase in pension expense of $2.9 million, and an increase of $1.3 million in the Storm Drainage Service Use Charge fund due to increases in personnel expenses.

- Capital maintenance decreased by $112.1 million or 22.1 percent primarily due to an increase of $9.8 million in the General Fund which is explained in more detail in the General Fund section, an increase of $7.8 million in street repaving and maintenance expenses, and an increase of pension expense of $10.8 million. The increases were offset by a decrease in depreciation expense of $150.9 million due to the retirement of certain infrastructure assets for Storm Sewer and Traffic Systems in the previous year.

- Interest and fiscal charges decreased by $3.5 million or 5.8 percent primarily due to the payoff and retirement of long-term obligations. The balance of debt payable for various bonds and loans decreased by $51.8 million or 4.2 percent from the prior year.

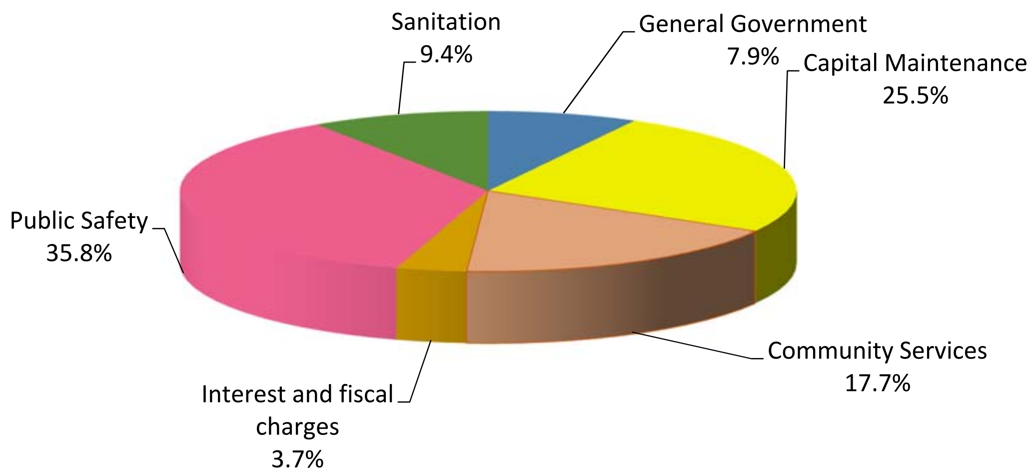
Governmental Activities Revenues 2016



The chart shows the primary components of governmental activities revenue sources for 2015-2016. Of the $1.473 billion in total revenues generated by governmental activities, 77.7 percent is attributable to four categories: property taxes (27.5 percent), fees, fines, and charges for services (28.8 percent), sales taxes (13.7 percent), and utility taxes (7.7 percent). Revenue sources decreased due to capital grants and contributions ($60.1 million), State of California in-lieu fees ($0.1 million), and other revenue ($15.6 million), which decreased compared to the previous year.

The chart below shows the principal categories of 2015-2016 expenses for governmental activities. Of the $1.550 billion in total expenses incurred by governmental activities, the categories accounting for 79.0 percent of the totals are: capital maintenance (25.5 percent); public safety (35.8 percent); and community services (17.7 percent).

Governmental Activities Expenses 2016



Business-type activities: Business-type activities net position increased by $51.8 million or 4.6 percent to $1.182 billion during 2015-2016.

The notable components of the changes in net position for business-type activities during 2015-2016 are:

Airport net position decreased by $8.0 million or 3.95% from $201.8 million to $193.8 million. The decrease was primarily due to operating expenses and interest expenses exceeding operating and non-operating revenues by $13.6 million, offset by an increase of $4.8 million in capital contributions.

The Airport had a net operating income of $12.2 million, an increase of $10.8 million compared to prior year's operating income of $1.4 million.

Operating revenues increased by $16.0 million or 12.7 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 10.2 million passengers travelled through the Airport in 2016 compared to approximately 9.6 million in 2015, resulting in passenger traffic growth of 6.9 percent.

Operating expenses of $129.7 million increased by $5.2 million or 4.1 percent compared to the prior fiscal year due to increases in overhead costs, fees charged by the City for police and firefighting services, and pension expenses. These increases were offset by decreases in interest expense and bond issuance costs. Nonoperating expenses exceeded nonoperating revenues by $25.8 million which represented an increase of $6.8 million from the previous fiscal year. This increase was mainly due to an increase of $1.2 million in CFC revenues, an increase of $1.3 million in passenger facilities charges, an increase of $1.0 million in interest expense, an increase of $1.2 million in other revenues, offset by a decrease of $1.0 million in bond issuance costs and an increase of $1.2 million in investment income.

Wastewater Treatment System net position increased by $55.8 million or 7.3 percent from $768.7 million to $824.4 million. The increase was primarily due to operating revenues exceeding operating expenses by $46.4 million, and an increase of $5.7 million in capital contributions. The largest portion, $544.7 million or 66.1 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 $266.4 million, or 32.3 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 increased $16.3 million primarily due to a 5.5 percent sewer rate increase effective July 1, 2015 ($6.1 million), higher contributions from the Tributary Agencies toward the Water Pollution Control Plant's ongoing maintenance, replacement and debt service costs by $8.9 million and higher recycled-water revenue due to recycled-water rate increases by $1.0 million.

Total operating expenses increased by $6.0 million compared to the prior fiscal year. The increase was due to an increase of $7.61 million in pension expense and increases in personnel expense of $3.4 million to support ramp up in capital implementation activities to rebuild the aging infrastructures of the wastewater system. These changes were offset by decreases in various preliminary engineering studies, condition assessments and master planning update expenses of $2.3 million in the wastewater collection system, decreases in maintenance costs and lower energy prices of $2.5 million and decreases in direct overhead costs of $0.2 million.

Net non-operating revenues increased by $1.1 million primarily due to an increase in fair value of investment. Capital contributions increased by $5.7 million mainly due to available funding appropriated from the U.S. Bureau of Reclamation for construction of wastewater recycling facilities ($5.0 million) and an increase in donated capital assets from developers ($0.9 million) offset by a decrease in Environmental Protection Act grant toward the Japantown Sewer Infrastructure project ($0.2 million).

Municipal Water System net position increased by $1.8 million or 2.2 percent from $83.3 million to $85.1 million. Operating revenues of $37.4 million increased by $0.1 million or 0.2 percent due to higher sales of recycled water which was largely offset by a decrease in sales of potable water due to significant conservation efforts. Operating expenses of $36.2 million increased by $2.3 million or 7.0 percent due to an increase in the cost of wholesale water, for both potable and recycled water, as well as increased costs due to fewer vacancies and higher salary and benefit costs.

Parking System net position increased by $2.2 million or 2.9 percent from $76.7 million to $78.9 million. Operating revenues increased by $0.9 million or 5.7 percent primarily due to the increase in usage of smart meters in the downtown area and increased activity at the Convention Center parking facility resulting from a continued economic recovery. Operating expenses increased by $0.9 million or 7.0 percent reflecting higher general and administrative 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, 2016, the City's governmental funds reported combined fund balances of $1.367 billion, an increase of $43.7 million or 3.3 percent compared to the balance at June 30, 2015. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- $0.4 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.
- $911.0 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.
- $140.4 million is reported as committed fund balance that had been limited by formal Council action to specific purposes.
- $250.0 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.
- $65.4 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, 2016, the General Fund's unassigned fund balance is $65.4 million or 20.5 percent of the $319.0 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, 2016, unassigned fund balance represents 7.6 percent of total General Fund expenditures of $854.6 million, while total fund balance represents 37.3 percent of total General Fund expenditures. At June 30, 2015, the same measures were 8.4 percent and 39.8 percent, respectively.

Consistent with the prior year, revenues exceeded expenditures resulting in an excess of $17.0 million in 2015-2016. The excess was generated through stronger revenues.

In 2015-2016, General Fund revenues of $871.7 million were $63.0 million or 7.8 percent higher than 2014-2015 revenues of $808.7 million. Taxes and special assessments revenues increased by $45.6 million or 7.0 percent. The increase was primarily attributed to the following revenue sources: increases of $16.0 million in property tax due to increased property tax assessments, $21.4 million in sales tax and $3.4 million in business tax due to an improving economy.

License, permits and fines increased by $7.9 million or 12.7 percent primarily due to increases in building and fire code plan inspection fees and multiple housing permits resulting from higher construction activities.

2015-2016 General Fund expenditures of $854.6 million were $61.5 million or 7.8 percent higher than 2014-2015 expenditures of $793.2 million as discussed below.

General government expenditures increased by $20.3 million primarily due to increases in salary costs, and costs associated with PeopleSoft Human Resources and Payroll system upgrade and new budgeting system project.

Public safety expenditures increased by $28.6 million primarily due to higher pension expenses, a one-time lump sum non-pensionable payment equivalent to approximately 2% of sworn personnel base pay, and higher overtime costs incurred due to large vacancy rates.

Community services expenditures increased by $9.5 million mainly due to increases in salary costs for library services to open six days a week effective in fiscal year 2016

Capital outlay expenditures increased by $5.1 million due to the purchase of additional vehicles, radios servers, fire apparatus and Spartan fire engines for police and fire departments.

Capital maintenance expenditures increased by $9.8 million due to increase spending in capital projects associated with streets and road pavement maintenance activities.

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, 2016, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first time homebuyers, was $74.7 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, Fourth Street Apartments, Peacock Commons, Archer Studios, Canoas Terrace, Curtner Studios, Homesafe, Markham Plaza, Plaza Del Sol, Verandas, Corde Terra Village Senior, Willow Glen Senior Housing and Santa Clara Inn. 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 $1.8 million to $86.4 million at June 30, 2016. The increase is primarily due to revenues from intergovernmental ($6.9 million), and investment and other revenues ($8.9 million) exceeding expenditures for community services ($14.0 million). Intergovernmental revenues increased by $1.5 million or 26.8 percent compared to prior year due to more grant funds received from HOME Investment Partnership 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, 2016, the fund's loan receivable balance (net) was $227.4 million. This balance consists mainly of loans to developers for various projects including Almaden Family Apartments, Belovida Apartments, Brookwood Terrace, Cinnabar Commons, Corde Terra Village, Las Ventanas, Oak Tree Village, Pollard Plaza, and Terramina Square. Restricted fund balance increased by $22.0 million to $348.5 million from $326.5 million. The increase is primarily due to interest repayment of developer loans.

On May 26, 2016, the Oversight Board approved the repayment schedule for the SERAF loan borrowed in 2011 in the amount of $12,815,668 plus accrued interest, and also approved a partial reinstatement of the Loan Agreement to restore the moneys loaned from the City's special funds in the amount of $10,000,000, which was subsequently transferred from the City's special funds to the General Fund. The Oversight Board determined that the remaining portion of the SERAF loan borrowed in 2010 in the amount of $52,000,000 plus accrued interest in the amount of $905,351 is not an enforceable obligation. As a result, the Low and Moderate Income Housing Asset fund wrote off the remaining portion of the 2010 SERAF loan and interest receivables along with their corresponding allowances.

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 $141.1 million in special assessment and special tax bonds were outstanding at June 30, 2016. 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 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.

Restricted fund balance increased by $0.6 million from $43.7 million to $44.3 million as of June 30, 2016, due to increase in Transient Occupancy Tax revenue. Total expenditures for 2015-2016 also increased by $0.9 million or 5.5 percent compared to the prior fiscal year primarily due to a significant increase of $2.6 million in capital maintenance for the Convention Center renovation and expansion which is newly funded by the Special Hotel Tax Revenue Bonds (Series 2011) surplus cash and offset by a decrease in Debt Service payments with the maturity of a special assessment bond in September 2014.

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 $1.5 million from $16.3 million to $17.8 million as of June 30, 2016. The increase was primarily due to $1.5 million transfer from Special Assessment District Fund for Commercial Paper redemption related to improvements at San Jose Convention Center.

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, 2016, the unrestricted net position was $36.7 million for the Airport, $266.4 million for the Wastewater Treatment System, $15.5 million for the Municipal Water System and $20.8 million for the Parking System. Net position for proprietary funds increased from $1.130 billion at June 30, 2015 to $1.182 billion at June 30, 2016, resulting in an increase of $51.8 million or 4.6 percent.

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 2015-2016 budgets in June 2015.

During the fiscal year ended June 30, 2016, there was a $43.0 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 $911.5 million were $88.6 million less than the amended budget and $162.1 million less than the original budget due to planned expenditures not occurring in the fiscal year ended June 30, 2016.

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 $7.592 billion at June 30, 2016. 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, 2016, net capital assets decreased by $138.3 million ($126.5 million in governmental activities and $11.8 million in business-type activities) or 1.8 percent compared to net capital assets at June 30, 2015. The decrease in capital assets of $126.5 million in governmental activities is primarily due to depreciation expense of $215.0 million and deletions of capital assets totaling $1.4 million. These decreases were offset by acquisitions of capital assets of $79.1 million and transfers of $7.9 million and purchase of $2.9 million of real properties from the SARA. The decrease of $11.8 million in capital assets in the business-type activities resulted from depreciation expense of $84.0 million, offset by additions of capital projects of $72.3 million at the Airport and within the Wastewater Treatment System.

Total construction-in-progress (CIP) increased by $6.4 million or 8.1 percent from $79.5 million at June 30, 2015 to $86.0 million at June 30, 2016. Construction-in-progress for the governmental activities decreased by $18.9 million or 37.6 percent primarily due to more CIP projects completed and placed into service than new additions to CIP. Two of the larger assets placed into service was the U.S. Patent Office improvements to the City Hall Wing and the Village Square Branch Library, which resulted in $13.8 million and $12.6 million decrease in CIP, respectively. Business-type activities contributed an increase of $25.3 million to the total construction-in-progress as additions to the Airport and the Wastewater Treatment System construction-in-progress totaling $36.1 million was offset by $10.8 million in projects that were completed and placed in service. The completed Airport projects include the following: completion of runway pavement rehabilitation and construction of the Gate 17/18 Sterile Corridor.

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, 2015 and June 30, 2016 (in thousands):

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Land	$ 406,337	$ 388,732	134,926	134,926	541,263	523,658
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	31,411	50,329	54,554	29,209	85,965	79,538
Buildings	1,077,897	1,080,068	1,103,732	1,139,829	2,181,629	2,219,897
Improvements, other than buildings	211,921	205,535	628,459	622,621	840,380	828,156
Infrastructure	3,808,903	3,946,285	-	-	3,808,903	3,946,285
Furniture and fixtures, vehicles, equipment	34,928	26,969	85,892	91,693	120,820	118,662
Property under capital leases	-	-	-	1,076	-	1,076
Total capital assets	$5,571,397	$5,697,918	2,020,445	2,032,236	7,591,842	7,730,154

Commitments outstanding as of June 30, 2016, related to governmental and business-type activities construction in progress totaled approximately $30.0 million and $165.1 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 2015-2016 tax roll was $155.9 billion, which results in a total debt limit of $23.4 billion. As of June 30, 2016, the City had $387.4 million of General Obligation bonds outstanding which represents approximately 1.7% 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 second 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 for these bonds.

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 2015-2016, the City's outstanding long-term debt decreased by $87.6 million to $2.588 billion, comprised of $1.225 billion of governmental activities and $1.363 billion of business-type activities. The balances at June 30, 2015 were $1.279 billion for governmental activities and $1.397 billion for business-type activities, for a total of $2.676 billion. The decrease of $87.6 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, 2016	As of June 30, 2015	Net Change
Governmental Activities:			
General obligation bonds	$ 387,403	$ 407,332	(19,929)
HUD Section 108 loan	957	1,196	(239)
San José Financing Authority			
Lease revenue bonds	579,325	595,743	(16,418)
Lease revenue bonds with			
reimbursement agreement	89,730	100,260	(10,530)
Revenue bonds with			
pledge agreement	27,985	29,880	(1,895)
Special assessment bonds with limited			
governmental commitment	139,435	144,158	(4,723)
Sub-total	1,224,835	1,278,569	(53,734)
Business-Type Activities:			
Revenue bonds	1,352,717	1,382,433	(29,716)
State of CA-Revolving Fund Loan	10,399	14,597	(4,198)
Sub-total	1,363,116	1,397,030	(33,914)
Total:	$ 2,587,951	$ 2,675,599	(87,648)

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 2015-2016 with better operating financial results than expected when the 2015-2016 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 2016, the City Council approved a balanced General Fund budget for fiscal year 2016-2017 with a projected surplus of $6.9 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 2016-2017; 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 and careful management of expenses.

- In order to maintain service level stability, the 2016-2017 Adopted Budget includes funding of $25.3 million in the General Fund ($33.5 million in all funds) for salary increases.

- 2016-2017 redevelopment property tax revenues are forecast to be sufficient to pay debt service obligations of the SARA. The City does not plan to advance any money to the SARA in 2016-2017 to fund the debt service payments for the Convention Center and the 4th and San Fernando Street Garage.

- As reported in the GASB 67/68 Report as of June 30, 2016 prepared by actuaries for the Police and Fire Department Retirement Plan ("PFDRP"), the net position of the Defined Benefit Pension Plan was 72.1% of the total pension liability. The total pension liability was $4.220 billion, and the fiduciary net position was $3.044 billion resulting in a net pension liability of $1.176 billion.

- As reported in the GASB 67/68 Report as of June 30, 2016 prepared by actuaries for the Federated City Employees' Retirement System ("FCERS"), the net position of the Defined Benefit Pension Plan was 50.3% of the total pension liability. The total pension liability was $3.692 billion, and the fiduciary net position was $1.859 billion resulting in a net pension liability of $1.833 billion.

- For funding purposes, as of June 30, 2015, the most recent actuarial valuation date, PFDRP's Postemployment Healthcare Plan had a 15.5 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was $739.8 million and the actuarial value of assets was $114.6 million resulting in a UAAL of $625.2 million. As of June 30, 2015, the most recent actuarial valuation date, FCERS's Postemployment Healthcare Plan had a 25.7 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was $817.7 million and the actuarial value of postemployment healthcare benefit assets was $209.8 million, resulting in a UAAL of $607.9 million.

- For 2016-2017, 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	80.40%	10.97%	81.61%	10.61%	78.06%	6.04%	6.04%	6.04%
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 $149.3 million for PFDRP, and $145.9 million for FCERS Tier 1 members. The prepayment for PFDRP and for FCERS Tier 1 members was paid by the City in July 2016. 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 2016-2017.

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 provided 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

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City of San José
Statement of Net Position
June 30, 2016
($000's)

		Governmental Activities	Business-Type Activities	Total
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	907,777	593,556	1,501,333
Receivables (net of allowances for uncollectibles)		155,699	22,663	178,362
Due from outside agencies		459	-	459
Inventories		995	660	1,655
Loans receivable (net of allowances for uncollectibles)		306,682	-	306,682
Advances and deposits		429	2,968	3,397
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		54,950	110,317	165,267
Cash and investments held with fiscal agent		117,707	110,365	228,072
Other cash and investments		7,973	-	7,973
Receivables (net of allowances for uncollectibles)		-	4,530	4,530
Prepaid bond insurance costs (net of accumulated amortization)		365	6,485	6,850
Long-term receivables from SARA		164,423	6,284	170,707
Other assets		45,445	283	45,728
Capital assets (net of accumulated depreciation):				
Nondepreciable		437,748	202,362	640,110
Depreciable		5,133,649	1,818,083	6,951,732
Total assets		7,334,301	2,878,556	10,212,857
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refundings of debt		1,090	3,397	4,487
Deferred outflows of resources related to pensions		468,238	59,620	527,858
Total deferred outflows of resources		469,328	63,017	532,345
LIABILITIES				
Accounts payable		50,372	20,450	70,822
Accrued liabilities		27,979	3,380	31,359
Interest payable		10,578	23,921	34,499
Due to outside agencies		485	-	485
Short-term notes payable		37,517	34,672	72,189
Unearned revenue		12,201	3,607	15,808
Advances, deposits, and reimbursable credits		6,881	4,773	11,654
Long-term payables to SARA		459	-	459
Other liabilities		30,122	-	30,122
Long-term obligations:				
Due within one year		114,677	41,757	156,434
Due in more than one year		1,795,737	1,378,402	3,174,139
Net pension liability		2,030,227	248,000	2,278,227
Total liabilities		4,117,235	1,758,962	5,876,197
DEFERRED INFLOWS OF RESOURCES				
Gain on refundings of debt		-	373	373
Deferred inflows of resources related to pensions		341	-	341
Total deferred inflows of resources		341	373	714
NET POSITION				
Net investment in capital assets		4,478,760	766,107	5,244,867
Restricted for:				
Debt service		40,539	22,581	63,120
Capital projects		332,746	54,128	386,874
Community services		551,785	-	551,785
Public safety		5,483	-	5,483
Unrestricted (deficit)		(1,723,260)	339,422	(1,383,838)
Total net position	$	3,686,053	1,182,238	4,868,291

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, 2016
($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	$ 122,363	46,952	103	-	(75,308)	-	(75,308)
Public safety	555,072	23,046	6,745	-	(525,281)	-	(525,281)
Community services	274,838	129,905	60,827	-	(84,106)	-	(84,106)
Sanitation	145,516	157,477	1,450	1,250	14,661	-	14,661
Capital maintenance	395,393	66,440	38,458	68,598	(221,897)	-	(221,897)
Interest and fiscal charges	56,768	-	-	-	(56,768)	-	(56,768)
Total governmental activities	**1,549,950**	**423,820**	**107,583**	**69,848**	**(948,699)**	**-**	**(948,699)**
Business -Type activities:							
Norman Y. Mineta San José International Airport	201,017	182,445	497	5,760	-	(12,315)	(12,315)
Wastewater Treatment System	163,985	209,056	367	9,081	-	54,519	54,519
Municipal Water System	36,246	37,368	-	596	-	1,718	1,718
Parking System	13,607	16,503	-	-	-	2,896	2,896
Total business-type activities	**414,855**	**445,372**	**864**	**15,437**	**-**	**46,818**	**46,818**
Total	**$ 1,964,805**	**869,192**	**108,447**	**85,285**	**(948,699)**	**46,818**	**(901,881)**

	Governmental Activities	Business -Type Activities	Total
General revenues:			
Taxes and franchise fees:			
Property and other taxes	404,878	-	404,878
Utility	113,474	-	113,474
Franchise	48,949	-	48,949
Transient occupancy	41,125	-	41,125
Business taxes	50,864	-	50,864
Sales taxes shared revenue	201,797	-	201,797
State of California in-lieu	410	-	410
Unrestricted interest and investment income	7,790	6,383	14,173
Other revenue	2,103	2,314	4,417
Transfers	3,680	(3,680)	-
Total general revenues and transfers	**875,070**	**5,017**	**880,087**
Change in net position	**(73,629)**	**51,835**	**(21,794)**
Net position - beginning	3,759,682	1,130,403	4,890,085
Net position - ending	**$ 3,686,053**	**1,182,238**	**4,868,291**

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

City of San José

Balance Sheet
Governmental Funds
June 30, 2016

($000's)

	General Fund	Housing Activities	Low and Moderate Income Housing Asset
ASSETS			
Equity in pooled cash and investments held in City Treasury	$ 281,607	22,639	91,657
Receivables (net of allowance for uncollectibles)	82,791	976	1,580
Due from outside agencies	459	-	-
Due from other funds	1,450	-	-
Loans receivable (net of allowance for uncollectibles)	1,241	74,669	227,361
Advances and deposits	186	-	-
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	1,277	7,027	-
Cash and investments held with fiscal agent	4,564	-	-
Other cash and investments	-	-	-
Advances to other funds	3,297	-	-
Advances receivables from SARA	26,182	-	13,029
Other assets	-	2,300	21,621
Total assets	$ 403,054	107,611	355,248
LIABILITIES			
Accounts payable	$ 14,105	1,427	523
Accrued salaries, wages, and payroll taxes	23,305	39	191
Due to other funds	-	-	-
Due to outside agencies	373	-	-
Short-term notes payable	-	-	-
Unearned revenues	6,205	-	-
Advances, deposits, and reimbursable credits	7	-	-
Advances from other funds	-	-	-
Long-term advances from SARA	-	-	459
Other liabilities	29,803	-	-
Total liabilities	73,798	1,466	1,173
DEFERRED INFLOW OF RESOURCES	10,217	19,768	5,615
FUND BALANCES			
Nonspendable	186	-	-
Restricted	1,265	86,377	348,460
Committed	84,998	-	-
Assigned	167,239	-	-
Unassigned	65,351	-	-
Total fund balances	319,039	86,377	348,460
Total liabilities, deferred inflows of resources and fund balances	$ 403,054	107,611	355,248

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
-	108	492,104	888,115
39,039	-	31,073	155,459
-	-	-	459
-	-	3,696	5,146
-	-	3,411	306,682
5	-	238	429
13,486	-	33,160	54,950
31,200	49,162	32,781	117,707
-	-	7,973	7,973
-	-	-	3,297
-	9,477	-	48,688
1	4	1,909	25,835
83,731	58,751	606,345	1,614,740
51	-	33,742	49,848
5	-	3,487	27,027
-	-	5,146	5,146
-	112	-	485
-	37,517	-	37,517
-	-	5,996	12,201
1,575	-	5,299	6,881
-	3,297	-	3,297
-	-	-	459
317	-	2	30,122
1,948	40,926	53,672	172,983
37,515	-	1,407	74,522
5	-	238	429
44,263	17,825	412,808	910,998
-	-	55,435	140,433
-	-	82,785	250,024
-	-	-	65,351
44,268	17,825	551,266	1,367,235
83,731	58,751	606,345	1,614,740

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016
($000's)

Total fund balances-governmental funds (Page 25)		$	1,367,235
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	406,337		
Construction in progress	31,411		
Infrastructure assets	11,440,581		
Other capital assets	2,044,921		
Accumulated depreciation	(8,359,174)		
Total capital assets			5,564,076
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.			37,007
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.			115,735
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.			365
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.			1,090
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.			37,515
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.			(10,578)
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.			23,427
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	(1,224,835)		
Accrued vacation, sick leave and compensatory time	(70,057)		
Estimated liability for self-insurance	(142,471)		
Net other postemployment benefits obligation	(425,316)		
Other	(44,420)		
Total long-term obligations			(1,907,099)
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	(2,030,227)		
Deferred outflows of resources	229,338		
Deferred inflows of resources	238,559		
			(1,562,330)
Net position of governmental activities (Page 22)		$	3,686,053

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, 2016
($000's)

	General Fund	Housing Activities	Low and Moderate Income Housing Asset
REVENUES			
Taxes and special assessments	$ 695,359	-	-
Licenses, permits, and fines	69,856	-	-
Intergovernmental	9,103	6,934	-
Charges for current services	48,110	-	-
Rent	-	-	-
Investment Income	4,658	2,495	18,063
Other revenues	44,582	6,376	14,333
Total revenues	871,668	15,805	32,396
EXPENDITURES			
Current:			
General government	92,093	-	-
Public safety	513,921	-	-
Community services	132,115	13,978	10,032
Sanitation	1,690	-	-
Capital maintenance	85,324	-	-
Capital outlay	26,832	-	-
Debt service:			
Principal	1,463	-	-
Interest and fiscal charges	1,200	-	-
Total expenditures	854,638	13,978	10,032
Excess (deficiency) of revenues over (under) expenditures	17,030	1,827	22,364
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	3,848	-	-
Transfers in	10,253	-	-
Transfers out	(28,046)	(77)	(404)
Total other financing sources (uses)	(13,945)	(77)	(404)
Net change in fund balances	3,085	1,750	21,960
Fund balances - beginning	315,954	84,627	326,500
Fund balances - ending	$ 319,039	86,377	348,460

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
20,589	-	166,032	881,980
-	-	-	69,856
-	-	65,096	81,133
-	-	209,102	257,212
-	-	43,284	43,284
190	168	4,450	30,024
341	18,994	4,253	88,879
21,120	19,162	492,217	1,452,368
-	-	16,412	108,505
-	-	2,693	516,614
-	-	85,519	241,644
-	-	143,318	145,008
2,590	-	143,553	231,467
209	-	33,008	60,049
4,790	27,085	20,067	53,405
9,011	30,030	18,766	59,007
16,600	57,115	463,336	1,415,699
4,520	(37,953)	28,881	36,669
-	-	-	3,848
12	39,484	46,812	96,561
(3,975)	(12)	(60,820)	(93,334)
(3,963)	39,472	(14,008)	7,075
557	1,519	14,873	43,744
43,711	16,306	536,393	1,323,491
44,268	17,825	551,266	1,367,235

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, 2016
($000's)

Net change in fund balances--total governmental funds (Page 29)		$ 43,744
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	60,049	
Depreciation expense	(212,684)	
Excess of depreciation expense over capital outlay		(152,635)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)		
Donated assets	16,157	
Transfers from SARA	10,761	
Proceeds from sale of capital assets	(3,848)	
Gain on disposal of assets	2,483	
		25,553
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.		(12,510)
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.		51,764
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	454	
Amortization of premiums and discounts on bonds issued	1,970	
Total net interest expense and amortization of discount/premium		2,424
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.		5,865
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.		(195)
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	(17,678)	
Net increase in vacation, sick leave, and compensatory time	(7,906)	
Net decrease in estimated liability for self-insurance	4,633	
Net decrease in other liabilities	2,158	
Total additional expenditures		(18,793)
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.		(18,642)
Change in net position of governmental activities (Page 23)		$ (73,629)

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, 2016
($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	$ 130,091	419,931	23,444	20,090	593,556	19,662
Receivables (net of allowance for uncollectibles)	11,379	4,698	6,215	371	22,663	240
Prepaid expenses, advances and deposits	217	-	-	-	217	-
Inventories	-	660	-	-	660	995
Total unrestricted current assets	141,687	425,289	29,659	20,461	617,096	20,897
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	99,399	8,847	-	2,071	110,317	-
Cash and investments held with fiscal agent	104,080	6,285	-	-	110,365	-
Receivables (net of allowances for uncollectibles)	4,530	-	-	-	4,530	-
Prepaid expenses, advances and deposits	66	-	-		66	-
Total restricted assets	208,075	15,132	-	2,071	225,278	-
Total current assets	349,762	440,421	29,659	22,532	842,374	20,897
Noncurrent assets:						
Prepaid bond insurance (net of accumulated amortization)	6,478	7	-	-	6,485	-
Advances and deposits	2,968	-	-	-	2,968	-
Long-term receivable from SARA	-	-	-	6,284	6,284	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	96,283	82,386	2,275	21,418	202,362	-
Depreciable	1,216,388	499,818	67,327	34,550	1,818,083	7,321
Total noncurrent assets	1,322,117	582,211	69,602	62,252	2,036,182	7,321
Total assets	1,671,879	1,022,632	99,261	84,784	2,878,556	28,218
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refundings of debt	3,326	71	-	-	3,397	-
Deferred outflows of resources related to pensions	15,145	39,781	3,340	1,354	59,620	-
Total deferred outflows of resources	$ 18,471	39,852	3,340	1,354	63,017	-

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, 2016
($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	$ 3,769	11,915	1,738	981	18,403	524
Accrued liabilities	809	2,311	200	60	3,380	952
Interest payable	6	111	-	-	117	-
Due to SARA	-	-	-	-	-	-
Short-term notes payable	34,672	-	-	-	34,672	-
Accrued vacation, sick leave and compensatory time	1,538	3,806	94	80	5,518	-
Estimated liability for self-insurance	563	557	111	-	1,231	-
Advances and deposits payable	1,459	-	-	92	1,551	-
Unearned revenue	3,607	-	-	-	3,607	-
Loans payable	-	4,275	-	-	4,275	-
Pollution remediation obligation		-	-	-	-	-
Total current liabilities unrestricted	46,423	22,975	2,143	1,213	72,754	1,476
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	2,047	-	-	-	2,047	-
Interest payable	23,674	130	-	-	23,804	-
Current portion of bonds payable, net	24,711	6,022	-	-	30,733	-
Pollution remediation obligation		-	-	-	-	-
Total current liabilities payable from restricted assets	50,432	6,152	-	-	56,584	-
Total current liabilities	96,855	29,127	2,143	1,213	129,338	1,476
Noncurrent liabilities:						
Accrued vacation, sick leave and compensatory time	847	640	81	68	1,636	3,315
Estimated liability for self-insurance	2,245	2,895	592	-	5,732	-
Advance contributions from participating agencies	-	1,788	-	-	1,788	-
Advances, deposits and reimbursable credits	-	-	1,434	-	1,434	-
Loans payable	-	6,124	-	-	6,124	-
Bonds payable (net of premium/discount)	1,300,868	21,116	-	-	1,321,984	-
Net pension liability	81,313	150,287	11,296	5,104	248,000	-
Net other postemployment benefits obligation	14,026	26,069	1,964	867	42,926	-
Total noncurrent liabilities	1,399,299	208,919	15,367	6,039	1,629,624	3,315
Total liabilities	1,496,154	238,046	17,510	7,252	1,758,962	4,791
DEFERRED INFLOWS OF RESOURCES						
Gain on refundings of debt	373	-	-	-	373	-
Deferred inflows of resources related to pensions		-	-	-	-	-
Total deferred inflows of resources	373	-	-	-	373	-
NET POSITION						
Net investment in capital assets	95,800	544,738	69,602	55,967	766,107	7,321
Restricted for debt service	16,332	6,249	-	-	22,581	-
Restricted for capital projects and other agreements	44,977	7,080	-	2,071	54,128	3,040
Unrestricted	36,714	266,371	15,489	20,848	339,422	13,066
Total net position	$ 193,823	824,438	85,091	78,886	1,182,238	23,427

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016
($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	$ 53,896	158,268	37,368	16,503	266,035	112,899
Rentals and concessions	17,576	7,980	-	-	25,556	-
Service connection, engineering and inspection	61,821	3,703	-	-	65,524	-
Operating contributions from participating agencies	-	38,894	-	-	38,894	-
Other	8,661	211	-	-	8,872	-
Total operating revenues	141,954	209,056	37,368	16,503	404,881	112,899
OPERATING EXPENSES						
Operations and maintenance	58,574	106,780	31,895	7,077	204,326	111,452
General and administrative	19,334	27,473	1,706	4,532	53,045	-
Depreciation	51,864	27,795	2,645	1,748	84,052	2,378
Materials and supplies	-	621	-	250	871	-
Total operating expenses	129,772	162,669	36,246	13,607	342,294	113,830
Operating income (loss)	12,182	46,387	1,122	2,896	62,587	(931)
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	20,603	-	-	-	20,603	-
Customer facility charges	19,888	-	-	-	19,888	-
Operating grants	497	-	-	-	497	-
Investment income	2,444	3,562	218	159	6,383	272
Interest expense	(71,245)	(1,297)	-	-	(72,542)	-
Contributions for maintenance reserves	-	367	-	-	367	-
Loss on disposal of capital assets	-	(19)	-	-	(19)	(7)
Other revenues, net	2,031	89	30	164	2,314	18
Net nonoperating revenues (expenses)	(25,782)	2,702	248	323	(22,509)	283
Income (loss) before capital contributions and transfers	(13,600)	49,089	1,370	3,219	40,078	(648)
Capital contributions	5,760	9,081	596	-	15,437	
Transfers in	-	-	22	31	53	1,005
Transfers out	(128)	(2,420)	(162)	(1,023)	(3,733)	(552)
Changes in net position	(7,968)	55,750	1,826	2,227	51,835	(195)
Net position - beginning, as previously reported	201,791	768,688	83,265	76,659	1,130,403	23,622
Net position - ending	$ 193,823	824,438	85,091	78,886	1,182,238	23,427

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, 2016
($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	$ 141,241	182,319	34,643	16,486	374,689	-
Cash received from interfund services provided	-	-	-	-	-	112,787
Payments to suppliers	(50,887)	(59,974)	(28,123)	(9,071)	(148,055)	(91,928)
Payments for employees	(25,251)	(74,823)	(6,157)	(2,404)	(108,635)	(20,151)
Other receipts	2,090	26,441	-	-	28,531	-
Net cash provided by operating activities	67,193	73,963	363	5,011	146,530	708
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	-	-	22	31	53	1,005
Transfer to other funds	(128)	(2,420)	(162)	(1,023)	(3,733)	(552)
Operating grants	699		-	-	699	-
Payments from other funds	-		70	-	70	-
Increase in long-term receivable from SARA	-	-	-	(1,681)	(1,681)	-
Net cash provided by (used in) noncapital and related financing activities	571	(2,420)	(70)	(2,673)	(4,592)	453
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	20,140	-	-	-	20,140	-
Customer facility charges received	19,893	-	-	-	19,893	-
Capital grants received	4,971	5,501	-	-	10,472	-
Acquisition and construction of capital assets	(10,834)	(53,281)	(3,193)	(433)	(67,741)	(2,945)
Principal payment on commercial paper	(3,240)	-	-	-	(3,240)	-
Principal paid on debt	(23,660)	(9,993)	-	-	(33,653)	-
Interest paid on debt	(71,979)	(1,414)	-	-	(73,393)	-
Advances and deposits received	205	-	-	-	205	-
Net cash used in capital and related financing activities	(64,504)	(59,187)	(3,193)	(433)	(127,317)	(2,945)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	18,458	-	-	-	18,458	-
Purchase of investments	(18,463)	-	-	-	(18,463)	-
Interest received	2,186	3,337	207	159	5,889	271
Net cash provided by investing activities	2,181	3,337	207	159	5,884	271
Net change in cash and cash equivalents	5,441	15,693	(2,693)	2,064	20,505	(1,513)
Cash and cash equivalents - beginning	314,159	419,370	26,137	20,097	779,763	21,175
Cash and cash equivalents - ending	$ 319,600	435,063	23,444	22,161	800,268	19,662

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, 2016
($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)	$	12,182	46,387	1,122	2,896	62,587	(931)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:							
Depreciation and amortization		51,864	27,795	2,645	1,748	84,052	2,378
Other nonoperating revenues		2,090		30	134	2,254	18
Decrease (increase) in:							
Accounts receivable		(2,591)	(296)	(2,755)	(151)	(5,793)	(130)
Inventories		-	267	-	-	267	(3)
Prepaid expenses, advances and deposits		14	20	-		34	-
Increase (decrease) in:							
Accounts payable and accrued liabilities		640	(2,526)	(1,130)	328	(2,688)	(963)
Accrued salaries, wages, and payroll			633	69	9	711	-
Accrued vacation, sick leave and compensatory time		-	265	51		316	339
Estimated liability for self-insurance		111	(318)	291	23	107	-
Unearned revenue		2,195	-	-	-	2,195	-
Due to SARA		-	-	-	(20)	(20)	-
Net pension liability, deferred outflows and inflows of pension related resources		688	1,043	(19)	20	1,732	-
Net other postemployment benefit obligation		260	693	59	24	1,036	-
Advances and deposits payable		(260)	-	-	-	(260)	-
Total adjustments		55,011	27,576	(759)	2,115	83,943	1,639
Net cash provided by operating activities	$	67,193	73,963	363	5,011	146,530	708
Reconciliation of cash and cash equivalents to the statement of net position:							
Equity in pooled cash and investments held in City Treasury							
Unrestricted	$	130,091	419,931	23,444	20,090	593,556	19,662
Restricted		99,399	8,847	-	2,071	110,317	-
Cash and investments held with fiscal agent		104,080	6,285	-	-	110,365	-
Less investments not meeting the definition of cash equivalents		(13,970)	-	-	-	(13,970)	-
Cash and cash equivalents	$	319,600	435,063	23,444	22,161	800,268	19,662
Noncash noncapital, capital and related financing, and investing activities:							
Change in operating grants receivable	$	202	-	-	-	202	-
Loss on disposal of capital assets		-	19	-	-	19	(7)
Bond refunding			-	-	-	-	-
Capital contributions from developers		-	3,702	596	-	4,298	-
Amortization of bond discount/premium, and prepaid bond insurance costs		34	236	-	-	270	-
Amortization of deferred outflows/inflows of resources related to bond refundings		364	189	-	-	553	-
Change in capital related payables		(238)	-	-	-	(238)	-
Change in capital related receivables		(789)	-	-	-	(789)	-
Change in fair value of investments		(12)	-	-	-	(12)	-

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, 2016
($000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	$ -	481	5,166
Cash and investments	-	19,625	-
Investments of retirement systems:			
Fixed income	1,019,189	-	-
Collective short-term investments	361,907	-	-
Absolute return	478,628	-	-
Global equity	1,688,463	-	-
Private equity	348,154	-	-
International currency contracts, net	603	-	-
Global tactical asset	298,150	-	-
Private debt	297,624	-	-
Real assets	699,575	-	-
Real estate	5,910	-	-
Total investments of retirement systems	5,198,203	-	-
Receivables:			
Accrued investment income	12,308	-	12
Employee contributions	2,519	-	-
Employer contributions	12,879	-	-
Due from the City of San José	-	20	-
Other	30,280	3,039	-
Restricted cash and investments held with fiscal agent	-	158,725	-
Total current assets	5,256,189	181,890	5,178
Noncurrent assets:			
Advances to the City of San José	-	459	-
Accrued interest	-	861	-
Loans receivables, net	-	4,954	-
Advances and deposits	-	6	-
Property held for resale	-	29,473	-
Capital assets:			
Nondepreciable	-	73,556	-
Depreciable, net	1,873	61,632	-
Total noncurrent assets	1,873	170,941	-
Total assets	5,258,062	352,831	5,178
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding of debt	$ -	26,712	

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, 2016
($000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
LIABILITIES			
Current liabilities:			
Due to the City of San José	$ -	130	-
Accounts payable	-	8,121	-
Accrued salaries and benefits	-	182	-
Due to brokers	3,706	-	-
Accrued interest payable	-	35,089	-
Pass through payable to the County of Santa Clara	-	47,006	-
Unearned revenue	-	162	-
Other liabilities	2,548	11	5,178
Total current liabilities	6,254	90,701	5,178
Long-term liabilities:			
Due within one year	-	205,901	-
Due in more than one year	-	1,843,701	-
Total noncurrent liabilities	-	2,049,602	-
Total liabilities	6,254	2,140,303	5,178
NET POSITION RESTRICTED FOR:			
Employees' pension benefits	4,907,327	-	
Employees' postemployment healthcare benefits	344,481	-	
Redevelopment dissolution and other purposes	-	(1,760,760)	
Total net position	$ 5,251,808	(1,760,760)	

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, 2016
($000's)

	Pension Trust Funds	Private Purpose Trust Funds
ADDITIONS		
Redevelopment property tax revenues	$ -	217,013
Investment income:		
Interest	44,798	821
Dividends	31,242	-
Net rental income	1,778	303
Net change in fair value of plan investments	(112,785)	-
Investment expenses	(33,379)	-
Total investment income (loss)	(68,346)	1,124
Contributions:		
Employer	313,466	-
Employees	73,316	-
Total contributions	386,782	-
Charges for current services	-	761
Development fees	-	425
Gain on sales of property	-	2,689
Grant Revenue	-	11,184
Other	-	2,136
Total additions	318,436	235,332
DEDUCTIONS		
General and administrative	8,570	2,320
Project expenses	-	2,063
Pass through amounts to the County of Santa Clara	-	29,856
Capital contributions to the City of San José	-	9,166
Depreciation	-	2,077
Interest on debt	-	90,462
Allowance Expense	-	17,821
Health insurance premiums	53,026	-
Refunds of contributions	2,117	-
Retirement and other benefits:		
Death benefits	21,613	-
Retirement benefits	336,528	-
Total deductions	421,854	153,765
Extraordinary item from SERAF loan reduction	-	42,905
Change in net position	(103,418)	124,472
Net position restricted for pension, postemployment healthcare benefits and other purposes:		
Beginning of year	5,355,226	(1,885,232)
End of year	$ 5,251,808	(1,760,760)

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 considered to be 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). The SARA is only allocated revenue in the amount that is necessary to meet the enforceable obligations of the former Redevelopment Agency of the City of San José (the "Agency") each year until all enforceable obligations of 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 entirely responsible for the repayment of the Clean Water Financing Authority's outstanding revenue bonds. The Clean Water Financing Authority is blended in the Wastewater Treatment System Fund for financial reporting purposes.

- **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 2015-16.

Separate financial reports for City departments and component units for the fiscal year 2015-16, 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 funds or component units that are fiduciary in nature. 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 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 and the Clean Water Financing Authority.

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 the 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 in 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 and modified accrual basis of accounting. 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. 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 after 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 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 and assumptions.

E. New Pronouncements

During the year ended June 30, 2016, the City implemented the following Governmental Accounting Standards Board (the "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. The City's Retirement Systems' application of Statement No. 72 did not have any major effect on the City's financial statements, except as noted in Note III A.2.

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 non-authoritative 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.* The application of Statement No. 76 did not have any effect on the City's financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The application of Statement No. 79 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 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* ("OPEB"). 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 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.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. Application of Statement No. 78 is effective for the City's fiscal year ending June 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No.14*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. Application of Statement No. 80 is effective for the City's fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. An irrevocable split-interest agreement is one type of split-interest agreement used by donors to provide resources to two or more beneficiaries, including governments. Under an irrevocable split-interest agreement, the donor does not reserve, or confer to another person, the right to terminate the agreement at will and have the donated resources returned to the donor or a third party. This statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of Statement No. 81 is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statement No.67, No. 68, and No. 73.* This statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. Application of Statement No. 82 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.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* the City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

- Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

Pooled Cash and Investments held in City Treasury. The City reports its investments held in the 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, 2016, the total investment income from these investments assigned and transferred to the General Fund was approximately $683,000.

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, such as private equity, commingled real estate funds and certain pooled fund investments, 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 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. Loans Receivable, net

Long-term loans receivable, which consist of the principal amount of the loan plus accrued borrower's deferred interest is reported in the governmental fund statements with an offset to restricted fund balance as resources are not available for expenditure. Long-term loans receivable reported in the governmental activities on the government-wide statement of net position is not offset by unavailable revenue as it is recorded on an accrual basis at its net realizable value based on an estimate of uncollectible amounts for loan losses.

6. 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 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.

7. Advances and Deposits

Amounts deposited in connection with eminent domain proceedings 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.

8. 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.

9. 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 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.

10. 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.

11. 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' statements 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 bargained 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.

12. 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.

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 for represented employees. Similar terms are applicable to eligible unrepresented employees. The tables below summarize the eligibility terms for sick leave payout and the terms governing the amount of the payout.

Bargaining Unit		**Hire Date (on or after)**	**Eligible for Sick Leave Payout?**
Association of Building, Mechanical, and Electrical Inspectors	ABMEI	September 30, 2012	No
Association of Engineers and Architects, IFPTE Local 21	AEA	September 30, 2012	No
Association of Legal Professionals	ALP	September 30, 2012	No
Association of Maintenance Supervisory Personnel, IFPTE Local 21	AMSP	September 30, 2012	No
City Association of Management Personnel, IFPTE Local 21	CAMP	September 30, 2012	No
Confidential Employees' Organization, AFSCME Local 101	CEO	September 30, 2012	No
International Brotherhood of Electrical Workers, Local No. 332	IBEW	September 30, 2012	No
International Union of Operating Engineers, Local No. 3	OE#3	September 30, 2012	No
Municipal Employees' Federation, AFSCME Local 101	MEF	September 30, 2012	No
San José Police Officers' Association	SJPOA	July 7, 2013	No
San José Fire Fighters, IAFF Local 230	IAFF	September 14, 2014	No
Unrepresented Employees	Unit 99 Unit 81/82	September 30, 2012	No

Bargaining Unit		Hire Date (on or before)	Sick Leave Balance[1] Frozen as of:	Rate of Pay[2] Frozen as of:
Association of Building, Mechanical, and Electrical Inspectors	ABMEI	September 29, 2012	June 22, 2013	June 22, 2013
Association of Engineers and Architects, IFPTE Local 21	AEA	September 29, 2012	June 22, 2013	June 22, 2013
Association of Legal Professionals	ALP	September 29, 2012	June 22, 2013	June 22, 2013
Association of Maintenance Supervisory Personnel, IFPTE Local 21	AMSP	September 29, 2012	June 22, 2013	June 22, 2013
City Association of Management Personnel, IFPTE Local 21	CAMP	September 29, 2012	June 22, 2013	June 22, 2013
Confidential Employees' Organization, AFSCME Local 101	CEO	September 29, 2012	June 22, 2013	June 22, 2013
International Brotherhood of Electrical Workers, Local No. 332	IBEW	September 29, 2012	June 22, 2013	June 22, 2013
International Union of Operating Engineers, Local No. 3	OE#3	September 29, 2012	June 22, 2013	June 22, 2013
Municipal Employees' Federation, AFSCME Local 101	MEF	September 29, 2012	June 22, 2013	June 22, 2013
San José Police Officers' Association	SJPOA	July 6, 2013	July 6, 2013	July 6, 2013
San José Fire Fighters, IAFF Local 230	IAFF	September 13, 2014	June 20, 2015	June 21, 2014
Unrepresented Employees	Unit 99 Unit 81/82	September 29, 2012	June 22, 2013	June 22, 2013

[1] For purposes of Sick Leave Payout. Employees will continue to accrue sick leave hours after the "Sick Leave Balance Frozen as of" date, but such accrued sick leave may not be used for sick leave payout purposes. If an employee reduces their sick leave balance below what it was as of the "Sick Leave Balance Frozen as of" date, such employee will not be able to restore their sick leave balance for sick leave payout purposes.

[2] For purposes of Sick Leave Payout. Employees may receive pay increases subsequent to the "Rate of Pay Frozen as of" date, but the employee's sick leave payout will be based on their rate of pay as of the "Rate of Pay Frozen as of" date.

13. 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. The current portion of interfund loans and unsettled service transactions are reported as "due to/from other funds" and the non-current portion is reported as "advances to/from other funds". 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 in the fund receiving revenue or being charged. 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.

14. 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.

15. 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.

16. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, 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.

17. 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, 2016, the government-wide statement of net position reported restricted net position of $930,553,000 in governmental activities and $76,709,000 in business-type activities. Of these amounts $329,337,000 and $23,712,000, 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". When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed.

18. 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.

- *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, the 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.

19. 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 levied 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. The assessed value increases each year by an inflationary rate not to exceed the percentage change for the California Consumer Price Index (CPI), or 2%, whichever is less.”

The City’s net assessed valuation for the year ended June 30, 2016, was approximately $150.9 billion, an increase of approximately 6.6% from the previous year. The City’s tax rate was approximately $0.178 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).

20. 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 Clean Water Financing Authority was established to provide financing for the capital programs of the Plant including the regional water reclamation program.

The Plant provides wastewater treatment services to the City and to six other sewage collection agencies. 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, 2016, the City's portion of the capital and operating costs was approximately 81.7% and the City's interest in the net position of the Plant was approximately 83.7%.

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, 2016, the SARA has a deficit of $1,761,240,000, which will be reduced when future redevelopment property tax revenues are distributed from the Redevelopment Property Tax Trust Fund administered by the County’s Auditor-Controller to pay SARA’s annual enforceable obligations.

B. Deficit Unrestricted Net Position – Governmental Activities

At June 30, 2016, the City reports a deficit unrestricted net position in its Statement of Net Position – governmental activities in the amount of $1,723,260,000. 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 OPEB obligations for OPEB costs in which the actuarial annual required contributions are greater than the amount paid into the OPEB plans to date (see Note IV.A.4.3)

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2016, 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	$ 907,777	$ 593,556	$ -	$ 481	$ 5,166	$ 1,506,980
Cash and investments	-	-	-	19,625	-	19,625
Restricted assets:						
Equity in pooled cash and investments	54,950	110,317	-	-	-	165,267
Cash and investments with fiscal agents	117,707	110,365	-	158,725	-	386,797
Other cash	7,973	-	-	-	-	7,973
Investments of retirement systems	-	-	5,198,203	-	-	5,198,203
Total deposits and investments	$ 1,088,407	$ 814,238	$ 5,198,203	$ 178,831	$ 5,166	$ 7,284,845
Deposits						$ 497
Investments						7,284,348
Total deposits and investments						$ 7,284,845

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 five 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, 2016, was approximately 472 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, 2016, the City's pooled and fiscal agent investments in LAIF was approximately $98,068,000 and the SARA's investments in LAIF was approximately $14,564,000. The weighted average maturity of LAIF was 167 days at June 30, 2016. The total amount recorded by all public agencies in LAIF at June 30, 2016 was approximately $22.7 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The PMIA is not registered with the Securities Exchange Commission ("SEC"), but is required to invest according to California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2016 was approximately $75.4 billion and of that amount, 58.91% was invested in U.S. Treasuries and agencies, 30.41% in depository securities, 9.93% in commercial paper, 0.67% in loans, and 0.08% in mortgages.

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 7, 2016, 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, 2016:

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	1 year *	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 *	30%	5% *
California Local Agency Investment Fund	N/A	State Treasurer Limit	None
Money Market Mutual Funds	N/A	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	20% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	20% *	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 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 $65,000,000.

- Investments in money market mutual funds are limited to those funds registered with the 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, 2016 (dollars in thousands). The credit ratings listed are for Moody's and S&P, respectively.

Type of Investment	Credit Rating	Maturity: Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	Carrying Value
Pooled investments in the City Treasury:						
Treasury Notes	Aaa / AAA	$ -	$ 10,010	$ -	$ 10,489	$ 20,499
Federal Farm Credit Banks	AA+ / AAA	-	15,392	10,001	79,099	104,492
Federal Home Loan Banks	AA+ / Aaa	50,000	17,999	55,151	102,606	225,756
Federal Home Loan Banks - Callable	AA+ / Aaa	-	-	-	13,506	13,506
Federal Home Loan Banks - Discount	AA+ / Aaa	10,000	861	-	-	10,861
Federal Home Loan Mortgage Corporation	AA+ / Aaa	-	41,039	20,115	70,160	131,314
Federal Home Loan Mortgage Corporation - Callable	Aaa / AA+	-	-	10,011	44,062	54,073
Federal National Mortgage Association	AA+ / Aaa	35,000	25,006	-	113,181	173,187
Federal National Mortgage Association - Callable	AA+ / Aaa	-	15,007	-	24,062	39,069
Federal National Mortgage Association - Discount	AA+ / Aaa	10,000	-	-	-	10,000
Farmer MAC	Aaa / AA+	-	-	-	10,049	10,049
Farmer MAC -Discount	Aaa / AA+	13,000	10,298	9,973	-	33,271
Muni Bonds	AA- / Aa3	15,010	-	-	40,946	55,956
Supranational	AAA / Aaa	-	-	10,826	151,118	161,944
Corporate Medium Term Notes	A-1 / A3	16,004	68,127	57,709	191,842	333,682
Commercial paper	P-1 / A-1	-	14,958	19,861	-	34,819
Commercial paper - Discount	P-1 / A-1+	10,000	26,979	29,856	-	66,835
Negotiable certificate of deposit	P-1 / A-1	57,001	20,019	25,019	-	102,039
Money market mutual funds	Aaa-mf	303	-	-	-	303
California local agency investment fund	Not Rated	-	98,068	-	-	98,068
Total pooled investments in the City Treasury		216,318	363,763	248,522	851,120	1,679,723
Investments with fiscal agents:						
Treasury Notes	Aaa / AA+	-	820	2,126	-	2,946
Federal Home Loan Banks - Discount	Aaa / AA+	-	2,908	-	-	2,908
Federal National Mortgage Association	Aaa / AA+	13,968			-	13,968
Federated Treasury Obligation	N/A	35	-	-	-	35
First American Gov't Obligation	N/A	6,147	-	-	-	6,147
First American Treasury Obligation	N/A	443	-		-	443
Money market mutual funds	N/A	17,627	-	-	-	17,627
California local agency investment fund	Not Rated	-	183,998	-	-	183,998
Total investments with fiscal agents		38,220	187,726	2,126	-	228,072
Total Citywide investments (excluding Retirement Systems and the SARA)		$ 254,538	$ 551,489	$ 250,648	$ 851,120	1,907,795
Trust Funds:						
Total investments in Retirement Systems (See page 67)						5,198,203
Total investments in the SARA (See page 152)						178,350
Total investments						$ 7,284,348

Fair Value Measurement Categorization. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The State of California Local Agency Investment Fund and Money Market Mutual Fund are valued by net asset value.

The City has the following recurring fair value measurements as of June 30, 2016:

		Fair Value Measurements Using		
	Carrying Value 6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investments in the City Treasury:				
Investments by fair value level:				
Treasury Notes	$ 20,499	$ 20,499	$ -	$ -
Federal Farm Credit Banks	104,492	-	104,492	-
Federal Home Loan Banks	225,756	95,433	130,323	-
Federal Home Loan Banks - Callable	13,506	-	13,506	-
Federal Home Loan Banks - Discount	10,861	-	10,861	-
Federal Home Loan Mortgage Corporation	131,314	86,302	45,012	-
Federal Home Loan Mortgage Corporation - Callable	54,073	-	54,073	-
Federal National Mortgage Association	173,187	115,210	57,977	-
Federal National Mortgage Association - Callable	39,069	-	39,069	-
Federal National Mortgage Association - Discount	10,000	-	10,000	-
Farmer MAC	10,049	-	10,049	-
Farmer MAC - Discount	33,271	-	33,271	-
Corporate Medium Term Notes	333,682	281,833	51,849	-
Muni Bonds	55,956	19,946	36,010	-
Supranational	161,944	-	161,944	-
Commercial paper - Discount	66,835	-	66,835	-
Commercial paper	34,819	-	34,819	-
Negotiable certificate of deposit	102,039	-	102,039	-
Money market mutual funds	303	303	-	-
Total investments by fair value level	1,581,655	619,526	962,129	-
Investments by NAV:				
California local agency investment fund	98,068			
Total investments by NAV	98,068			
Total pooled investments in the City Treasury	1,679,723	619,526	962,129	-
Investments with fiscal agents:				
Investments by fair value level:				
Treasury Notes	2,946	2,946	-	-
Federal Home Loan Banks - Discount	2,908	-	2,908	-
Federal National Mortgage Association	13,968	13,968	-	-
Federated Treasury Obligation	35	35	-	-
First American Gov't Obligation	6,147	6,147	-	-
First American Treasury Obligation	443	443		
Money market mutual funds	17,627	17,627	-	-
Total investments by fair value level	44,074	41,166	2,908	-
Investments by NAV:				
California local agency investment fund	183,998			
Total investments by NAV	183,998			
Total investments with fiscal agents	228,072	41,166	2,908	-
Total Citywide investments (excluding Retirement Systems and the SARA)	1,907,795	$ 660,692	$ 965,037	$ -
Trust Funds:				
Total investments in Retirement Systems (See page 67)	5,198,203			
Total investments in the SARA (See page 152)	178,350			
Total investments	$ 7,284,348			

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Government agency securities classified in Level 2 of the fair value hierarchy are valued using Interactive Data (IDC) institutional bond pricing techniques. Corporate notes and Supranational classified in Level 2 of the fair value hierarchy are valued using evaluated pricing applications and models, which gather the information from market sources and integrate relative credit information, observed market movements, and sector news. Commercial paper classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique based upon yields and effective maturity. Muni bonds classified in Level 2 of the fair value hierarchy are valued using JJ Kenny municipal pricing technique. Negotiable certificate of deposit classified in Level 2 of the fair value hierarchy are valued using IDC CD pricing, a Multi-dimensional relational model and/or Option Adjusted Spread (OAS).

The State of California Local Agency Investment Fund is part of the State's Pooled Money Investment Account that allows cities, counties and special districts to place money into the fund. LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than $5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal per month.

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, 2016, 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, 2016, 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	6.22%
Federal Home Loan Banks	13.44%
Federal Home Loan Mortgage Corporation	7.82%
Federal National Mortgage Association	10.31%

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, 2016:

Special Assessment Districts:	
Federal Home Loan Banks	9.32%
U.S. Treasury Note	9.44%
Airport:	
Federal Home Loan Banks	13.42%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2016, 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. Each Retirement Board has adopted detailed investment guidelines consistent with the limitations set forth in the Municipal Code. At June 30, 2016, the Retirement Systems' investment target asset allocations are as follows:

	PFDRP - Pension		
Asset Class	**Minimum**	**Target**	**Maximum**
Global and private equity	25%	39%	50%
Global fixed income and private debt	15%	27%	35%
Real asset	12%	17%	25%
Absolute return and global tactical asset	10%	16%	30%
Cash	-	1%	5%

Note: The real assets category includes allocations to real estate, commodities, and other inflation-linked assets. The absolute return category includes allocations to relative value and global macro hedge fund strategies and global tactical asset allocation managers.

	PFDRP - Postemployment Healthcare		
Asset Class	**Minimum**	**Target**	**Maximum**
Global equity	25%	43%	50%
Global fixed income	5%	15%	25%
Absolute return and Global tactical asset allocation	-	20%	25%
Real assets	12%	22%	25%
Cash	-	-	5%

Note: The real assets category includes allocations to commodities, real estate, and other inflation-linked assets. The absolute return/global tactical asset category is currently comprised of three global tactical asset allocation managers who run unconstrained global portfolios.

The fair value of the separate real estate properties are based on annual independent appraisals. As of June 30, 2016, PFDRP's separate real estate property includes an office building in O'Fallon, MO. As of June 30, 2016, the office building in O'Fallon, MO had a mortgage payable with a fair value of $7,836,000. On January 28, 2016, PFDRP sold the First American Title building located in San José, CA for $23,300,000 before closing costs. The sale resulted in a net realized loss of $1,556,000.

	FCERS - Pension		
Asset Class	**Minimum**	**Target**	**Maximum**
Global equity	20%	28%	36%
Private equity	4%	9%	14%
Global fixed income	9%	19%	29%
Private debt	-	5%	10%
Absolute return	6%	11%	16%
Global tactical asset allocation/ Opportunistic	-	5%	7%
Real assets	15%	23%	30%
Cash	-	-	5%

Note: The absolute return and global tactical asset allocation/opportunistic asset class includes 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 this asset class. The real assets asset class includes allocations to real estate, commodities, infrastructure and natural resources.

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

Note: The real assets asset class includes allocations to real estate, commodities, infrastructure and natural resources.

At June 30, 2016, the Retirement Systems held the following investments (dollars in thousands):

	PFDRP	FCERS	Total
Securities and other:			
Fixed income:			
Global fixed income	$ 572,394	$ 446,795	$ 1,019,189
Collective short term investments	228,612	133,295	361,907
Total fixed income	801,006	580,090	1,381,096
Absolute return	225,786	252,842	478,628
Global equity	877,122	811,341	1,688,463
Global tactical assets allocation	298,150	-	298,150
Private equity	261,118	87,036	348,154
Private debt	220,433	77,191	297,624
Real assets	440,167	259,408	699,575
Real estate	5,910	-	5,910
International currency contracts, net	505	98	603
Total investments	$ 3,130,197	$ 2,068,006	$ 5,198,203

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) excluding any commingled funds based on duration as of June 30, 2016, 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	$ 23,446	$ -	$ 75,877	$ 107,874	$ 264,303	$ 41,888	$ 513,388	$ 498,820
Mortgage - backed securities	-	-	-	-	3,882	46,172	50,054	49,194
Corporate bonds	8	-	-	95	-	-	103	58
Other debt securities	-	-	-	2,278	3,972	2,599	8,849	8,596
Total global fixed income	23,454	-	75,877	110,247	272,157	90,659	572,394	556,668
Collective short-term investments	228,612	-	-	-	-	-	228,612	229,483
Total fixed income	$ 252,066	$ -	$ 75,877	$ 110,247	$ 272,157	$ 90,659	$ 801,006	$ 786,151

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	$ 35,326	$ -	$ -	$ 127,152	$ 88,683	$ 31,140	$ 282,301	$ 270,585
Corporate Bonds	-	-	-	2	-	-	2	5
Mortgage-Backed Securities	-	-	-	-	3,538	41,860	45,398	45,445
Other Debt Securities	-	-	-	2,081	3,658	2,401	8,140	8,051
U.S. Treasury Inflation-Protected Securities	5,154	-	16,345	89,455	-	-	110,954	111,967
Total global fixed income	40,480	-	16,345	218,690	95,879	75,401	446,795	436,053
Collective short-term investments	133,295	-	-	-	-	-	133,295	135,466
Total fixed income	$ 173,775	$ -	$ 16,345	$ 218,690	$ 95,879	$ 75,401	$ 580,090	$ 571,519

Custodial Credit Risk – Custodial credit risk is the risk that the Retirement Systems will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party, if that outside party fails. The Retirement Systems do not have a policy regarding custodial credit risk. As of June 30, 2016, 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. The table provides information as of June 30, 2016 concerning credit risk (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**
AAA	$ 537	0.07%	$ 479	0.08%
AA+	3,385	0.42%	114,389	19.72%
A+	2,010	0.25%	1,588	0.27%
A	515	0.06%	462	0.08%
A-	239	0.03%	210	0.04%
BBB+	1,214	0.15%	1,095	0.19%
BBB	2,703	0.34%	2,478	0.43%
BB+	1,437	0.18%	1,316	0.23%
BB	362	0.05%	322	0.06%
BB-	1,533	0.19%	1,385	0.24%
B+	2,726	0.34%	2,448	0.42%
B	2,461	0.31%	2,234	0.39%
B-	1,777	0.22%	1,592	0.27%
CCC	4,249	0.53%	3,845	0.66%
CCC-	1,310	0.16%	1,182	0.20%
D	9,961	1.24%	9,055	1.56%
Not rated	764,587	92.78%	436,010	75.14%
Total	$ 801,006	97%	$ 580,090	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 Systems' investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Systems utilize these contracts to control exposure and facilitate the settlement of internal security purchase and sale transactions. At June 30, 2016, the Systems' net positions in these contracts are recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quote currency prices from national exchanges. The Systems' commitments relating to forward currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2016, 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	$ 29	$ -	$ 3,791	$ -	$ 19	$ 3,839
British Pound Sterling	(183)	-	20,316	-	284	20,417
Canadian Dollar	396	-	5,241	-	106	5,743
China yuan reminbl	-	-	-	-	22	22
Denmark Krone	-	-	8,238	-	-	8,238
Euro Currency	(863)	-	13,672	12,306	64	25,179
Hong Kong Dollar	19	-	1,226	-	-	1,245
Japanese Yen	(388)	-	15,583	-	(44)	15,151
Norwegian Krone	-	-	1,296	-	-	1,296
South Korean Won	-	-	5,471	-	-	5,471
Swedish Krona	(34)	-	2,343	-	(43)	2,266
Swiss Franc	-	-	8,389	-	97	8,486
Total	$ (1,024)	$ -	$ 85,566	$ 12,306	$ 505	$ 97,353

FCERS

Currency Name	Cash	Private Equity	Global Equity	Real Assets	International Currency Contracts, Net	Total Exposure
Australian Dollar	$ 20	$ -	$ 2,158	$ 15,206	$ 7	$ 17,391
Brazilian Real	-	-	-	330	-	330
British Pound Sterling	(127)	-	19,271	31,631	31	50,806
Canadian Dollar	(17)	-	4,149	36,339	29	40,500
Chile Peso	-	-	-	403	-	403
China Yuan Renminbi	-	-	-	-	27	27
Danish Krone	-	-	7,967	-	-	7,967
Euro Currency	(199)	4,370	10,417	24,609	(15)	39,182
Hong Kong Dollar	-	-	700	9,025	-	9,725
Hungarian Forint	-	-	-	55	-	55
Indonesian Rupiah	-	-	-	498	-	498
Israeli Shekel	-	-	-	410	-	410
Japanese Yen	(113)	-	8,887	3,992	4	12,770
Korean Won	-		6,686	473	-	7,159
Malaysian Ringgit	-	-	-	1,412	-	1,412
Mexican Peso	-	-	-	1,135	-	1,135
New Zealand Dollar	-	-	-	774	-	774
Norwegian Krone	-	-	1,560	1,742	-	3,302
Philippine Peso	-	-	-	28	-	28
Polish Zloty	-	-	-	370	-	370
Russian Ruble	-		-	123	-	123
Singapore Dollar	-	-	-	1,450	-	1,450
South African Rand	-	-	-	1,522	-	1,522
Swedish Krona	(44)	-	1,335	613	(27)	1,877
Swiss Franc	-	-	9,576	6,587	42	16,205
Taiwanese new dollar	-	-	-	167	-	167
Thailand Baht	-	-	-	275	-	275
Turkish Lira	-	-	-	19	-	19
Total	$ (480)	$ 4,370	$ 72,706	$ 139,188	$ 98	$ 215,882

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 policies state 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 applicable plan's assets without approval by the applicable Retirement Board, with the exception of passive management, where the applicable plan's assets are not held in the applicable plan's name at the applicable plan's custodial bank, in which case the investment management firm can manage no more than 20% of the applicable plan's assets without approval by the applicable Retirement Board. In addition as a general rule, assets placed with an investment manager should not represent more than 10% of the total assets of the applicable plan managed by that firm, without approval of the applicable Retirement Board. As of June 30, 2016, none of the plans held investments in any one issuer, excluding U.S. Government guaranteed investments that represented 5% or more of the total applicable plan's 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 Board's 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's 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, 2016. 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, 2016, 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

	Net Appreciation in Fair Value of Investments through June 30, 2016		Fair Value at June 30, 2016		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Foreign currency forwards	Investment income	$ 672	International currency contracts, net	$ 505	$ 129,400
Futures options bought/written	Investment income	1,125	Fixed income (domestic and foreign)	-	11,594
Warrants	Investment income	5	Equity income (domestic and foreign)	5	7
Total derivative instruments		$ 1,802		$ 510	

FCERS

	Net Appreciation in Fair Value of Investments through June 30, 2016		Fair Value at June 30, 2016		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Foreign currency forwards	Investment income	$ 778	International currency contracts, net	$ 98	$ 61,803
Future options bought/written	Investment income	2,939	Fixed income, collective short-term investments	-	(25,354)
Rights / Warrants	Investment income	47	Global equity	5	24
Total derivative instruments		$ 3,764		$ 103	

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, 2016:

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, 2016, PFDRP had total commitments in forward currency contracts to purchase and sell international currencies of $129,400,000 and $129,400,000, respectively, with fair values of $128,766,000 and $128,261,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2016, FCERS had total commitments in forward currency contracts to purchase and sell international currencies of $61,803,000 and $61,803,000, respectively, with fair values of $61,412,000 and $61,314,000, respectively, held by counterparties with an S&P rating of at least A and above.

Fair Value Measurements – In Fiscal Year 2016, the Retirement Systems adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

The Systems categorize its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Systems have the following recurring fair value measurements as of June 30, 2016:

PFDRP			Fair Value Measurement Using		
(In Thousands)		6/30/2016	Level 1	Level 2	Level 3
Investments by fair value level					
Global equity	$	254,308	$ 254,308		$ -
Private equity		15,002	7	-	14,995
Real estate		5,910	-	-	5,910
Global fixed income		73,775	14,872	57,785	1,118
Collective short term investments		228,611	228,287	103	221
Private debt		15,691	-	-	15,691
Real assets		7,119	7,119	-	-
International currency contracts, net		505	505	-	-
Global tactical assets allocation		186,046	186,046	-	-
Total investments by fair value level	**$**	**786,967**	**$ 691,144**	**$ 57,888**	**$ 37,935**
Investments Measured at the Net Assets Value (NAV)					
Global equity	$	622,816			
Private equity		247,186			
Global fixed income		498,620			
Private debt		203,671			
Real assets		433,047			
Global tactical assets allocation		112,104			
Absolute return		225,786			
Total investments measured at the NAV		**2,343,230**			
Total investments measured at fair value	**$**	**3,130,197**			

FCERS			Fair Value Measurement Using		
(In Thousands)		6/30/2016	Level 1	Level 2	Level 3
Investments by Fair Value Level					
Global equity	$	462,326	$ 462,326	$ -	$ -
Private equity		15,002	-	-	15,002
Global fixed income		181,872	128,333	52,511	1,028
Collective short term investments		133,294	71,958	60,915	421
Private debt		15,691	-	-	15,691
International currency contracts, net		98	98	-	-
Total investment by fair value level		**808,283**	**662,715**	**113,426**	**32,142**
Investments Measured at the Net Asset Value (NAV)					
Global equity	$	349,014			
Private equity		72,034			
Gloval fixed income		264,923			
private debt		61,501			
Real assets		259,408			
Absolute return		252,843			
Total investments measured at the NAV		**1,259,723**			
Total investments measured at fair value	**$**	**2,068,006**			

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is unobservable by the market place. Many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank for PFDRP or FCERS as applicable.

Alternative Investments

Alternative investments include global equity, private equity, global fixed income, private debt, real assets, and absolute return investments. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner ("GP"). These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in the Retirement Systems' alternative investment programs are classified as Level 3 assets or at the NAV Level. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

Investments in non-public equity securities are valued by the GP using one or more valuation methodologies outlined in GASB 72, depending upon the availability of data required by each methodology. In some cases, the GP may use multiple approaches to estimate a valuation range. For the immediate time period following a transaction, the determination of the fair value for equity securities, in which no liquid trading market exists, can generally be approximated based on the transaction price (absent any significant developments). Thereafter, or in the interim, if significant developments relating to such portfolio company or industry occur which may suggest a material change in value, the GP should value each investment by applying generally accepted valuation methods including: (1) the market approach (such as market transaction and comparable public company multiples, which are based on a measurement of the company's historical and projected financial performance with typical metrics including enterprise value/latest 12 months EBITDA or projected fiscal year EBITDA) or (2) the income or discounted cash flow approach.

The determination of fair value using these methodologies should take into consideration a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. Because of the subjective nature of estimated fair value of the private investments, such value may differ significantly from the values that would have been used had a ready market existed for these investments. These financial instruments have been classified as Level 3 or NAV in the fair value hierarchy.

The valuation method for investments measured at the NAV per share (or its equivalent) is presented in the following tables:

PFDRP

Investments Measured at the NAV As of June 30, 2016 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity	$ 622,814	$ -	Daily, Monthly, Quarterly	1 - 90 Days
Private equity	246,116	63,900	Daily, N/A	1 Day, N/A
Global fixed income	498,619	-	Daily, Monthly, Quarterly	1 - 65 Days
Private debt	204,742	116,650	N/A	N/A
Real assets	433,048	112,950	Monthly, Quarterly, N/A (Closed-end funds)	3 - 90 Days, N/A (Closed-end funds)
Global tactical assets allocation	112,104	-	Monthly	5 Days
Absolute return	225,786	-	Weekly, Monthly, Quarterly	14 - 75 Days
Total investments measured at the NAV	**$ 2,343,229**	**$ 293,500**		

FCERS

Investments Measured at the NAV As of June 30, 2016 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global equity	$ 349,014	$ -	Daily, Monthly, Quarterly	1 - 90 Days
Private equity	72,034	14,400	N/A	N/A
Global fixed income	264,923	-	Daily, Quarterly	1 - 65 Days
Private debt	61,501	31,400	N/A	N/A
Real assets	259,408	39,650	Monthly, Quarterly, Annual, N/A (Closed-end funds)	3 - 180 Days, N/A (Closed-end funds)
Absolute return	252,842	-	Weekly, Monthly, Quarterly	14 - 75 Days
Total investments measured at the NAV	**$ 1,259,722**	**$ 85,450**		

B. Receivables, Net of Allowances

At June 30, 2016, 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	$ 72,606	$ -	$ -	$ -	$ 7,802	$ -	$ 80,408
Accrued interest	629	123	1,558	31	2,453	47	4,841
Grants	1,352	843	-	-	9,203	-	11,398
Special assessments	-	-	-	37,515	-	-	37,515
Other	36,963	13	22	1,498	15,359	203	54,058
Less: allowance for uncollectibles	(28,759)	(3)	-	(5)	(3,744)	(10)	(32,521)
Total receivables, net	$ 82,791	$ 976	$ 1,580	$ 39,039	$ 31,073	$ 240	$ 155,699

Receivables – Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	$ 9,414	$ 4,366	$ 6,634	$ 383	$ 20,797
Accrued interest	374	926	57	51	1,408
Grants	1,920	-	-	-	1,920
Less: allowance for uncollectibles	(329)	(594)	(476)	(63)	(1,462)
Total receivables, net	$ 11,379	$ 4,698	$ 6,215	$ 371	$ 22,663

Special assessment receivables in the amount of $37,515,000 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, 2016 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	$ -	$ -	$ 506,215	$ -	$ 506,215
Loans funded by federal grants	-	75,623	-	5,857	81,480
Economic development, real estate developer and other loans	1,241	55,616	-	-	56,857
Less: allowance for uncollectibles	-	(56,570)	(278,854)	(2,446)	(337,870)
Total loans, net	$ 1,241	$ 74,669	$ 227,361	$ 3,411	$ 306,682

The City uses funds generated from the loan repayment program income 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 loans, 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, 2016.

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, 2016. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2016, amounts committed to extend credit under normal lending agreements totaled approximately $2,935,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2016 (dollars in thousands):

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 388,732	$ 6,843	$ -	$ 10,762	$ 406,337
Construction in progress	50,329	33,895	1,267	(51,546)	31,411
Total capital assets, not being depreciated	439,061	40,738	1,267	(40,784)	437,748
Capital assets, being depreciated:					
Buildings	1,592,494	3,408	-	50,221	1,646,123
Improvements, other than buildings	240,745	849	-	9,804	251,398
Infrastructure	11,420,427	19,518	-	636	11,440,581
Vehicles and equipment	115,956	14,478	5,210	2,143	127,367
Furnitures and fixtures	27,194	160	-	-	27,354
Property under capital leases	11,258	-	-	(11,258)	-
Total capital assets, being depreciated	13,408,074	38,413	5,210	51,546	13,492,823
Less accumulated depreciation for:					
Buildings	512,426	42,520	-	13,280	568,226
Improvements, other than buildings	35,210	6,725	-	(2,458)	39,477
Infrastructure	7,474,142	157,536	-	-	7,631,678
Vehicles and equipment	89,538	8,136	5,105	436	93,005
Furnitures and fixtures	26,643	145	-	-	26,788
Property under capital leases	11,258	-	-	(11,258)	-
Total accumulated depreciation	8,149,217	215,062	5,105	-	8,359,174
Total capital assets, being depreciated, net	5,258,857	(176,649)	105	51,546	5,133,649
Governmental activities capital assets, net	$ 5,697,918	$ (135,911)	$ 1,372	$ 10,762	$ $ 5,571,397
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 134,926	$ -	$ -	$ -	$ 134,926
Intangible assets	12,882	-	-	-	12,882
Construction in progress	29,209	36,097	-	(10,752)	54,554
Total capital assets, not being depreciated	177,017	36,097	-	(10,752)	202,362
Capital assets, being depreciated:					
Buildings	1,634,330	205	-	15,869	1,650,404
Improvements, other than buildings	1,176,140	31,666	-	254	1,208,060
Vehicles and equipment	249,138	4,312	777	1,513	254,186
Property under capital leases	6,884	-	-	(6,884)	-
Total capital assets, being depreciated	3,066,492	36,183	777	10,752	3,112,650
Less accumulated depreciation for:					
Buildings	494,501	43,174	-	8,997	546,672
Improvements, other than buildings	553,519	29,674	-	(3,592)	579,601
Vehicles and equipment	157,445	11,151	758	456	168,294
Property under capital leases	5,808	53	-	(5,861)	-
Total accumulated depreciation	1,211,273	84,052	758	-	1,294,567
Total capital assets, being depreciated, net	1,855,219	(47,869)	19	10,752	1,818,083
Business-type activities capital assets, net	$ 2,032,236	$ (11,772)	$ 19	$ -	$ 2,020,445

2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the fiscal year ended June 30, 2016 is as follows (dollars in thousands):

Governmental activities:		
General government	$	9,324
Public safety		7,600
Capital maintenance		162,810
Community services		32,950
Capital assets held by City's internal service funds		2,378
Total depreciation expense - governmental activities	$	215,062
Business-type activities:		
Norman Y. Mineta San José International Airport	$	51,864
Wastewater Treatment System		27,795
Municipal Water System		2,645
Parking System		1,748
Total depreciation expense - business-type activities	$	84,052

3. Capitalized Interest

Interest costs that are 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, 2016.

4. Construction Commitments

Commitments outstanding as of June 30, 2016, related to governmental and business-type activities construction in progress totaled approximately $30,016,000 and $165,141,000, 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 2022. 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, 2016 amounted to approximately $1,358,000 and $421,000, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2016, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Govermental Activities
2017	$ 1,736	$ 68	$ 1,804
2018	1,445	-	1,445
2019	1,363	-	1,363
2020	525	-	525
2021	247	-	247
2022	73	-	73
Totals	$ 5,389	$ 68	$ 5,457

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, 2016 was approximately $1,322,000.

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, 2016, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Operating Leases
2017	$ 879

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 terminal rate per square foot is calculated based on expenses allocable to the Terminal for each fiscal year divided by the total amount of rentable terminal space. Should there be any net remaining revenues after all other obligations are satisfied, the airlines share of the net remaining revenues shall be applied as a credit to the airline terminal rate for the following fiscal year, thus reducing the rates. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the projected aggregated maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal year.

For the fiscal year ended June 30, 2016, the Airport's revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by approximately $37,115,000. The surplus for fiscal year ended June 30, 2016 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 2018.

Other Airport Leases. In December 2013, the City entered into a ground lease and operating agreement with Signature Flight Support Corporation (Signature), which constructed 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 12, 2013 to December 11, 2063. Signature paid interim ground rental equal to 50% of the base ground rental until November 2015, when the last certificate of occupancy was received, which was earlier than the earlier than the first day of the twenty-fifth full calendar month from the agreement effective date. After the certificates of occupancy were issued, and continuing throughout the term of the agreement. Signature shall pay base ground rental of $2.21 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 $2,310,000 for the fiscal year ended June 30, 2016.

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, 2016, the terms of these operating leases range from one month to 22 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 $85,071,000 for the fiscal year ended June 30, 2016.

The future minimum rentals to be received from the Airport operating leases, as of June 30, 2016, are as follows (dollars in thousands):

Fiscal Year Ending June 30,			Amount
2017			$ 99,301
2018			38,749
2019			37,795
2020			37,174
2021			10,438
2022	-	2026	51,190
2027	-	2031	47,843
2032	-	2036	49,126
2037	-	2041	35,717
2042	-	2046	29,112
2047	-	2051	33,225
2052	-	2056	37,918
2057	-	2061	43,275
2062	-	2063	23,911
Total			$ 574,774

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. As of June 30, 2016, leased assets had historic costs of $1,026,447,000 and accumulated depreciation of approximately $203,222,000.

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, 2016 (dollars in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments ($ millions)	Balance June 30, 2016
Governmental Activities							
City of San Jose							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	$ 71,000	06/06/2001	09/01/2031	5.00-5.13%	2.37	$ 37,840
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	4.25-5.00%	3.87	65,780
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.13-5.00%	3.96	75,190
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	4.00-4.50%	1.54-155	30,900
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.51-3.52	73,810
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-5.50%	3	66,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10-1.11	25,365
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-5.00%	0.3	7,200
							382,085
HUD Section 108 Note (FMC)	Economic Development	25,810	02/10/2005	08/01/2024	Variable	0.00-0.24	957
City of San Jose Financing Authority							
Lease Revenue Bonds:							
Series 2001F (Convention Center)	Refunding	186,150	07/01/2001	09/01/2022	5.00%	10.53-14.73	89,730
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	4.00-4.70%	1.15-1.61	11,140
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	24,910
Series 2008C (Hayes Mansion)	Refunding	10,915	06/26/2008	06/01/2027	Variable	0.11-4.57	10,915
Series 2008D (Taxable) (Hayes Mansion)	Refunding	47,390	06/26/2008	06/01/2025	Variable	2.79-3.90	23,540
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/01/2025	Variable	0.75-1.26	9,110
Series 2008E-2 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/01/2025	Variable	0.75-1.26	9,100
Series 2008F (Taxable) (Land Acquisition)	Refunding	67,195	06/11/2008	06/01/2034	Variable	1.29-3.17	38,395
Series 2011A (Convention Center)	Convention Center	30,985	04/12/2011	05/01/2042	3.00-5.75%	0.43-2.17	30,555
Series 2013A (Civic Center Project)	Refunding	305,535	05/28/2013	06/01/2039	4.00-5.00%	4.11-21.3	297,775
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.75-1.91	28,970
Revenue Bonds:							
Series 2001A (4th & San Fernando Garage)	Parking Facility	48,675	04/10/2001	09/01/2026	4.50-5.25%	1.90-3.21	27,985
							656,890
Special Assessment Bonds							
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.50-5.88%	1.31-2.03	13,505
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	1,760
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	5,765
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	5.80-6.65%	0.33-0.95	10,125
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	4.60-5.25%	0.64-0.94	6,360
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	1.76-7.71	103,590
							141,105
Total Government Activities - Bonds and Notes Payable							**$ 1,181,037**
Business-Type Activities							
Norman Y. Mineta San Jose International Airport							
Revenue Bonds:							
Series 2007A (AMT)	Airport Facilities	$ 545,755	09/13/2007	03/01/2047	5.00-6.00%	5.69-73.50	$ 527,530
Series 2007B	Airport Facilities	179,260	09/13/2007	03/01/2037	4.25-5.00%	2.44-28.80	172,235
Series 2011A-1 (AMT)	Refunding	150,405	07/28/2011	03/01/2034	3.00-5.75%	3.36-21.12	132,970
Series 2011A-2 (Non-AMT)	Refunding	86,380	07/28/2011	03/01/2034	4.00-5.25%	1.91-12.22	76,430
Series 2011B (Taxable)	Refunding	271,820	12/14/2011	03/01/2041	3.72-5.75%	0.08-27.33	262,790
Series 2012A (Non-AMT)	Refunding	49,140	11/08/2012	03/01/2018	1.53%	8.34-8.59	17,045
Series 2014A (AMT)	Refunding	57,350	10/07/2014	03/01/2026	2.00-5.00%	0.05-9.18	56,185
Series 2014B (Non-AMT)	Refunding	28,010	10/07/2014	03/01/2028	5.00%	7.98-10.37	28,010
Series 2014C (Non-AMT)	Refunding	40,285	10/07/2014	03/01/2031	5.00%	7.30-8.86	40,285
							1,313,480
Clean Water Financing Authority							
Revenue Bonds:							
Series 2005A	Refunding	54,020	10/05/2005	11/15/2016	3.75%	5.13-5.80	5,130
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	3.00-3.50%	0.07-5.41	21,420
							26,550
State of California - Revolving Fund Loans	Wastewater Facilities	73,566	06/24/1997	05/01/2019	Variable	1.77-4.35	10,399
							36,949
Total Business-Type Activity - Bonds and Loan Payable							**$ 1,350,429**
Grand Total							**$ 2,531,466**

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.

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 2015-2016 tax roll was $155.9 billion, which results in a total debt limit of $23.4 billion. As of June 30, 2016, the City had $387,403,000 of General Obligation bonds outstanding which represents approximately 1.7% 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, 2016.

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, 2016, the City has recorded approximately $37,515,000 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, 2016, the outstanding conduit multi-family housing revenue bonds issued by the City aggregated approximately $488,739,000.

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 these bonds.

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

Included in long-term debt is $91,060,000 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).

In June 2016, the City Council and the Financing Authority Board each took action to authorize the City Manager to negotiate and execute a purchase and sale agreement to sell the Hayes Mansion real property and the associated furniture, fixtures, equipment, vehicles and art for the purchase price of $47 million and to apply the purchase price proceeds to the redemption of the Series 2008C Bonds and Series 2008D Bonds and other outstanding bonds of the Financing Authority. The negotiations with the proposed purchaser have not concluded and the City is unable to predict if the purchase and sale of the Hayes Mansion real and personal property will be consummated.

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, 2016 are as follows (dollars in thousands):

	Privately-Placed Bonds					
	Balance June 30, 2016		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)		23,540	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008E (Taxable) (Ice Centre)		18,210	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008F (Taxable) (Land Acquisition)		38,395	Bank of America, N.A.	6/26/2017	0.575%	1-Month LIBOR
Total variable rate lease revenue bonds	$	91,060				

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 BofA 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 governing document. Per the terms of the applicable governing document, 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 rate index 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, 2016, 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 respective continuing covenant agreement, the Series 2008C/D/E Bonds and the Series 2008F Bonds will be subject to mandatory tender upon expiration of the respective agreement, at which time the Financing Authority has the obligation to purchase the bonds unless the City negotiates an extension with the applicable bank 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, 2016 are as follows (dollars in thousands):

	July 1, 2015	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Principal Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	$ 401,735	$ -	$ (19,650)	$ 382,085	$ 19,655
Issuance premiums/discounts::					
For issuance premiums	5,597	-	(279)	5,318	279
HUD Section 108 loan	1,196	-	(239)	957	149
San Jose Financing Authority					
Lease revenue bonds	553,835	-	(14,660)	539,175	16,465
Issuance premiums/discounts:					
For issuance premiums	42,515	-	(1,780)	40,735	1,780
For issuance discounts	(607)	-	23	(584)	(23)
Lease revenue bonds with reimbursement agreement agreement (Convention Center)	100,260	-	(10,530)	89,730	11,050
Revenue bonds with pledge agreement (Fourth Street and San Fernando Garage)	29,880	-	(1,895)	27,985	1,980
Special assessment and special tax bonds with limited governmental commitment	145,895	-	(4,790)	- 141,105	5,035
Issuance premiums/discounts:					
For issuance discounts	(1,737)	-	66	(1,671)	(66)
Total long-term debt payable	1,278,569	-	(53,734)	1,224,835	56,304
Other Long-term obligations:					
Hayes Mansion construction loan	1,200	-	-	1,200	-
Lease-purchase agreements	19,173		(1,224)	17,949	1,286
NMTC Financing Obligation	19,677	-	(417)	19,260	428
Arbitrage liability	-	-	-	-	-
Accrued vacation, sick leave and compensatory time	65,126	41,469	(33,223)	73,372	34,810
Accrued landfill postclosure costs	6,045	-	(465)	5,580	465
Estimated liability for self-insurance	147,104	14,273	(18,906)	142,471	21,384
Net other postemployment benefits (OPEB) obligation	407,638	17,678	-	425,316	-
Pollution remediation obligation	483	-	(52)	431	-
Total other long-term obligations	666,446	73,420	(54,287)	685,579	58,373
Governmental activities long-term obligations	$ 1,945,015	$ 73,420	$ (108,021)	$ 1,910,414	$ 114,677

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, 2016, 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, 2016 is approximately $564,861,000, with the final payment due on September 1, 2039.

The City did not issue any GO bonds in fiscal year 2016. 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, respectively. 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, Non-major 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, 2016 are approximately $992,455,000, 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 $89,730,000 as of June 30, 2016.

  Due to SARA's cash flow deficiencies, the City's General Fund paid $9,800,000 to the SARA in order for the SARA to meet its obligation under the reimbursement agreement to the City.

- **4th and San Fernando Parking Facility Project 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 $1,980,000 for balances outstanding as of June 30, 2016. At June 30, 2016, the Financing Authority's bonds payable is $27,985,000, whereas the corresponding receivable from the SARA is $26,005,000.

  Due to SARA's cash flow deficiencies in fiscal year ended June 30, 2016, 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, 2016 is approximately $264,251,000, 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. Due to unanticipated cost increases of the streetlight replacement project, most of the Lease proceeds have been expended on the streetlight replacement project. Any unexpended Lease proceeds at the completion of the streetlight replacement project will be used to pay debt service on the Lease. The other projects that were to be funded under the Lease will be financed through the Finance Authority’s Lease Revenue Commercial Paper Program described in Note III.F.11. 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 Lease as of June 30, 2016 is approximately $23,759,000, 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, 2016 are as follows (dollars in thousands):

	July 1, 2015	Additional Obligations and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San Jose International Airport:					
Revenue bonds	$ 1,337,140	$ -	$ (23,660)	$ 1,313,480	$ 24,700
Issuance premiums/discounts::					
For refunding	-	-	-	-	-
For issuance premiums	21,827	-	(88)	21,739	83
For issuance discounts	(9,702)	-	62	(9,640)	(72)
Clean Water Financing Authority:					
Revenue bonds	32,345	-	(5,795)	26,550	5,855
Issuance premiums/discounts::					
For issuance premiums	823	-	(235)	588	167
State of California - Revolving Fund Loan	14,597	-	(4,198)	10,399	4,275
Accrued vacation, sick leave and compensatory time	6,859	4,241	(3,946)	7,154	5,518
Estimated liability for self-insurance	6,924	998	(959)	6,963	1,231
Net other postemployment benefits (OPEB) obligation	41,890	1,036	-	42,926	-
Pollution remediation obligation	714	-	(714)	-	-
Business-type long-term obligations	$ 1,453,417	$ 6,275	$ (39,533)	$ 1,420,159	$ 41,757

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 ended June 30, 2016 totaled $151,238,000, which is comprised of $72,691,000 of net general airport revenues and $78,547,000 of other available funds. Bond debt service payable from general airport revenues totaled $70,623,000, which is net of $24,829,000 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, 2016 is approximately $2.5 billion, with the final payment due on March 1, 2047.

As of June 30, 2016, the reserve requirement in the general account of the Bond Reserve Fund is satisfied, in part, by approximately $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") that expires March 1, 2018. A surety bond, previously provided by National Public Finance Guaranty Corporation ("NPFG"), as successor to MBIA Insurance Corporation in the amount of approximately $6,600,000 expired on March 1, 2016. The ratings of Ambac and NPFG were downgraded or withdrawn subsequent to the deposit of the respective surety bonds in 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.

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 NPFG 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 sewer revenue bonds. The net system revenues available to pay debt service in the fiscal year ended June 30, 2016 totaled approximately $94,107,000. Bond debt service, plus debt service on the State Revolving Fund Loans (subordinate to the outstanding Clean Water Financing Authority sewer revenue bonds), 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 on the outstanding parity obligations under the Improvement Agreement. 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, 2016 is approximately $29,245,000, with the final payment due on November 15, 2020 and (2) the loans as of June 30, 2016 is approximately $10,732,000 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, 2016 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
2017	$ 19,804	$ 17,851	$ 29,495	$ 28,111	$ 5,035	$ 8,476
2018	19,900	16,964	31,875	26,972	5,305	8,204
2019	19,900	16,081	35,610	25,658	5,580	7,918
2020	19,900	15,176	36,180	24,185	5,885	7,613
2021	19,748	14,260	38,025	22,657	6,205	7,287
2022 - 2026	98,295	57,264	157,545	91,958	27,230	31,280
2027 - 2031	98,265	33,354	117,550	65,822	20,905	25,059
2032 - 2036	73,215	11,114	122,150	40,016	25,215	17,792
2037 - 2041	14,015	728	86,295	10,062	32,035	9,015
2042 - 2046	-	-	2,165	124	7,710	501
Total	$ 383,042	$ 182,792	$ 656,890	$ 335,565	$ 141,105	$ 123,145

	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
2017	$ 1,286	$ 884	$ 24,700	$ 71,022	$ 10,130	$ 1,122
2018	1,352	818	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	1,500	605	27,620	66,562	5,410	116
2022 - 2026	8,723	1,801	165,120	309,657	-	-
2027 - 2031	1,808	238	240,290	259,735	-	-
2032 - 2036	400	36	487,500	170,272	-	-
2037 - 2041	-	-	242,290	49,693	-	-
2042 - 2046	-	-	40,495	10,456	-	-
2047 - 2051	-	-	9,615	577	-	-
Total	$ 17,949	$ 5,810	$ 1,313,480	$ 1,145,058	$ 36,950	$ 3,028

[1] Projected interest payments for variable rate debt are based on the following rates in effect on June 30, 2016:
- HUD Loan (0.87305%)
- Financing Authority Lease Revenue Bonds: Series 2008C (0.92%), Series 2008D (0.987%), Series 2008E (0.987%), and Series 2008F (1.0317%)

[2] Includes fixed spread/fee in addition to index rate in effect on June 30, 2016. 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 expire on November 30, 2018 (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 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 Fifth Amendments to the Site Lease and to the Sublease, both dated as of November 1, 2015, are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, the South San José Police Substation, and the Tech Museum (the “Pledged Properties”).

The annual commitment fee payable to each Bank equals 0.52% per annum of the daily average Stated Amount of the Letter of Credit; 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, 2016, $28,040,000 of tax-exempt commercial paper notes was outstanding at an interest rate of 0.49% and $9,477,000 of taxable commercial paper notes was outstanding at an interest rate of 0.72%. The changes in commercial paper notes during the fiscal year ended June 30, 2016 are as follows (dollars in thousands):

July 1, 2015	Deletions	June 30, 2016
$43,843	$6,326	$37,517

2015 Tax and Revenue Anticipation Note

The City issued a short-term note (the “2015 Note”) to facilitate the prefunding of employer retirement contributions in fiscal 2016. The $100,000,000 note was purchased by Bank of America, N.A. on July 1, 2015 at a variable interest rate. Security for repayment of the 2015 Note was a pledge of the City’s 2015-2016 secured property tax plus all other legally available General Fund revenues available to the City, if required. The City fully repaid the 2015 Note on March 8, 2016.

Business-Type Activities

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 the Reimbursement Agreement, Barclays issued a $65,000,000 LOC supporting the Subordinated Commercial Paper Notes, effective on February 11, 2014. On September 16, 2015, the City reduced the stated amount of the LOC from $65,000,000 to approximately $41,000,000. 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. 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, 2016.

The change in Airport commercial paper notes payable during fiscal year 2016 was as follows (dollars in thousands):

July 1, 2015	Deletions	June 30, 2016	Interest Rate
$37,912	$3,240	$34,672	0.52% - 0.54%

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 $5,580,000 related to the closed landfills is recorded in the government-wide Statement of Net Position as of June 30, 2016. 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 2016, 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, 2015 to October 1, 2016 is provided below:

Coverages	Limit per Occurence	Deductible Per Occurrence
Property, including Business Interruption	$1 billion	$100,000
Flood Zone, Special Flood Hazard Area as defined by the Federal Emergency Management Agency (FEMA)	$25 million per occurrence and annual aggregate	5% of values at risk ($1 million minimum deductible)
Flood, Other Locations	$100 million per occurrence and annual aggregate	$100,000

For the policy period of October 1, 2015 to October 1, 2016, 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, 2015 to December 18, 2016, the City purchased 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, 2016. 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, 2014	$	142,526
Claims and changes in estimates during 2015		34,091
Claims payments		(22,589)
Liability as of June 30, 2015		154,028
Claims and changes in estimates during 2016		15,271
Claims payments and other adjustments		(19,865)
Liability as of June 30, 2016	$	149,434

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 commercial general liability, excess liability and worker's compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

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 are available to Chartis to pay claims within the City's deductible of up to $250,000 per occurrence to an aggreggate maximum loss exposure within coverage limits to the City of $3,900,000. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term. Since March 2010, Chartis has returned $2,599,500 to the Airport. The balance of the North Concourse reserve fund as of June 30, 2016 is $851,000.

The North Concourse Project has been completed and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project are in process. 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 Chartis for major components of the Airport's Terminal Airport Improvement Program ("TAIP") through another OCIP (the TAOP OCIP). 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. Since August 2013, as part of the annual loss reserve analysis by Chartis, a total amount of $1,629,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2016 is $2,116,000.

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, 2016, the City recorded net OPEB obligations totaling $468,242,000 in the government-wide financial statements, of which $425,316,000 is in governmental activities and $42,926,000 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 three active leaking petroleum storage tank sites: Fire Station #5, Las Plumas Warehouse, Family Shelter. As discussed in Note IV.B.1., remediation work related to fuel farms at the Airport was completed as of June 30, 2016. 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, 2016, the government-wide statement of net position reported a net pollution remediation obligation in the amount of $431,000 in governmental 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, 2016 was $417,000. The future minimum lease payments anticipated under the master lease agreement, as of June 30, 2016, are as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2017	$ 428
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	1,327
Total	$ 19,260

G. Interfund Transactions

The composition of interfund balances as of June 30, 2016, 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	$ 1,450	(1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	3,696	(2)
		$ 5,146	

(1) $1,004 represents accrual of gas tax transfers, $25 represents loan payment for convention and cultural facilities, $421 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)
		$ 3,297	

(1) Represents a $3,297 loan to support the Rancho Del Pueblo golf course

3. Long-term Receivables from SARA

On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of $2,050,000,000 of property tax increment in county Supplemental Educational Revenue Augmentation Funds ("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 2009-2010 and $12,800,000 in fiscal year 2010-2011. 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) a combined amount of $74,816,000 to make the SERAF payments ("SERAF Loan"). Sources of the loan were from the City's Low and Moderate Income Housing Fund ($64,816,000) which was specifically authorized by the legislation, and idle moneys from City special funds ($10,000,000). The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

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 Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA. As such, the $10,000,000 portion of the SERAF Loan and its related accumulated interest in the amount $160,000 from the City made by funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA's extraordinary items in 2012. In addition, 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 2012.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan made from the Low and Moderate Income Housing Asset Fund administered by the City in the amount of $52,000,000 should not be reported in the ROPS as an enforceable obligation.

On May 26, 2016, the Oversight Board approved the repayment schedule for the SERAF Loan borrowed in 2011 in the amount of $12,816,000 plus accrued interest, and also approved a partial reinstatement of the Loan Agreement to restore the moneys from the City special funds. Additionally, the Oversight Board determined that the remaining portion of the SERAF Loan borrowed in 2010 in the amount of $52,000,000 plus accrued interest in the amount of $905,000 is not an enforceable obligation. As a result, the Low and Moderate Income Housing Asset Fund wrote off a portion of the SERAF Loan in the amount of $52,905,000. The General Fund paid $10,000,000 plus interest to the City special funds that had funded a portion of the SERAF Loan in fiscal year 2014-2015. Consequently, the General Fund has reinstated an advance to the SARA for portion of the SERAF Loan in the amount of $10,000,000 of principal and $217,000 of accrued interest in fiscal year 2015-2016. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

As of June 30, 2016, total long-term receivables from SARA are as follows (dollars in thousands):

Description			
Advances receivable from SARA:			
SERAF Loan	$	23,246	(1)
Housing obligations funded by commerical paper proceeds		9,477	(2)
Other long-term receivables from SARA:			
Revenue bonds with pledge agreement		26,005	(3)
Lease revenue bonds with reimbursement agreement		89,730	(4)
Reimbursement advance		22,249	(5) *
Total long-term receivables from SARA	$	170,707	

(1) The amount includes $13,029,000 from Low and Moderate Income Housing Asset Fund and $10,217,000 from the General Fund.

(2) 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 $9,341,000, and accrued interest from the Financing Authority of $136,000.

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

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

(5) The long-term receivables related to advances to SARA under the Reimbursement Advance are as follows: $6,284,000 from the Parking System for the 2001A bond debt service payments and accrued interest; $9,800,000 from the General Fund for the 2001F bond debt service payments and accrued interest; $1,615,000 and $4,550,000 from the General Fund for ERAF payments and administrative costs for SARA, respectively.

* *The amount includes $6,095,000 and $172,000 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. 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 $459,000 due from the City as of June 30, 2016.

5. 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, 2016 with explanations of transactions (dollars in thousands):

Between governmental and business-type activities:

Transfer from	Transfer to		Amount	
General fund	Municipal Water System	$	22	(1)
Housing Activities	Parking System		31	(2)
Norman Y. Mineta San José International Airport	General Fund		128	(3)
Wastewater Treatment System	General Fund		387	(4)
	Nonmajor Governmental Funds		2,033	(5)
Municipal Water System	General Fund		28	(6)
	Nonmajor Governmental Funds		134	(7)
Parking System	General Fund		819	(8)
	Nonmajor Governmental Funds		199	(9)
	Internal Service Funds		5	(10)
		$	3,786	

(1) Transfer for the overpayment of late fee collections from water utility customers
(2) Transfer for costs associated with availability of public usage facilities in San José downtown
(3) Transfer for payroll system upgrade
(4) Transfer for administrative costs
(5) Transfer for City Hall debt service payments
(6) Transfer for late fee collections from water utility customers
(7) Transfer for City Hall debt service payments
(8) Transfer of San José Arena parking revenue
(9) Transfer of $121 for City Hall debt service payments and $78 for the Downtown Property and Business Improvement District
(10) Transfer for operating expenses

Between governmental activities:

Transfer from	Transfer to	Amount	
General Fund	San José Financing Authority Debt Service	$ 1,643	(1)
	Nonmajor Governmental Funds	25,381	(2)
	Internal Service Funds	1,000	(3)
Housing Activities	General Fund	4	(4)
	Nonmajor Governmental Funds	42	(5)
Low and Moderate Income Housing Asset	General Fund	25	(6)
	Nonmajor Governmental Funds	379	(7)
Special Assessment Districts	General Fund	162	(8)
	San José Financing Authority Debt Service	3,813	(9)
San José Financing Authority Debt Service	Special Assessment Districts	12	(10)
Nonmajor Governmental Funds	General Fund	8,319	(11)
	Nonmajor Governmental Funds	18,473	(12)
	San José Financing Authority Debt Service	34,028	(13)
Internal Service Funds	General Fund	381	(14)
	Nonmajor Governmental Funds	171	(15)
		$ 93,833	

(1) Transfer for debt service payment for the 2008F bond series
(2) Transfer of $18,186 for City Hall debt service, $7,195 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 for planning and administrative expenditures
(7) Transfer for City Hall debt service payment
(8) Transfer for administrative services
(9) Transfer for interest, principal and fees for the Series 2011 Convention Center bonds payments
(10) Transfer for interest, principal and fees for payments
(11) Various transfers for operations, interest earnings, and capital projects
(12) Transfer of $3,153 for City Hall debt service payments and $15,320 for operations, capital projects, and project savings
(13) Transfer of $8 for fees reimbursement and $34,020 for debt service payments
(14) Transfer of $22 for interest income, $20 for operations, and $339 to close out the Repair and Demolition Fund
(15) Transfer for City Hall debt service payment

H. Deferred Inflows of Resources

As of June 30, 2016, total deferred inflows of resources in the governmental funds related to the following unavailable resources (dollars in thousands):

Description		
General Fund loans receivable	$	10,217
Housing Activities loans receivable		19,768
Low and Moderate Income Housing Asset loans receivable		5,615
Special Assessments receivables		37,515
Community Development Block Grant (CDBG) loans receivable		1,407
Total deferred inflows of resources	$	74,522

I. Governmental Fund Balances

As of June 30, 2016, 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 Fund	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Inventory	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Long-term Receivable	-	-	-	-	-	-	-
Advances & Deposits	186	-	-	5	-	238	429
Subtotal	186	-	-	5	-	238	429
Restricted for:							
Affordable Housing	-	86,377	348,460	-	-	-	434,837
Animal Shelter Project	108	-	-	-	-	-	108
Capital Projects & Improvements	857	-	-	44,263	-	227,913	273,033
Emplyoment/ Training Services	-	-	-	-	-	1,214	1,214
Drug Abuse Prevention & Control	-	-	-	-	-	4,189	4,189
Community Development Services	-	-	-	-	-	4,886	4,886
Crime Prevention & Control	300	-	-	-	-	-	300
Library Services & Facilities	-	-	-	-	-	11,747	11,747
Small Business Loans	-	-	-	-	-	7	7
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	73,504	73,504
Underground Utility Projects	-	-	-	-	-	5,378	5,378
Storm Drainage Projects	-	-	-	-	-	50,649	50,649
Supplemental Law Enforcement Services	-	-	-	-	-	29	29
Debt Service	-	-	-	-	17,825	33,292	51,117
Subtotal	1,265	86,377	348,460	44,263	17,825	412,808	910,998
Committed to:							
Affordable Housing	-	-	-	-	-	-	-
Building Development Fee Program	15,420	-	-	-	-	-	15,420
Capital Maintenance	-	-	-	-	-	-	-
Capital Projects and Improvements	16,286	-	-	-	-	1,541	17,827
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	2,597	2,597
Developement Enhancement	-	-	-	-	-	375	375
Convention Center, Auditorium, Theaters	-	-	-	-	-	12,532	12,532
Employee Compensation Planning	7,876	-	-	-	-	-	7,876
Fire Development Fee Program	5,166	-	-	-	-	-	5,166
Development Fee Program Technology	295	-	-	-	-	-	295
Residential Program Administration	-	-	-	-	-	1,845	1,845
Government Functions/Services	17,413	-	-	-	-	-	17,413
Libraries	-	-	-	-	-	-	-
Police Department Staffing	1,550	-	-	-	-	-	1,550
Public Safety	2,902	-	-	-	-	-	2,902
Community Development Services	8,355	-	-	-	-	8,244	16,599
Fee Supported Programs- Public Works	3,721	-	-	-	-	-	3,721
Sanitation Projects	14	-	-	-	-	28,301	28,315
Sick Lv Pmt Upon Retir	6,000	-	-	-	-	-	6,000
Subtotal	84,998	-	-	-	-	55,435	140,433
Assigned to:							
Financing Authority Debt Service	3,297	-	-	-	-	-	3,297
SARA Debt Service	26,182	-	-	-	-	-	26,182
Developement Enhancement	-	-	-	-	-	20	20
Community & Culture Projects	-	-	-	-	-	4,020	4,020
Hayes Mansion Operations	-	-	-	-	-	12,582	12,582
Ice Center Operations	-	-	-	-	-	-	-
Loans to Other Agencies	1,700	-	-	-	-	-	1,700
Capital Projects & Improvements	-	-	-	-	-	66,163	66,163
San Jose Arena Projects	-	-	-	-	-	-	-
Government Functions/Services	136,060	-	-	-	-	-	136,060
Subtotal	167,239	-	-	-	-	82,785	250,024
Unassigned	65,351	-	-	-	-	-	65,351
Total Fund Balance	**$ 319,039**	**$ 86,377**	**$ 348,460**	**$ 44,268**	**$ 17,825**	**$ 551,266**	**$ 1,367,235**

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 Reserves Policy was amended in May 2013.

The ***Contingency Reserve Fund*** was created to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. The policy established a minimum of three percent of the operating budget as the reserve balance. Any use of the General Fund Contingency Reserve shall require a two-third vote of approval by the City Council. As of June 30, 2016, the contingency amount accounts for $34,500,000 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, 2016, 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, 2016, the emergency reserve amount accounts for $3,392,000 of the unassigned fund balance.

IV. Other Information

A. Defined Benefit Retirement Plans

A. 1. City Sponsored Defined Benefit Pension Plan

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 ("Measure B"). Measure B 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 Retirement Systems; (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 Retirement Systems; 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 and settlement of these legal challenges 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 2A members are those employees who were hired, rehired or reinstated on or after September 30, 2012, but before September 27, 2013. Tier 2A 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. The ordinance of the City Council establishing Tier 2B benefits specifies that the City shall bear an amount equal to the additional costs incurred by the FCERS that the City and the Tier 2B members would have otherwise paid as contributions had those employees been eligible for retiree healthcare defined benefits. Tier 2C members are City employees who were Tier 1 members that separated from City employment and who later were rehired as Tier 2A or Tier 2B employees, but during the period that these employees were Tier 1 employees, they vested in the retiree 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 of service (20 years must have elapsed from date of entry into retirement system to collect pension)	10 years of service	10 years of service (20 years must have elapsed from date of entry into Retirement System to collect pension)	10 years of service
Age/Years of Service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	60 with 10 years of service 50 with 10 years of service and actuarial equivalent reduction	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	60 with 10 years of service 50 with 10 years of service and actuarial equivalent reduction
Early Retirement	50-54 with 20 years of service (Discounted pension)	N/A	50-54 with 20 years of service (Discounted pension)	N/A
Deferred Vested	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with least 25 years of service.)	At least 10 years of service (This applies to members who separate from service before retirement and leave their contributions in the Plan.) Can begin at age 50 with actuarial equivalent reduction	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	At least 10 years of service (This applies to members who separate from service before retirement and leave their contributions in the Plan.) 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 years service: 4% per year of service X final compensation (90% max) •Years of service (year of service = 2080 hours worked)	2.0% x years of service 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. • Years of service (year of service = 2080 hours worked	2.0% x years of service 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	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 1.5% per fiscal year. The first COLA will be prorated based on the number of months retired.	3% per year	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 1.5% per fiscal year. The first COLA will be prorated based on the number of months retired.
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 years of service: 50% of final compensation Next 21-30 years of service: 4% per year of service X final compensation (90% max)	50% of final compensation	<20 years service: 50% of final compensation Beginning of 21st year of service: 3% per year of service X final compensation (90% max)	50% of final compensation
Disability Retirement (Non-Service Connected)				
Minimum Service	2 years of service	5 years of service	2 years	5 years of service
Allowance	<20 years of service: 32% of final compensation plus 1% for each full year in excess of 2. (50% max) >20 years of service: 2.5% x first 20 years of service x final compensation Next 21-30 years of 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%)	<20 years of 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)	2% x years of service x final compensation. (Minimum of 20% and maximum of 50%)

	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
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) and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate 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 years of service 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 compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate 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 years of service and to surviving children : 1 Child: Final compensation x 25% 2 Children: Final compensation x 50% 3 Children: Final compensation x 75% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000 whichever is greater
Death After Retirement	
Service-Connected Disability	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on years of service and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Nonservice-Connected Disability	To surviving spouse/domestic partner: Final Comp x 24% + .75% for each year in excess of 2 (37.5% maximum) and to surviving children: 1 Child: Final compensation x 25% 2 Children:Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
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 of their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

	Police Tier 2
Death Before Retirement	
Nonservice-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
Nonservice-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 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
Nonservice-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

	Police Tier 2
Service-Connected Death	
Service-Connected Death	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 member 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.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

	Fire Tier 1
Death Before Retirement	
Service-Connected Death regardless of years of service	To surviving spouse/domestic partner 37.5% to 45% of member's final compensation depending on years of service and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 50% 3 Children: Final compensation x 75% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000 which ever is greater
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, which ever is greater
Nonservice-Connected Death with more than 2 years 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 compenstion (45% maximum) and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000 which ever 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 years of service 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 compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000 which ever is greater

	Fire Tier 1
Death After Retirement	
Service Retirees Service-Connected Death	To surviving spouse/domestic partner: 37.5% to 45% of member's final compensation depending on years of service and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Nonservice-Connected Death	To surviving spouse/domestic partner: Final compensation x 24% + .75% for each year in excess of 2 (37.5% maximum) and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
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 of their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

	Fire Tier 2
Death Before Retirement	
Nonservice-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
Nonservice-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 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
Nonservice-Connected Death Eligible for Retirement	To surviving spouse/domestic partner: Monthly benefit equivalent to the 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
Service-Connected Death	
Service-Connected Death	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 the member 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

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

	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		
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		
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.)	May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)		
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 = 1739 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		
Cost of Living Adjustments	3% per year	CPI up to 1.5% per year		
Final Compensation	Highest one-year average	Highest three-year average		
Disability Retirement (Service Connected)				
Minimum Service	None	None		
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation)	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 City 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 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.)		

* *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.*

	Federated Tier 1
Death Before Retirement	
Nonservice- 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.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. For members who were at least 55 and had at least 20 years of service at the time of death, or 30 years of service regardless of age, the survivorship allowance to surviving spouse/domestic partner lasts until death.

*If there is an allowance payable to a surviving spouse/domestic partner, no allowance will be paid to surviving children. Surviving children receive a monthly survivorship allowance only when there is no surviving spouse/domestic partner.

	Federated Tier 2, 2B, and 2C
Death Before Retirement	
Nonservice-Connected Death Not Eligible for Retirement	Return of employee contributions, plus interest.
Nonservice-Connected Death 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 System's 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.

Employees Covered - The current membership in the Defined Benefit Pension Plans as of June 30, 2016, is as follows:

FCERS	Tier 1	Tier 2	Tier 2B	Tier 2C	Totals
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently					
receiving benefits*	4,002	-	-	1	4,003
Terminated and/or vested members					
not yet receiving benefits**	1,038	52	114	2	1,206
Active members***	2,162	212	910	13	3,297
Total	7,202	264	1,024	16	8,506

	Police		Fire		
PFDRP	Tier 1	Tier 2	Tier 1	Tier 2	Totals
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently					
receiving benefits*	1,304	-	845	-	2,149
Terminated and/or vested members					
not yet receiving benefits	234	37	44	2	317
Active members	789	122	604	67	1,582
Total	2,327	159	1,493	69	4,048

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

* *1 deferred vested member in Tier 2 have a portion of their benefit under Tier 1*

** *3 retired members in Tier 2 have a portion of their benefit under Tier1.*

*** *35 active members in Tier 2 have a portion of their benefit 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 pensionable and earnable salary to arrive at an actuarially determined contribution ("ADC) 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, 2016 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 for the Tier 1 members to be paid by the City at the beginning of the fiscal year ended June 30, 2016.

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 PFDRP 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 contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the fiscal year ended June 30, 2016 were based on the actuarial valuations performed as of June 30, 2014, except for the period of June 19 through June 30, 2016, which were based on the June 30, 2015 valuation. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2016 are as follows (dollars in thousands):

	PFDRP							
	City				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:								
06/19/16-06/30/16	80.40%	10.97%	81.61%	10.61%	10.59%	10.97%	11.07%	10.61%
07/01/15-06/18/16 (1)	73.01%	11.27%	74.95%	11.17%	11.26%	11.27%	11.83%	11.16%

	FCERS			
	City		Participants	
Defined Benefit Pension Plan	Tier 1	Tier 2	Tier 1	Tier 2
Actuarial Rate:				
06/19/16-06/30/16	78.06%	6.04%	6.47%	6.04%
07/01/15-06/18/16 (1)	66.16%	5.70%	6.33%	5.70%

(1) For Tier 1 members, the actual contribution rates paid by the City for PFDRP and FCERS for fiscal year ended June 30, 2016 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.

	Annual Pension Contribution		
Defined Benefit Pension Plan	**City**	**Participants**	**Total**
PFDRP	$ 132,480	$ 21,508	$ 153,988
FCERS	$ 129,456	$ 15,920	$ 145,376

In fiscal year 2010-2011, the Retirement Systems' Boards approved the establishment of a "floor funding method", commencing with fiscal year 2011-2012, 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. The resolutions adopted by the Retirement Systems' Boards setting the contribution rates for the pay periods in fiscal year ended June 30, 2016 provide that the employer's contribution rates for the Tier 1 members may be adjusted in order to achieve a minimum dollar contribution for that fiscal year. The "floor funding methodology" does not apply to Tier 2 members of PFDRP and FCERS.

The City's ADC for PFDRP determined in the June 30, 2014 valuation for the fiscal year ended June 30, 2016 was the greater of $129,769,000 (if paid at the beginning of the fiscal year) or 73.01% for Police Tier 1 members and 74.95% for Fire Tier 1 of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The total actuarial payroll for Police Tier 1 and Fire Tier 1 for the fiscal year was $181,851,000 ($105,928,000 for Police Tier 1 and $75,923,000 for Fire Tier 1). The actual payroll for the fiscal year of $175,506,000 was less than the actuarial payroll of $181,851,000, resulting in an annual contribution of $129,769,000, as of July 1, 2015.

The City's ADC for FCERS Tier 1 determined in the June 30, 2014 valuation for fiscal year ended June 30, 2016 was the greater of $119,438,000 (if paid at the beginning of the fiscal year) or 66.16% 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 $188,343,000 was greater than the actuarial payroll of $186,762,000 resulting in an additional contribution of $1,046,000 as of July 1, 2015, including year end accruals, contributions receivable and prior year contribution adjustments.

On May 7, 2015, the PFDRP Board approved a funding policy for Police Tier 2 and Fire Tier 2 setting the Police Tier 2 ADC to be 11.27% of actual payroll and Fire Tier 2 annual required contribution to be 11.17% of actual payroll. The actual payroll for Police Tier 2 for the fiscal year of $8,928,000 resulted in an annual contribution of $1,006,000, excluding year end accruals, contributions receivable and other adjustments. The actual payroll for Fire Tier 2 for the fiscal year of $2,143,000 resulted in an annual contribution of $239,000, excluding year end accruals, contributions receivable and prior year contribution adjustments.

The FCERS Board approved ADC for FCERS Tiers 2, 2B and 2C for fiscal year ending June 30, 2016 was 5.7% of actual payroll, as determined in the June 30, 2014 valuation. Actual employer contributions for the fiscal year ended June 30, 2016 were $3,968,000, allocated to Tiers 2, 2B and 2C in the amount of $880,000, $3,034,000 and $54,000, respectively, including year end contributions receivable and prior year accruals, contribution adjustments.

In January and February 2016, the Retirement Systems' Boards approved a revised funding methodology to calculate the payment of ADC for FCERS and PFDRP Tier 1 pension benefits. The revised funding methodology calculates the unfunded actuarial liability portion of the ADC as a dollar amount as recommended by the actuary in the annual valuation report and approved by the applicable Board, and calculates the Normal Cost (including administrative expense) portion of the ADC as the greater of (1) the dollar amount for Normal Cost as recommended by the actuary in the annual valuation report and approved by the applicable Board or (2) the employer Normal Cost contribution rate in the annual actuarial valuation report multiplied by the actual pensionable payroll in the applicable fiscal year. The revised funding methodology, referred to as a "split funding method" applies to the ADC for the payroll periods in fiscal year 2016-2017, commencing on June 19, 2016.

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, 2015. The City's net pension liability as of June 30, 2016 of each of the Defined Pension Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 and rolled forward to June 30, 2015 using standard update procedures by the actuary for the respective plans. In summary, the City's net pension liability at June 30, 2016 is as follows (dollars in thousands):

PFDRP	$ 866,447
FCERS	1,410,743
CalPERS	1,037
Total net pension liability	$ 2,278,227

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, 2015, were as follows[1] (dollars in thousands):

	Increase (Decrease)		
PFDRP	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2014	$ 3,737,364	$ 3,168,173	$ 569,191
Changes for the Year:			
Service costs	74,895	-	74,895
Interest	262,738	-	262,738
Contributions-employer	-	129,279	(129,279)
Contributions-employees	-	20,747	(20,747)
Expected return on assets	-	220,725	(220,725)
Difference between expected and actual experience	21,457	-	21,457
Net difference between projected and actual investment earnings	-	(248,415)	248,415
Changes of assumptions	56,311	-	56,311
Benefit payments, including refunds of member contributions	(176,253)	(176,253)	-
Administrative expenses	-	(4,191)	(4,191)
Net Changes	239,148	(58,108)	297,256
Balance at 6/30/2015	$ 3,976,512	$ 3,110,065	$ 866,447

[1] *The schedules of changes in the net pension liability as of June 30, 2016 are presented in the Required Supplementary Information.*

	Increase (Decrease)		
FCERS	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2014	$ 3,115,648	$ 1,987,237	$ 1,128,411
Changes for the Year:			
Service costs	46,795	-	46,795
Interest	221,690	-	221,690
Contributions-employer	-	114,751	(114,751)
Contributions-employees	-	13,621	(13,621)
Expected return on assets	-	137,727	(137,727)
Difference between expected and actual experience	13,005	-	13,005
Net difference between projected and actual investment earnings	-	(154,369)	154,369
Changes of assumptions	108,674	-	108,674
Benefit payments, including refunds of member contributions	(164,562)	(164,562)	-
Administrative expenses	-	(3,898)	(3,898)
Net Changes	225,602	(56,730)	282,332
Balance at 6/30/2015	$ 3,341,250	$ 1,930,507	$ 1,410,743

Sensitivity of the Net Pension Liabilities to Changes in Discount Rates - The discount rates used to measure the total pension liabilities were 7.00%, for both the PFDRP and FCERS plans. 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 funding policy of each board. 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 following presents the net pension liabilities, calculated using the discount rates of 7.00% 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 one percentage point lower (6.00%) or one percentage point higher (8.00%) than the rates used, for the PFDRP and FCERS plans, respectively (dollars in thousands):

PFDRP - Sensitivity Analysis	**1% Decrease (6.00%)**	**Measurement Date Rate (7.00%)**	**1% Increase (8.00%)**
Total pension liability	$ 4,544,353	$ 3,976,512	$ 3,512,652
PFDRP fiduciary net position	3,110,065	3,110,065	3,110,065
Net pension liabiltiy	$ 1,434,288	$ 866,447	$ 402,587
PFDRP fiduciary net position as a percentage of the total pension liability	68.4%	78.2%	88.5%

FCERS - Sensitivity Analysis	**1% Decrease (6.00%)**	**Measurement Date Rate (7.00%)**	**1% Increase (8.00%)**
Total pension liability	$ 3,792,738	$ 3,341,250	$ 2,969,798
FCERS fiduciary net position	1,930,507	1,930,507	1,930,507
Net pension liabiltiy	$ 1,862,231	$ 1,410,743	$ 1,039,291
FCERS fiduciary net position as a percentage of the total pension liability	50.9%	57.8%	65.0%

For their respective actuarial valuations as of June 30, 2015, both FCERS and PFDRP utilized a discount rate of 7.00%. For more details on the current discount rate, please refer to the separately issued annual reports of FCERS and PFDRP.

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

Pension Expense – For the year ended June 30, 2016, the City recognized pension expenses as follows (dollars in thousands):

	FCERS	**PFDRP**	**Total**
Service costs	$ 46,795	$ 74,895	$ 121,690
Interest	221,690	262,738	484,428
Difference between expected and actual experience	3,251	4,291	7,542
Changes of assumptions	27,169	11,262	38,431
Contributions-employee	(13,621)	(20,747)	(34,368)
Expected return on assets	(137,727)	(220,725)	(358,452)
Current year amortization of net difference between projected and actual investment earnings	3,408	8,254	11,662
Administrative expenses	3,898	4,191	8,089
Total pension expense	**$ 154,863**	**$ 124,159**	**$ 279,022**

Deferred outflows/inflows of resources – As of June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources (dollars in thousands):

Deferred Outflows - PFDRP

	Contributions subsequent to measurement date	**Difference Between Expected and Actual Experience**	**Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments**	**Changes of Assumptions**	**Total**
2017	$ 132,480	$ 4,292	$ 8,254	$ 11,262	$ 156,288
2018	-	4,292	8,254	11,262	23,808
2019	-	4,291	8,254	11,262	23,807
2020	-	4,291	49,683	11,262	65,236
	$ 132,480	$ 17,166	$ 74,445	$ 45,048	$ 269,139

Deferred Outflows - FCERS

	Contributions subsequent to measurement date	Difference Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Total
2017	$ 126,045	$ 3,251	$ 3,408	$ 27,169	$ 159,873
2018	-	3,251	3,408	27,169	33,828
2019	-	3,251	3,408	27,169	33,828
2020	-	-	30,873	-	30,873
	$ 126,045	$ 9,753	$ 41,097	$ 81,507	$ 258,402

As of June 30, 2016, $132,480,000 and $126,045,000 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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense shown in the tables above (dollars in thousands).

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 7.00% was 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 target asset allocation for each plan as of the measurement date of June 30, 2015, are summarized in the following tables:

PFDRP

	Target Asset Allocation	Long-Term Expected Real Rate of Return (net of fees)
Global equity	31%	5.0%
Private equity	8%	6.3%
Global fixed income	16%	1.7%
Private debt	11%	4.8%
Real assets	17%	3.8%
Absolute return	6%	3.5%
Global tactical asset allocation	10%	3.7%
Cash	1%	0.0%
Total	100%	

FCERS

	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	28%	7.8%
Private equity	9%	9.6%
Global fixed income	19%	3.0%
Private debt	5%	7.0%
Real assets	23%	6.7%
Absolute return	11%	6.5%
Global tactical asset allocation	5%	5.1%
Cash	0%	2.2%
Total	100%	

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, 2016 are from the actuarial valuation report with a valuation date of June 30, 2014:

	PFDRP	FCERS
Description	**Method/Assumption**	**Method/Assumption**
Measurement date	June 30, 2015	June 30, 2015
Valuation date	June 30, 2014	June 30, 2014
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Actuarial assumptions:		
Inflation rate	3.00%	2.50%
Discount rate	7.00% per annum (net of investment expenses)	7.00% per annum
Post-retirement mortality		For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality table 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 Combined Healthy Mortality Table with no collar adjustment, projected to 2010 using scale AA and set back 3 years for male and no setback for females	
(b) Disability:	RP-2000 Combined Healthy Male Mortality Table with no collar adjustment, projected to 2010 scale AA and set back 2 years	
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2014, actuarial experience analysis	Tables based on current experience
Salary increases		
Wage Inflation	3.25% for all years	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Merit Increase	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%	For the amortization schedule, payroll is assumed to grow 2.85% 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 the California Public Employees' Retirement Law, 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.

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 the Public

Employees' Pension Reform Act of 2013 plan ("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, California Government Code Sections 20000-21703.

The CalPERS plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Classic Plan	**PEPRA Plan**
Hire date	Prior to January 1, 2013	On or after 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	8.003% + $98,312 for unfunded liability	6.24%

As of June 30, 2016, there were four current San José City Council members enrolled in the Classic Plan and four 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, 2016, the amount contributed to the CalPERS plans' were as follows (dollars in thousands):

	Classic Plan	PEPRA	Total
Contributions - employer	$ 135	$ 21	$ 156
Contributions - employee (paid by employer)	26	21	47
Total	$ 161	$ 42	$ 203

***Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*[2]**

As of June 30, 2016, the City reported net pension liabilities of $1,037,000 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, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation

[2] *Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2015 prepared by CalPERS.*

as of June 30, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows (dollars in thousands):

	Classic Plan	
Proportion - June 30, 2014	$	1,056
Proportion - June 30, 2015		1,037
Change - Increase (Decrease)	$	(19)

For the year ended June 30, 2016, the City recognized pension expense of $31,000. At June 30, 2016, 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	$	156	$	-
Differences between actual and expected experience		6		-
Changes in assumptions		-		(60)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		-		(106)
Net differences between projected and actual earnings on plan investments		155		(175)
Total	$	317	$	(341)

$156,000 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, 2017. 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 Outflows of Resources		Deferred Inflows of Resources	
2017	$	197	$	(118)
2018	$	41	$	(117)
2019	$	40	$	(106)
2020	$	39	$	-
Total	$	317	$	(341)

Actuarial Assumptions[3] – The total pension liability in the June 30, 2014 actuarial valuations was determined for the Classic and PEPRA Plans using the following actuarial assumptions:

[3] *Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2015 prepared by CalPERS.*

	Classic Plan
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Method
Actuarial Assumptions Discount	
Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
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, 2014 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.

Change of Assumption[4] – According to Paragraph 68 of GASB Statement 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate* – The discount rate used to measure the total pension liability was 7.65% 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 of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 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 CalPERS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10

[4] *Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2015 prepared by CalPERS.*

years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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. The target allocation shown was adopted by the CalPERS Board effective July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51%	5.25%	5.71%
Global Debt Securities	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	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 (6.65%)**	**Measurement Date Discount Rate (7.65%)**	**1% Increase (8.65%)**
Net pension liability	$ 1,741	1,037	458

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports as of June 30, 2015.

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 53 participants in the 401(a) plan as of June 30, 2016. In 2015-2016, the City and the participating employees contributed $113,000 to the 401(a) plan. As of June 30, 2016, the balance of the 401(a) plan was $507,000.

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, 2016, is as follows:

	Police		Fire		
PFDRP	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Totals**
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits*	1,222	-	798	-	2,020
Terminated and/or vested members not yet receiving benefits	10	-	1	-	11
Active members	790	121	604	67	1,582
Total	2,022	121	1,403	67	3,613

* *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.*

FCERS	Tier 1	Tier 2	Tier 2B	Tier 2C	Totals
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently					
receiving benefits**	3,461	-	-	-	3,461
Terminated and/or vested members					
not yet receiving benefits	151	-	-	-	151
Active members***	2,162	212	13	-	2,387
Total	5,774	212	13	-	5,999

*** Payees that have health and/or dental coverage.*

**** 35 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, examples include assumptions about future employment, mortality, 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 Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount for the Tier 1 members to be paid by the City at the beginning of the fiscal year ended June 30, 2016.

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 provided 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 of not more than 0.75% of pensionable pay for the fiscal year ending June 30, 2014. The 0.75% limitation was initially extended to December 20, 2014, and then to December 2015. In December 2015, the FCERS Board approved to extend the fiscal year 2014-2015 healthcare rates until the implementation of the settlement of the Measure B litigation, referred to as the “Alternative Pension Reform Framework Settlement Agreement.” The Alternative Pension Reform Framework Settlement

Agreement provided that, if it had not been implemented by June 19, 2016, that the City may decide that the City and employees would begin to contribute the full ARC on June 19, 2016. As discussed more fully below in Note IV B.8 the Alternative Pension Settlement Framework was not implemented on or before June 19, 2016. The City decided that it would not implement the full ARC on June 19, 2016. The FCERS Board approved the extension of the phase-in rates in March 2016.

Both the Police and Fire members of PFDRP have entered into agreements with the City to phase-in the contribution of the full ARC. Effective June 26, 2011, the Fire members entered into an agreement with the City to phase-in to fully contribute the ARC over a five year period that expired at the conclusion of fiscal year 2015-2016. Effective June 28, 2009, the Police members of the PFDRP entered into an agreement 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 five year period ending at the end of fiscal year 2013-2014.

In both agreements, 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. The contribution rates applicable to the City and the Police and Fire members for pay periods in fiscal year 2016-2017 commencing with June 19, 2016 remain unchanged from fiscal year 2015-2016 pending the implementation of the Alternative Pension Reform Framework Settlement Agreement. These contribution rates for both the City and the PFDRP members are not sufficient to fully fund the ARC.

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.

The resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year June 30, 2016 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 and Fire Tier 2 or FCERS Tier 2, Tier 2B, and Tier 2C members.

During the fiscal year ended June 30, 2016, the PFDRP and FCERS's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation studies as of June 30, 2014 was prepared by the actuary for the respective plans. For PFDRP, the annual contribution determined in the June 30, 2014 valuation for fiscal year ended June 30, 2016 was the greater of $18,353,000 (if paid at the beginning of the fiscal year), or 10.31% for Police Tier 1 members and 10.62% for Fire Tier 1 members, of actual payroll for the fiscal year. For FCERS, the annual contribution determined in the June 30, 2014 valuation for fiscal year ended June 30, 2016 for Tier 1 was the greater of $16,990,000 (if paid at the beginning of the fiscal year) or the 9.41% of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll.

The total actuarial payroll for Police Tier 1 and Fire Tiers 1 members for the fiscal year was $181,851,000 ($105,928,000 for Police Tier 1 and $75,923,000 for Fire Tiers 1 members). The actual payroll for the fiscal year of $175,506,000 was less than the actuarial payroll of $181,851,000, resulting in an annual contribution of $18,353,000, as of July 1, 2015, excluding the implicit subsidy, year end accruals, contribution receivable and prior year contribution adjustments.

The actual payroll for FCERS Tier 1 for the fiscal year of $188,343,000 was greater than the actuarial payroll of $186,762,000 resulting in an additional annual contribution of $149,000 as of June 30, 2016, excluding the implicit subsidy and prior year contribution adjustments.

In May 2015, the PFDRP Board approved a funding policy for Police Tier 2 and Fire Tier 2, setting the Police Tier 2 annual required contribution to be 10.31% based on actual payroll, and Fire Tier 2 annual required contribution to be 10.62% based on actual payroll for fiscal year 2015-2016. The actual payroll for Police Tier 2 for the fiscal year 2015-2016 was $8,928,000, resulting in an annual contribution of $920,000, excluding year end accrual, contributions receivable and prior year contribution adjustments. The actual payroll for Fire Tier 2 for the fiscal year 2015-2016 of $2,143,000, resulting in an annual contribution of $228,000, excluding year end accruals, contributions receivable and prior year contribution adjustments.

The actual payroll for FCERS Tier 2 for the fiscal year ending June 30, 2016 was $69,428,000, allocated to Tiers 2, 2B and 2C in the amount of, $15,392,000, $53,093,000, and $906,000 respectively. The contribution rate for Tiers 2, 2B and 2C for fiscal year ending June 30, 2016 was 9.41%, 12.66%, and 12.86%, respectively, as determined in the June 30, 2014 valuation. Actual employer contributions for the fiscal year ending June 30, 2016 were $8,293,000, allocated to Tiers 2, 2B and 2C in the amount of $1,450,000, $6,722,000 and $121,000, respectively, including year end accruals, contributions receivable and prior year contribution adjustments.

The contribution rates in effect for PFDRP and the FCERS for the fiscal year ended June 30, 2016 are as follows:

PFDRP	**City - Board Adopted ***		**Participant**	
	Police	**Fire**	**Police**	**Fire**
Actuarial Rate:				
Postemployment Healthcare Plan:				
07/01/15 - 06/30/16	10.31%	10.62%	9.51%	9.74%

** For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2016 differed due to the City funding the annual required contribution amount based on the greater of the dollar amounts 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.*

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:						
07/01/15 - 06/30/16	9.41%	12.66%	12.86%	8.76%	0.00%	0.39%

** For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2016 differed due to the City funding the annual required contribution amount based on the greater of the dollar amounts 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.*

For the PFDRP, the June 30, 2014 valuation establishes, for the fiscal year ended June 30, 2016, the City's ARC rate as a percentage of pay on a GASB valuation basis to be 17.69% compared to the contribution rates listed above on a phase-in funded basis.

For the FCERS, the June 30, 2014 valuation establishes, for the fiscal year ended June 30, 2016, the City's ARC rate as a percentage of pay on a GASB valuation basis to be 15.19% 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, 2016, were as follows (dollars in thousands):

	PFDRP	FCERS
Annual required contribution	$ 32,694	$ 42,684
Interest on net OPEB obligation	15,748	11,411
Adjustment to annual required contribution	(13,192)	(14,671)
Annual OPEB cost	35,250	39,424
Contributions made	(19,676)	(30,465)
Implicit rate subsidy	(1,389)	(4,430)
Increase in net OPEB obligation	14,185	4,529
Net OPEB obligation – beginning of year	262,462	187,066
Net OPEB obligation – end of year	$ 276,647	$ 191,595

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	6/30/14	$ 35,494	$ 20,131	57%	$ 249,622
	6/30/15	35,798	22,958	64%	262,462
	6/30/16	35,250	21,065	60%	276,647
FCERS	6/30/14	$ 49,382	$ 24,031	49%	$ 184,853
	6/30/15	33,306	31,093	93%	187,066
	6/30/16	39,424	34,895	89%	191,595

4. OPEB Funded Status and Funding Progress

As summarized in the table below, as of June 30, 2015, the most recent actuarial valuation date, PFDRP and FCERS was 15.5% and 25.7% funded, respectively.

As of June 30, 2015, the most recent actuarial valuation of PFDRP's Postemployment Health Plan within the valuation, shows the Postemployment Healthcare Plan's Unfunded Actuarial Accrued Liability ("UAAL") increased by $12,100,000 primarily due to the change in health assumptions and the change in demographic experience. The discount rate used for GASB purposes remained the same at 6.00% in the June 30, 2015 OPEB valuation and in the June 30, 2014 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 health assumptions refers to the changes in expected current healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumption, and plan and tier election percentage for future retirees. Change in demographic experience refers to the change in actual data and elections from June 30, 2014 to June 30, 2015 as compared to the changes expected in the prior valuation.

As of June 30, 2015, the most recent valuation of FCER's Postemployment Health Plan, the UAAL increased by $78,000,000 primarily due to changes in the pension and health assumptions. The OPEB discount rate decreased from 6.30% used in the June 30, 2014 OPEB valuation to 6.10% used in the June 30, 2015 OPEB valuation. The Plan's 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 (7.0%) resulting in a blended discount rate of 6.1%. Change in pension assumptions refers to the change in demographic assumptions used in both the pension and postemployment healthcare plan valuations. These assumptions are based on the results of the experience study covering plan experience during the period from July 1, 2010 through June 30, 2015 and were adopted at the November 19, 2015 Board meeting. Change in health assumptions refers to the change in expected current and future healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.

The specific funding status for each OPEB plan is summarized in the table below, as of the June 30, 2015 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	6/30/2015	$ 114,565	$ 739,753	$ 625,188	15%	$ 184,733	338%
FCERS	6/30/2015	209,761	817,673	607,912	26%	251,430	242%

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 year ended June 30, 2016, were based on the actuarial valuations performed on June 30, 2014 except for the period June 19, 2016 through June 30, 2016, which were based on the June 30, 2015 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, 2015	June 30, 2014
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, 2014, 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	3.25% for FY 2015 and for all years
Merit increase:	Merit component added based on an individual's years of service ranging from 6.75% to 1.00%	Merit component added based on an individual's years 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, 2015	June 30, 2014
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	7.00% per annum
Discount rate (net)*	6.10%	6.30%
Wage inflation rate	2.85%	2.85%
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 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.
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 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.0%	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, 2016, the Airport was obligated for purchase commitments of approximately $21,000,000 primarily for terminal area development, airfield geometric study, pavement maintenance, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber $92,000,000 on 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.

Completed City Jet Fuel Tank Farm Remediation. As of June 30, 2016, the remediation work for the closed City Jet Fuel Tank Farms was completed. In May 2016, the Airport made the final payment to Chevron U.S.A., Inc. (Chevron) in an amount of $136,000, bringing the total payments to $2,160,000, which is 50% of the total remediation costs associated with the coordinated corrective action at the closed City Jet Fuel Tank Farms. Chevron has received a reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (Plume Fund) amounting to a total of $3,000,000. In June 2016, the Airport received $1,490,000 from Chevron, which represents 50% of the reimbursement, less a deductible.

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 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 and implemented a cap on 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 2012-2013. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-2015 in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations, which were implemented in fiscal year 2015-2016.

On August 14, 2015, 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 will continue discussions with the FAA, 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, which commenced operations at the Airport in late 2015, is 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 parties have fully briefed the appeal, 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 2017-2021, the Five Year capital improvement program includes approximately $4,177,000 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, 2016, $117,113,000 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 2015-2016, 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 2017 to 2021) 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. 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. An update to the strategy was approved by the City Council on January 12, 2016. For the next five years, the City's portion of the funding for the Adopted CIP is programmed into the 2017-2021 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 2017-2021 Adopted CIP, contributions from the City of Santa Clara and other agencies total $288,400,000.

The prior CIP assumed that all agencies would participate in short-term financing (i.e. commercial paper program) and State of California Revolving Fund ("SRF") loans. Although the tributary agencies expressed initial interest in short-term financing and the SRF, to date, they have not provided the interim commitments required through execution of the Amended and Restated Master Agreement by February 1, 2016. As a result, San José and Santa Clara are continuing the SRF loan application process for the Digester and Thickener Facilities Upgrade Project and will adjust the loan amount based on the number of agencies that commit to repayment of the loan at the time of the loan approval. Staff will continue to pursue SRF loans for all eligible projects, either for the co-owners or for all agencies, based on future commitments from the tributary agencies. However, it should be noted that state-wide interest and competition for these low-cost loans have increased significantly and funding for all projects is not guaranteed; therefore, staff is developing a long-term bond financing plan for San José's share of the CIP's cost. The City plans to gradually build required operating reserves in anticipation of securing long-term bonds independently. The 2017-2021 Proposed CIP assumes the need to issue bonds in 2017-2018. The timing and amount of the issuance will depend upon the approval and availability of SRF funding. The City will also continue to evaluate a short-term financing program, such as a commercial paper program, to provide supplemental financing flexibility.

Pursuant to an agreement executed between San José and Santa Clara in 1959 (the "1959 Agreement"), San José is co-owner and administering agency of the San José Santa Clara Water Pollution Control Plant ("Plant"). The Plant also provides wastewater treatment services to other neighboring agencies through five outside user agreements ("Master Agreements"). On January 22, 2016 and September 7, 2016, San José, as the administering agency, received claims from these outside user agencies (City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District, and CSD 2-3 ("Tributary Agencies") alleging a breach of contract and inequity under the Master Agreements. The administrative claims primarily arise out of disagreements regarding the interpretation of how the capital cost to rehabilitate the Plant as generally described in the Plant Master Plan should be apportioned, and whether the Master Agreements must be amended to require the Tributary Agencies to pay for their respective portions of the capital cost. The Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Plant to date.

The Master Agreements require that any allegation of breach of contract or inequity ("Claim") be filed with the legislative bodies of the agency(ies) that committed the alleged breach, and with the Treatment Plant Advisory Committee ("TPAC"). TPAC is an advisory body, comprised of representatives of San José, Santa Clara and three of the Tributary Agencies that was established by the Master Agreements to provide policy and budget guidance to San José, as the Plant's administering agency.

The Master Agreements specify the procedures for consideration of the Claim. TPAC is required to conduct a hearing regarding the Claim within two (2) months. TPAC is then required to prepare a full report of its findings and recommendations to the San José and Santa Clara City Councils. The report is advisory. If any of the parties to the Claim disagree with the report, the legislative bodies of the agencies that are parties to the Claim are required to meet jointly within two (2) months of receiving the report. If the joint meeting fails to resolve the Claim, the agency alleging the Claim can file a lawsuit in court after giving the other party or parties to the Claim three (3) months to cure the breach or alleged breach.

TPAC conducted a hearing on March 24, 2016, and issued its report on June 9, 2016 to deny the January 22, 2016 Claim. The Tributary Agencies disagreed with the report, and requested a joint meeting of the legislative agencies of the City, Santa Clara and all of the Tributary Agencies. San José, Santa Clara, and the Tributary Agencies have agreed to mediate Tributary Agencies' Claims and potential amendments to the Master Agreements. Two mediation sessions have occurred on September 14, 2016 and October 6, 2016. A third mediation session is scheduled for December 2016. In the interim, the parties have agreed to toll the time limit for scheduling the TPAC hearing on the September 7, 2016 Claim, and the joint meeting of the legislative bodies for the January 22, 2016 Claim.

The City cannot predict the outcome or the timeline for resolution of these Claims.

Recycled Water Facilities and Programs Integration Agreement between the City of San José and the Santa Clara Valley Water District ("SCVWD"). 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 agreed to capital investment towards the construction of the SVWTF in the amount of $70,000,000 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 and the SCVWD are confirming each agency's final total capital investment. The City's estimated investment in the SBWR system and SVWTF is $250,000,000, and the SCVWD's estimated investment in SVWTF is $70,000,000.

Under the Integration Agreement, 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 each party's annual audited financial statements, to establish each party's respective cost share for the operation of the SVWTF. The City and SCVWD have each provided the other with its audited financial statements for the operations of the SBWR and the SVWTF, respectively, for the fiscal year ended June 30, 2015. The parties, however, have not determined their respective cost share of the SVWTF for the fiscal year ended June 30, 2015 under the terms of the Integration Agreement. In January 2017. The audit report for the second year of full operations or Fiscal Year Ended June 30, 2016 will be completed and issued as per the terms of the Integration Agreement in January 2017.

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, 2016, PFDRP had unfunded commitments to contribute capital for private debt investments in the amount of $116,650,000, private equity investments in the amount of $63,900 and real assets investments in the amount of $112,950,000. FCERS had unfunded commitments to contribute capital for private market fund investments in the amount of $85,450,000.

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 US Department of Transportation, and the US Department of Labor. 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, 2016, 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, 2016, total governmental fund encumbrance balances for the City are as follows (dollars in thousands):

General Fund	$	39,758
Housing Activities		8,528
Low and Moderate Income Housing Asset		2,639
Special Assessment Districts		1,584
Nonmajor governmental funds		85,053
Total governmental funds	$	137,562

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"). In addition to the cases under the SJPOA caption, there are other cases challenging Measure B that are pending in the Sixth District Court of Appeal and the Santa Clara Superior Court and administrative proceedings related to Measure B pending before the California Public Employment Board ("PERB").

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 (the date specified in Measure B) 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.

As discussed below, the City and the bargaining units representing current employees reached agreements to resolve the Measure B litigation and the PERB proceedings. The settlement terms included placement of measure on the November 8, 2016 ballot, designated as Measure F, to amend the City Charter's provisions related to retirement benefits. The voters approved Measure F. The consequences of Measure F's approval are outlined below.

Cases Under SJPOA Caption

On April 30, 2014, a consolidated judgment for the cases under the SJPOA Caption was filed ("Consolidated Judgment") and 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 in 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 Supplemental Retirement Benefit Reserve ("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.

Writ and Quo Warranto Actions

In addition to these cases, the 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 SJPOA 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. The status of this case is discussed below in connection with the settlement frameworks.

San José Retired Employees Association Litigation

In July 2014, the San José Retired Employees Association (the "Retirees' Association"), along with four individually named retirees, filed, and subsequently served, 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 filed a demurrer to the complaint, but this litigation is currently stayed, by stipulation of the parties, to allow for ongoing settlement negotiations.

PERB Proceedings Related to Measure B

Various bargaining units have filed unfair practice charges against the City with 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. 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 Frameworks

In August 2015, the City Council formally approved an Alternative Pension Reform Settlement Framework agreement with the SJPOA and Local 230 ("Public Safety Settlement Framework"). Subsequently, in December 2015 and January 2016, the City and the nine bargaining units with members in FCERS agreed to an Alternative Pension Reform Settlement Framework related to Measure B ("Federated Settlement Framework"). All of the bargaining units that were litigants in the lawsuits under the SJPOA Caption as well as the three bargaining units that were not litigants in these lawsuits have agreed to the Federated Settlement Framework.

The Public Safety Settlement Framework includes provisions that would make the following changes, among others, to the PFDRP:

- modifies 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 subject to a ramp up of 0.33% increments per year for employee contributions towards unfunded liability costs until the costs are shared 50/50;

- 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 SRBR, 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; and

- reinstates the PFDRP's previous definition of disability, which is comparable to other agencies and creates an Independent Medical Panel appointed by the Retirement Board, which will determine disability eligibility instead of the Retirement Board.

The Federated Settlement Framework includes provisions that would make the following changes, among others, to the FCERS:

- modifies Tier 2 pension benefits for non-sworn employees to levels similar to other San Francisco Bay Area agencies to attract and retain non-sworn employees;

- provides 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 subject to a ramp up of 0.33% increments per year for employee contributions towards unfunded liability costs until the costs are shared 50/50;

- closes the defined benefit retiree healthcare plan to new and existing Tier 2 employees, and allows an opt-out for Tier 1 employees and Tier 2 employees in the OE#3 and ABMEI bargaining units who are contributing to the defined benefit retiree healthcare plan into a defined contribution VEBA subject to legal and IRS approval;

- new and current Tier 2 employees (except those represented by OE#3 and ABMEI who are making contributions into the defined benefit plan) will be automatically placed into a defined contribution VEBA;

- implements a new lowest cost healthcare plan in order to reduce retiree healthcare costs;

- continues the elimination of the SRBR, and, in lieu of the SRBR, establishes 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 FCERS’s previous definition of disability, which is comparable to other agencies; and creates an Independent Medical Panel to be appointed by the FCERS Retirement Board, which will determine disability eligibility instead of the FCERS Retirement Board.

The provisions of the Federated Settlement Framework apply to unrepresented employees except that unrepresented new and current Tier 2 employees will not be mandated or eligible to make contributions into a VEBA.

Both Settlement Frameworks contemplated that there would be a global settlement with all parties involved in Measure B litigation (including retirees) related to seeking a stipulated order from the trial court in the Quo Warranto action declaring that the City Council’s resolution placing Measure B on the June, 2012 ballot is null and void solely on the basis that the City should have engaged in further negotiation of final language with the bargaining units prior to placing the measure on the ballot, thereby invalidating the election result approving Measure B. Additionally, both Settlement Frameworks provide that in the event that trial court in the Quo Warranto action invalidates Measure B, the parties would agree to place a Charter amendment on the November 2016 ballot that includes the following: (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 Settlement Frameworks that the parties mutually agree to include. Further, under both Settlement Frameworks, the parties agreed to seek stays of the appeal of the case under the SJPOA Caption as well as the PERB proceedings.

In the event that a global settlement with all parties did not result, or the invalidation of Measure B through the Quo Warranto action did not occur, then the parties to the Settlement Frameworks agreed to pursue implementation of their terms through a Charter amendment at the November 2016 election.

Under both Settlement Frameworks, the City agreed to pay the litigants attorneys' fees: $1,500,000 to SJPOA and Local 230 and $1,257,000 for the non-sworn litigants. The City has made these payments. Further, the City agreed to binding arbitration to resolve any additional claims for attorneys' fees of the SJPOA and Local 230, and OE#3 and the bargaining units represented by IFPTE, Local 21 (AEA, AMSP and CAMP) related to the Measure B litigation and administrative proceedings. The bargaining units represented by AFSCME (MEF and CEO) do not have this right under the Federated Settlement Framework. To date, none of the bargaining units have made additional requests for attorneys' fees.

Quo Warranto Action Following Approval of Settlement Frameworks

In March 2016, a Santa Clara Superior Court judge signed the stipulated judgment and findings filed by the City and SJPOA in the Quo Warranto action, invalidating the resolution placing Measure B on the ballot and declaring the Measure null and void. A former City councilmember, a taxpayer, and a taxpayer's association ("the Third Parties") filed a motion to intervene in the Quo Warranto action, however the Judge had already signed the stipulated judgment and found that the motion was untimely. The Third Parties appealed that denial to the Sixth District Court of Appeal, and sought a stay which has been granted by the appellate court. The Third Parties also sought a reconsideration of the trial court's granting of the judgment; however the judge found that she no longer had jurisdiction to hear the motion for reconsideration because of the pending appeal and stay. It is uncertain when the appellate court will hear this matter. The status of this action following the voters approval of Measure F is discussed below.

Measure F -- November 2016 Ballot Measure

The City and its eleven bargaining units negotiated the provisions of Measure F to amend the City Charter to supersede the provisions implemented by Measure B with the retirement provisions agreed to in the Settlement Frameworks. The City Council placed Measure F on the November 2016 ballot and the voters approved it.

<u>Approval of Measure F</u>

Once the Charter amendment approved through the passage of Measure F becomes effective, the City Council will enact the ordinances that will be necessary to implement the changes to PFDRP and FCERS. The City anticipates that the appeal of the lawsuits under the SJPOA Caption, the writ action filed by the SJPOA and the PERB proceedings will be dismissed. The City also anticipates that the Quo Warranto Action will likely become moot. In the event that the appeal of the Quo Warranto Action proceeds, the issues will be procedural because Measure F will supersede Measure B.

9. Overpayment of Pensions

During fiscal year 2015-2016 FCERS submitted an invoice to the City in amount of $882,000 with a payment date of July 1, 2016. The invoiced amount represents amounts of monthly benefit payments plus interest calculated at the rate of 7% per annum which were erroneously paid by the Department of Retirement Services (currently the Office of Retirement Services) to certain retired members of FCERS in excess of limits established under Internal Revenue Code Section 415. The Office of Retirement Services corrected the errors going forward as of July 1, 2015. The City disputes that the

City has an obligation to reimburse FCERS for the overpayments; however, the City has determined to pay to FCERS the amount of the overpayment, including accrued interest, under protest. The City is considering making a liability claim against FCERS and its insurer. The City cannot predict the outcome of pursuing its liability claim.

10. Consent Decree with San Francisco Baykeeper

San Francisco Baykeeper ("Baykeeper") filed a lawsuit in federal district court against the City in February, 2015, and served its complaint on the City in April, 2015. Baykeeper's complaint alleged violations of the federal Clean Water Act. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements under its Municipal Separate Storm Sewer System (MS4) Stormwater Permit ("Stormwater Permit"), and that there were discharge violations of sewage from the City's Sanitary Sewer System that infiltrated into the MS4.

In order to settle the lawsuit, the City and Baykeeper agreed to a ten year consent decree that was approved by the court in August, 2016 ("Consent Decree"). The Consent Decree's terms will require the City to:

- Comply with trash provisions of the current Stormwater Permit including installing full trash capture devices, supporting additional creek cleanup efforts, and monitoring of trash in receiving waters;

- Rehabilitate, replace, or repair 65 miles of high risk sanitary sewer system pipes at an average of 6.5 miles per year, based on the City's existing program with some changes in the priority of segments of this work;

- Monitor and report fecal indicator bacteria ("FIB") in receiving waters for a five-year period;

- Comply with green infrastructure planning as required in the Stormwater Permit, adding FIB as a pollutant for planning purposes;

- Bring forward new revenue measure options for Council consideration by December 2017;

- Appropriate, contingent upon the receipt of sufficient new revenues, $100,000,000 over a ten-year period for various green infrastructure projects with the goal of reducing pollutants and/or flows from the City's urban areas into receiving waters, with expenditures anticipated to occur as follows:

  - ➢ Identify and design $25,000,000 in total projects by September 2024;

  - ➢ Award $25,000,000 in total projects by September 2025;

  - ➢ Identify and design an additional $10,000,000 ($35,000,000 in the aggregate) in total projects by September 2025;

  - ➢ Award an additional $10,000,000 ($35,000,000 in the aggregate) in total projects by the termination date of the consent decree;

  - ➢ Identify and design an additional $15,000,000 ($50,000,000 aggregate) in total projects by the termination date of the consent decree.

The Consent Decree also provides for ongoing oversight by Baykeeper and a dispute resolution process. The Consent Decree specifies limits on Baykeeper's ability to pursue additional litigation against the City during the Consent Decree's term and litigation fees that can be claimed by Baykeeper for dispute resolution are capped at $200,000.

In addition to the expenditures outlined above, the City has or will incur the following expenditures during the Consent Decree's term: (1) lump sum payment of attorney's fees and costs to Baykeeper in the amount of $425,000, which payment has been made; (2) ongoing oversight costs payable to Baykeeper in the amount of $10,000 per year for a total of $100,000; and (3) $200,000 per year for 5 years (a total of $1,000,000) for supplemental environmental mitigation to be administered by the San José Parks Foundation for trash clean up grants, habitat restoration, or projects that generally improve the water quality in the Guadalupe and Coyote creeks and associated watershed areas.

11. Workers' Compensation Program Audit

The City's Workers' Compensation Program is currently undergoing two audits by the State's Department of Industrial Relations ("DIR"): a routine three-tier Profile Audit Review ("PAR") of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. The City's utilization review process is conducted by a vendor under contract with the City.

The PAR audit, consisting of three tiers, has proceeded to a more comprehensive Full Compliance Audit with an additional and expanded selection of files, including denied claims. The City failed each of the three tiers of the Full Compliance Audit. On November 15, 2016, the City received the DIR's written report entitled: "Preliminary Notice of Penalty Assessments and Notice(s) of Intention to Issue Notice of Compensation Due" ("Preliminary Audit report"). The City is still reviewing the Preliminary Audit report and has not yet determined whether it will challenge any of its findings. The Preliminary Audit report assesses the following amounts, which arise from the City's delay in processing claims: (1) a penalty in the amount of $153,015; (2) additional disability payments in the amount of $38,163.42 and (3) additional medical and medical legal payments owed to providers in the approximate amount of $16,000, on which interest at the rate of 7% per annum continues to accrue until the date of payment.

The DIR will issue its final report 14 calendar days after the preliminary report and the City will have 30 days from that date to contest the findings or make the penalty payment. The DIR will be monitoring the City's claim review process through calendar year 2017.

The City is subject to a re-audit in two years and must pass the re-audit or its ability to retain its status as a self-insured employer may be jeopardized. Additionally, failure to pass two consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed $100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers' compensation insurance coverage, which the City believes will be significantly more expensive than a self-insured program.

The Target Utilization Review audit will review files from the first phase of the routine audit, but with a focus on the City's utilization review process and procedure. This audit commenced on October 26, 2016. The City anticipates receipt of the written draft report of the Target Utilization Review audit's findings in the near future.

In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing $120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims. The penalties have been assessed, primarily, for failure to timely provide responsive documents to the company under contract with the State that performs independent medical review. The penalties are assessed at the rate of $500 per day for each day the response is untimely, up to a maximum of $5,000 per claim. The City paid the penalties on November 4, 2016.

The City believes the failures identified in the Full Compliance Audit are largely attributable to the staffing levels in the City's Workers' Compensation Program. Since June 2013, a combination of in-house City staff and a Third Party Administrator ("TPA") has administered the City's workers' compensation claims. Only the portion of the City's Workers' Compensation Program administered by the in-house City staff is subject to the Full Compliance Audit. Both the in-house staff and the TPA are subject to the Target Utilization Review.

While the adjuster caseloads for the TPA are within an industry standard of 150 cases per adjuster, the adjuster caseloads for the in-house staff are well above this level, with caseloads that have periodically reached close to or in excess of 500 cases per adjuster. To address the in-house staffing needs and compliance with State law requirements, the following adjustments have been made: all four (4) budgeted Workers Compensation Adjuster positions will be filled with permanent staff rather than temporary employees, which the City believes should improve the recruitment and retention of adjusters; and six (6) temporary adjuster and administrative support positions have been added with previously approved one-time funds to address the current workload and backlog issues. In addition, the City has filled a management position within the City's Workers' Compensation Program which the City believes will improve day-to-day management of the program. The City also believes that the addition of adjusters and the management position within the City's Workers' Compensation Program will reduce the current caseload, enable the City's in-house staff to address and correct the State audit findings, and prospectively better manage new claims and ensure compliance with State requirements.

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, 2016 (dollars in thousands):

Cash and investments	$	19,625
Restricted cash and investments		158,725
Total cash and investments	$	178,350

A summary of SARA's cash and investments at June 30, 2016 is as follows:

	Moody's Credit Rating	Maturity (in Days) Under 30	31-180	181-365	Balance at Jun 30
Investments:					
State of California Local					
Agency Investment Fund	Not Rated	$ -	$ 39,951	$ -	$ 39,951
Federal Home Loan Mortgage Corporation	Aaa	97,832	-	-	97,832
Federal National Mortgage Association	Aaa	17,213	-	-	17,213
Money Market Mutual Fund	Aaa	-	9,239	-	9,239
Treasury Obligation Fund	Aaa	-	4,549	-	4,549
Subtotal investments		$ 115,045	$ 53,739	$ -	$ 168,784
Certificates of Deposit					4,025
Bank Deposits					5,541
Total Cash & Investments					$ 178,350

The SARA has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30
Investments by Fair Value Level:				
Federal Home Loan Mortgage Corporation	$ -	$ 97,832	$ -	$ 97,832
Federal National Mortgage Association	-	17,213	-	17,213
Money Market Mutual Fund	9,239			9,239
Treasury Obligation Fund	4,549	-	-	4,549
Total Investments by Fair Value Level	$ 13,788	$ 115,045	$ -	128,833
State of California Local				
Agency Investment Fund				$ 39,951
Total Investments				$ 168,784

The State of California Local Agency Investment Fund is part of the State's Pooled Money Investment Account that allows cities, counties and special districts to place money into the fund. LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than $5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal per month.

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 State Department of Finance ("DOF") approved the SARA's Long-Range Property Management Plan ("LRPMP"), which specifies the disposition of SARA Properties. The SARA properties designated for sale under the LRPMP are to be sold in accordance with the Asset Disposition Schedule and the Disposition Process For Sale of Properties, both of which are subject to the approval of the Oversight.

A summary of changes of the property held for resale during the year ended June 30, 2016 is as follows:

Property Description	July 1, 2015	Addition	Disposal	June 30, 2016
N. San Pedro Housing site (1)	$ 19,096	$ 10,377	$ -	$ 29,473
Hoffman Via Monte (2)	660	-	(660)	-
Central Place Garage (3)	850	-	(850)	-
Total Property Held for Resale	$ 20,606	$ 10,377	$ (1,510)	$ 29,473

(1) The valuation is based on the construction cost incurred. The asset is in construction.

(2) Valuation is based on the appraisal report prepared by Gregory D. Rinehart & Associates on December 9, 2014.

(3) Valuation is based on the appraisal report prepared by Carneghi and Partners, Inc. on November 17, 2014.

On June 15, 2016, the SARA sold Hoffman Via Monte (Gallup Drive and Mesa Street) for $1,160,000 and recognized a gain, after closing costs of $2,000, in the amount of $498,000.

On June 15, 2016, the SARA sold Central Place Garage for $3,576,000 and recognized a gain, after closing costs of $10,000, in the amount of $2,715,000.

As security for payments due to the County of Santa Clara under the County Settlement Agreement executed in March 2011 ("County Settlement Agreement"), the Agency also (i) executed and recorded for the benefit of the County, subordinated Deeds of Trust on various Agency-owned real estate asset, (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.

The following is a summary of capital assets activity for the year ended June 30, 2016 (dollars in thousands):

	July 1, 2015	Addition	Disposal/ Transfer	June 30, 2016
Capital assets, not being depreciated:				
Land	$ 82,626	$ 100	$ (10,147)	$ 72,579
Construction in progress	977	-	-	977
Total capital assets, not being depreciated	83,603	100	(10,147)	73,556
Capital assets, being depreciated:				
Buildings	82,799	-	(189)	82,610
Building and other Improvements	108	-	-	108
Equipment	1,145	-	-	1,145
Total capital assets, being depreciated	84,052	-	(189)	83,863
Less accumulated depreciation:				
Buildings	19,151	2,070	(189)	21,032
Building and other Improvements	47	7	-	54
Equipment	1,145	-	-	1,145
Total accumulated depreciation	20,343	2,077	(189)	22,231
Total capital assets, being depreciated, net	63,709	(2,077)	-	61,632
Total capital assets, net	$ 147,312	$ (1,977)	$ (10,147)	$ 135,188

Various Agency-owned real estate assets with an aggregate book value of $17,070,000 are used to secure Letters of Credit obtained from JPMorgan Chase Bank (“JPMorgan”) supporting the Agency’s 1996 and 2003 variable rate revenue bonds.

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

On August 27, 2015, the SARA Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the Disposition Process For Sale of Properties, 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. Additional revision to the Asset Disposition Schedule was approved by the SARA Oversight Board on April 28, 2016. These actions have been reviewed and approved by the DOF.

During the fiscal year, the SARA transferred fifteen government purpose properties with a total book value of $7,889,000 to the City.

In May 2016, the SARA sold one property (Old Fire Station #1) with the net book value of $45,000 for $1,000,000 and recognized a gain of $950,000 after transaction costs. The net proceeds of $792,000 were used to redeem 2003 Merged Revenue Series A bonds and $198,000 was used to pay the accrued interest owed to the County under the County Settlement Agreement.

In June 2016, the SARA sold one property (Plaza Hotel) to the City with the book value of $2,213,000 for $740,000 and recognized a net loss of $1,475,000 after transaction costs. The net proceeds of $587,000 were used to redeem 2003 Merged Revenue Series A bonds and $147,000 was used to pay the accrued interest owed to the County under the County Settlement Agreement.

3. Summary of SARA's Long-Term Debt

The following is a summary of long-term debt of the SARA as of June 30, 2016 (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, 2016 Balance
Senior Tax Allocation Bonds:							
1997 Merged	Merged area project	$ 106,000	3/27/1997	8/1/2028	5.50 - 5.63%	$10 - 715	$ 4,425
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	$0 - 7,165	12,920
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00 - 5.00%	$25 - 34,100	125,745
2004 Merged Refunding Series A	Refunding TABs	281,985	5/27/2004	8/1/2019	4.36 - 5.25%	$15,000 - 31,900	106,705
2005 Merged Refunding Series A	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20 - 5.00%	$295 - 26,210	122,705
2006 Merged Series A-T	Merged area project	14,300	11/14/2006	8/1/2022	5.65%	$0 - 6,000	13,300
2006 Merged Series B	Merged area project	67,000	11/14/2006	8/1/2035	4.50 - 5.00%	$0 - 21,000	67,000
2006 Merged Refunding Series C	Refunding TABs	423,430	12/15/2006	8/1/2032	3.75 - 5.00%	$0 - 74,280	423,430
2006 Merged Refunding Series D	Refunding TABs	277,755	12/15/2006	8/1/2023	4.00 - 5.00%	$830 - 67,330	272,885
2007 Merged Series A-T	Merged area project	21,330	11/7/2007	8/1/2017	5.10%	$2,530 - 2,670	5,200
2007 Merged Series B	Merged area project	191,600	11/7/2007	8/1/2036	4.25 - 5.00%	$0 - 23,970	191,600
2008 Merged Series A	Merged area project	37,150	11/13/2008	8/1/2018	6.50%	$4,130 - 4,600	13,085
2008 Merged Series B	Merged area project	80,145	11/13/2008	8/1/2035	6.25 - 7.00%	$0 - 6,700	80,145
1997 Housing Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75 - 5.85%	$440 - 3,670	15,540
2003 Housing Series J	Low-moderate income housing	55,265	7/10/2003	8/1/2024	4.70 - 5.25%	$2,015 - 3,505	25,030
2003 Housing Series K	Low-moderate income housing	13,735	7/10/2003	8/1/2029	3.90 - 4.40%	$265 - 460	4,935
2005 Housing Series A	Low-moderate income housing	10,445	6/30/2005	8/1/2024	3.75 - 5.00%	$0 - 2,270	10,445
2005 Housing Series B	Low-moderate income housing	119,275	6/30/2005	8/1/2035	5.10 - 5.46%	$695 - 8,300	96,595
2010 Housing Series A-1	Low-moderate income housing	54,055	4/15/2010	8/1/2035	5.00 - 5.50%	$0 - 6,305	54,055
2010 Housing Series A-2	Low-moderate income housing	2,655	4/15/2010	8/1/2017	4.00 - 5.00%	$495 - 1,660	2,155
Total Senior Tax Allocation Bonds							1,647,900
Subordinate Tax Allocation Bonds (TAB):							
1996 Merged Area Revenue Series A	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	$1,400 - 2,000	18,300
1996 Merged Area Revenue Series B	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	$1,400 - 2,000	18,300
2003 Merged Area Revenue Series A	Merged area projects	45,000	8/27/2003	8/1/2028	Variable	$890 - 2,605	24,910
2003 Merged Area Revenue Series B	Merged area projects	15,000	8/27/2003	8/1/2032	Variable	$0 - 3,900	15,000
2010 Housing Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	$2,725 - 5,210	77,945
Total Subtotal Subordinate Tax Allocation Bonds							154,455
Other Long-Term Debt:							
Pledge Agreement - Revenue Bonds 2001A	4th/San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.60 - 5.25%	$1,980 - 3,205	26,005
Reimbursement Agreement - Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	5.00%	$11,050 - 14,730	89,730
HUD Section 108 Loan	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	$465	465
HUD Section 108 Loan (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	$740 - 1,135	9,230
HUD Section 108 Loan (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	$970 - 1,570	12,480
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2019	Variable	$13,029	13,029
City of San José (SERAF) Loan	Fund the State's SERAF Payment	10,000	2010-2011	6/30/2019	Variable	$10,217	10,217
City of San José - Commercial Paper Program	Fund the housing projects	14,227	2010-2012	6/30/2018	Variable	$4,750	9,477
Other Long-Term Obligation - County Settlement Agreement	Settlement Agreement	25,290	6/30/2011	6/30/2017	Variable	$7,703	25,290
City of San José - Reimbursement Agreement	Reimbursement Agreement	28,517	2014-2015	6/30/2016*	LAIF Rate	$0	28,517
Total Other Long-Term Debt							224,440
Total Long-Term Debt							$ 2,026,795

* *See Long Term Reimbursement Advance below for additional disclosures.*

A summary of the changes in long-term debt and other obligations for the year ended June 30, 2016 follows (in thousands):

	June 30, 2015	Additions	Reductions	June 30, 2016	Amount Due One Year
Senior Tax Allocation Bonds:					
1993 Merged Area Refunding	$ 18,195	$ -	$ (18,195)	$ -	$ -
1997 Merged	4,795	-	(370)	4,425	395
1999 Merged	12,920	-	-	12,920	-
2002 Merged	11,290	-	(11,290)	-	-
2003 Merged	126,650	-	(905)	125,745	905
2004 Merged Refunding Series A	116,285	-	(9,580)	106,705	29,265
2005 Merged Refunding Series A	130,985	-	(8,280)	122,705	13,135
2005 Merged Refunding Series B	4,225		(4,225)	-	-
2006 Merged Series A-T	13,300	-	-	13,300	-
2006 Merged Series B	67,000		-	67,000	-
2006 Merged Refunding Series C	423,430	-	-	423,430	-
2006 Merged Refunding Series D	273,595	-	(710)	272,885	12,560
2007 Merged Series A-T	7,600	-	(2,400)	5,200	2,530
2007 Merged Series B	191,600	-	-	191,600	-
2008 Merged Series A	17,010	-	(3,925)	13,085	4,130
2008 Merged Series B	80,145	-	-	80,145	-
1997 Housing Series E	15,955	-	(415)	15,540	440
2003 Housing Series J	27,665	-	(2,635)	25,030	2,755
2003 Housing Series K	5,190	-	(255)	4,935	265
2005 Housing Series A	10,445	-	-	10,445	-
2005 Housing Series B	100,130	-	(3,535)	96,595	3,710
2010 Housing Series A-1	54,055	-	-	54,055	-
2010 Housing Series A-2	2,655	-	(500)	2,155	1,660
2010 Housing Series B	1,085	-	(1,085)	-	-
Subtotal Senior Tax Allocation Bonds	1,716,205	-	(68,305)	1,647,900	71,750
Subordinate Tax Allocation Bonds:					
1996 Merged Series A	19,600	-	(1,300)	18,300	1,400
1996 Merged Series B	19,600	-	(1,300)	18,300	1,400
2003 Merged Revenue Series A	27,710	-	(2,800)	24,910	1,515
2003 Merged Revenue Series B	15,000	-	-	15,000	-
2010 Housing Series C	80,850	-	(2,905)	77,945	77,945
Subtotal Subordinate Tax Allocation Bonds	162,760	-	(8,305)	154,455	82,260
Other Long -Term Debt:					
Pledge Agreement - Revenue Bonds 2001A	27,985	-	(1,980)	26,005	2,075
Reimb Agreement - Refunding Rev Bonds 2001F	100,260	-	(10,530)	89,730	11,050
CSCDA CRA/ERAF Loan 2006	1,905	-	(1,905)	-	-
HUD Section 108 Loan	900	-	(435)	465	465
HUD Section 108 Loan (CIM)	9,930	-	(700)	9,230	740
HUD Section 108 Loan (Story & King)	13,402	-	(922)	12,480	970
City of San José - SERAF Loans (Principal)	64,816	10,000	(52,000)	22,816	7,500
City of San José - SERAF Loans (Interest)	1,064	271	(905)	430	430
City of San José - Commercial paper program	14,227	-	(4,750)	9,477	4,750
Other Long-Term Obligation - County Settlement Agreement (Principal)	23,562	-	(4,712)	18,850	14,137
Other Long-Term Obligation - County Settlement Agreement (Interest)	6,123	3,308	(2,991)	6,440	6,440
City of San José - Reimbursement agreement (Principal)	15,401	13,007	-	28,408	-
City of San José - Reimbursement agreement (Interest)	45	64	-	109	-
Subtotal Other Long-Term Debt	279,620	26,650	(81,830)	224,440	48,558
Subtotal Long-Term Debt before Unamortized	2,158,585	26,650	(158,440)	2,026,795	202,568
Issuance Premium (discount), Net	26,121	-	(3,313)	22,808	3,333
Total Long-Term Obligations	$ 2,184,706	$ 26,650	$(161,753)	$2,049,603	$ 205,901

Total Redevelopment Property Tax Trust Fund ("RPTTF") revenue distributed by the County in current year was $186,014,000, which was used to pay debt service and debt related expenses on Senior and Subordinate Merged Area Tax Allocation Bonds, Senior and Subordinate Housing Set-Aside Tax Allocation Bonds, City of San José Financing Authority Series 2001A, City of San José

Financing Authority Series 2001F and ERAF loans. During the year ended June 30, 2016, the County withheld $23,640,000 in RPTTF for payments of its prior year's pass-through payments.

Senior Merged Area Tax Allocation Bonds ("Senior TABs") are comprised of Series 1997, Series 1999, Series 2003, Series 2004A, Series 2005A, Series 2006A-T, Series 2006B, Series 2006C, Series 2006D, Series 2007A-T, 2007B, Series 2008A, and 2008B, 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.

Redevelopment property tax revenues have been pledged until the year 2036, the final maturity date of the Senior TABs. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2016 is $2,104,931,000.

The 80% redevelopment property tax revenue recognized and received for non-housing senior debt during the year ended June 30, 2016 in the amount of $132,810,000 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 $131,664,000 for the year ended June 30, 2016.

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

Redevelopment property tax 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 as of June 30, 2016 is $318,130,000. The 20% redevelopment property tax revenue recognized and received for the Senior Housing Set-Aside Tax Allocation Bonds during the year ended June 30, 2016 in the amount of $19,685,000 was transferred to the fiscal agent 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 $19,609,000 for the year ended June 30, 2016.

Subordinate Tax Allocation Bonds – Variable-Rate

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

The 1996 A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on the 1996 A/B Bonds amounted to $76,000 for the year ended June 30, 2016. At June 30, 2016, the interest rate was 0.55% for the 1996A Bonds and 0.54% for the 1996B Bonds.

2003 Merged Area Revenue Bonds – In August 2003, the Agency issued Merged Area Revenue Bonds Series A in the principal amount of $45,000,000 and Series B in the principal amount of $15,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003A and 2003B Bonds (the "2003A/B Bonds") are ratably and equally secured by a pledge of the subordinated revenues and are subordinate to the debt service payment of the Senior TABs.

The 2003 A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on 2003 A/B Bonds amounted to $187,000 for the year ended June 30, 2016. As of June 30, 2016, the interest rate was 0.73% for the taxable 2003A Bonds and 0.55% for the 2003B Bonds.

These variable-rate revenue bonds (1996A/B and 2003A/B 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 and have not otherwise been remarketed.

The credit facilities that support the variable-rate bonds are as follows:

	Balance June 30, 2016 (in thousands)	Credit Facility Description	
		Provider	Expiration Date
Redevelopment Agency Revenue Bonds:			
1996 Merged Series A	$ 18,300	JPMorgan Chase Bank, N. A.	3/31/2018
1996 Merged Series B	18,300	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series A	24,910	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series B	15,000	JPMorgan Chase Bank, N. A.	3/31/2018
Total variable rate revenue bonds	$ 76,510		

In connection with the 1996A/B Bonds and 2003A/B Bonds, on May 6, 2013, JPMorgan and the SARA entered into an Amended and Restated Reimbursement Agreement, which provided JPMorgan letters of credit ("LOCs") as credit enhancements for each series of bonds. The Amended and Restated Reimbursement Agreement was subsequently amended effective June 1, 2016, by a Second Amendment to the Amended and Restated Reimbursement Agreement ("JPMorgan Second Amendment,"). Pursuant to the JPMorgan Second Amendment, JPMorgan delivered amendments to the LOCs for each series of bonds that extended the LOCs' terms from March 31, 2017 to March 31, 2018. 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, JPMorgan would be required to acquire the Bonds under the terms of the Amended and Restated Reimbursement Agreement and the applicable Indenture. After JPMorgan acquires the bonds, the full amount of the outstanding 1996A/B Bonds and 2003A/B Bonds and any other amounts due and owing under the Amended and Restated Reimbursement Agreement will become "due and payable" from the Successor Agency to JPMorgan either immediately or in one year from such date if certain conditions are met, with interest owed for such interim one year period at the Bank Rate, which is equal to the Base Rate as defined below for the first ninety (90) days and the Base Rate plus 1% thereafter. If insufficient funds exist to pay the amount due and payable, whether in one year or immediately, the interest rate on the amount owed to JPMorgan under the Amended and Restated Reimbursement Agreement increases to the Default Rate, which is equal to the Base Rate plus 3%. "Base Rate" means on any day the greatest of (a) the Prime Rate plus 1.5 %; (b) the Federal Funds Rate for such day plus 2%; and (c) 8.5%.

The SARA is required to pay the JP Morgan an annual commitment fee for each credit facility based on the outstanding principal amount of the bonds supported by the credit facility. The JP Morgan Second Amendment lowered the annual commitment fee from 2.55% to 2.10%. JPMorgan also holds a liquidity reserve as an added source of security for the bank. Parcels of the former Agency owned land ("Pledged Properties") are also used to secure the LOCs.

The JP Morgan Second Amendment reduced the liquidity reserve requirement to $4,000,000 from $5,000,000 without provision for adjustment for debt service coverage levels stated in prior agreements. The liquidity reserve balance is $4,003,000 as of June 30, 2016.

The JP Morgan Second Amendment retains the Pledged Properties requirement and continues to require the SARA to dispose of Pledged Properties as expeditiously as possible and in a manner aimed at maximizing value pursuant to the Long Range Property Management Plan. The JPMorgan Second Amendment provides for the application of 80% of net proceeds from the sale of Pledged Properties towards the redemption of principal of the 1996A/B and 2003A/B Bonds. The JPMorgan Second Amendment also provides for payment of the remaining 20% of net proceeds from the sale of Pledged Properties to the County of Santa Clara to reduce the SARA's obligation under the County Settlement Agreement. Upon payment in full to the County of the SARA's obligations under the County Settlement Agreement, the County's lien on any remaining Pledged Projects would be released and, upon the sale of any of the remaining Pledged Properties, 100% of the net sales proceeds would be used towards the redemption of principal on the 1996 A/B and 2003 A/B Bonds.

2010 Housing Set-Aside Tax Allocation Bonds – 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, N.A. (“Wells Fargo Bank”). The 2010C Bonds were issued pursuant to a fiscal agent agreement between the Agency and Wells Fargo Bank (“Fiscal Agent Agreement”). The 2010C Bonds were used to (1) refinance the Agency’s term loan with Bank of New York Term Loan and (2) finance and refinance the City’s gap loans made or to be 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 by the Agency and mandatory sinking fund redemption payments on August 1 of each year.

On April 1, 2016, SARA entered into a Second Amended and Restated Continuing Covenant Agreement with Wells Fargo Bank to extend the Mandatory Purchase Date to April 28, 2017 from April 29, 2016. Pursuant to the Second Amended and Restated Continuing Covenant Agreement, the interest rate is equal to the sum of basis points of 0.62% plus an applicable spread of 1.08%. At June 30, 2016, the interest rate was 1.70%.

Redevelopment property tax revenues have been pledged until the year 2035, the final maturity date of the 2010C Bonds. The total principal and interest remaining on the 2010C Bonds as of June 30, 2016 is $90,739,000. The 20% redevelopment property tax revenue recognized and received for the 2010C Bonds during the year ended June 30, 2016 in the amount of $5,620,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the 2010C Bonds amounted to $5,541,000 for the year ended June 30, 2016.

If the Mandatory Purchase Date is not extended, or the SARA does not exercise its option under the Fiscal Agent Agreement to redeem the 2010C Bonds on or prior to the Mandatory Purchase Date, the SARA is required to pay the Purchase Price of the 2010C Bonds on the Mandatory Purchase Date; provided, however, if on the Mandatory Purchase Date the conditions set forth below are satisfied, the SARA shall not be required to pay the Purchase Price for the 2010C Bonds on the Mandatory Purchase Date except to the extent of available proceeds from the remarketing of the 2010C Bonds. In the event that the conditions set forth below are satisfied on the Mandatory Purchase Date, the available proceeds from the remarketing of the 2010C Bonds shall, to the extent available, be applied to pay the Purchase Price for the 2010C Bonds and that portion of 2010C Bonds for which the Purchase Price cannot be paid from such proceeds shall instead be repaid in accordance with the amortization provisions set forth in the Fiscal Agent Agreement, such that the Purchase Price of the 2010C Bonds shall be paid to Wells Fargo Bank in full on the third anniversary of the Mandatory Purchase Date, subject to the earlier remarketing, repayment, acceleration, prepayment or redemption of the 2010C Bonds.

The Purchase Price of the 2010C Bonds is due and payable in full on the Mandatory Purchase Date unless on such date the following conditions are satisfied: (A) no default shall have occurred and be continuing and (B) the SARA shall be deemed to have made on and as of such date each of the representations and warranties of the Agency made in the Continuing Covenant Agreement and in any certificate or document delivered in connection with the Continuing Covenant Agreement and each such representation and warranty shall continue to be accurate and complete in all material respects on and as of such date.

4th and San Fernando Parking Facility Project Pledge Agreement - In March 2001, the City of San José Financing Authority (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 the Agency.

In fiscal year 2015-16 the surplus Agency Revenues were not sufficient to make all of the required pledged payment. Therefore the City's Parking System Fund advanced $1,682,000 to the SARA to enable SARA to make its payments under the Agency Pledge Agreement to the Financing Authority. As of June 30, 2016, the Series 2001A bonds have an outstanding balance of $26,005,000.

Convention Center Refunding Reimbursement Agreement - In July 2001, the Financing Authority issued the Convention Center Lease Revenue Refunding Bonds, Series 2001F (tax-exempt) and Series 2001G (taxable) amounting to $186,150,000 and $4,580,000, respectively. The bonds were issued to refund the 1993 Revenue Bonds, Series C. The Series 2001G Bonds have been paid off and only the Series 2001F Bonds remain outstanding.

In connection with the issuance of the 2001 Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement under which the Agency is obligated to use redevelopment property tax revenues or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Second Amended and Restated Reimbursement Agreement was assumed by the SARA.

In fiscal year 2015-16, the City advanced $9,800,000 to the SARA to assist in the payment of debt service on the 2001F bonds to the Financing Authority. The Series 2001F bonds mature in 2022 and have an outstanding balance of $89,730,000 at June 30, 2016.

California Statewide Communities Development Authority (CSCDA) Educational Revenue Augmentation Fund (ERAF) Loan - The Agency had been periodically required to make payments to the State of California's Educational Revenue Augmentation Fund ("ERAF") through the County of Santa Clara. To finance the 2006 ERAF payments, the Agency participated in the California Redevelopment Association/Educational Revenue Augmentation Fund ("CRA/ERAF") Loan Program. The loan was assumed by the SARA. The 2006 loans were paid in full on March 1, 2016.

HUD Section 108 Loans – In 1997, the Agency 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 Agency received loan proceeds totaling 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, 2016, the outstanding loans due to HUD totaled $22,175,000. 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 the fiscal year 2016 was 0.87%. The HUD loans are secured by the City owned Fairmont Hotel Parking Garage, several SARA owned capital assets (Convention Center – South Hall, José Theatre and Arena Lot 5A) and CDBG grant funds that were awarded or will be awarded to the City. The loans are being repaid by developer payments and by the City through CDBG funds due to insufficiency of redevelopment property tax revenues. During the year ended June 30, 2016, the SARA received $1,837,000 from the City's CDBG fund to service the HUD 108 loans.

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan – On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of $2,050,000,000 of property tax increment in county Supplemental Educational Revenue Augmentation Funds ("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 2009-2010 and $12,800,000 in fiscal year 2010-2011. 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) a combined amount of $74,816,000 to make the SERAF payments ("SERAF Loan"). Sources of the loan were from the City's Low and Moderate Income Housing Fund ($64,816,000) which was specifically authorized by the legislation, and idle moneys from City special funds ($10,000,000). The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

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, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA. As such, the $10,000,000 portion of the SERAF Loan and its related accumulated interest in the amount $160,000 from the City made by funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA's extraordinary items in 2012. In addition, 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 2012.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan made from the Low and Moderate Income Housing Asset Fund administered by the City in the amount of $52,000,000 should not be reported in the ROPS as an enforceable obligation.

On May 26, 2016, the Oversight Board approved the repayment schedule for the SERAF Loan borrowed in 2011 in the amount of $12,816,000 plus accrued interest, and also approved a partial reinstatement of the SERAF Loan to restore the moneys originally loaned from the City's special funds in the amount of $10,000,000. The Oversight Board determined that the remaining portion of the SERAF Loan borrowed in 2010 in the amount of $52,000,000 plus accrued interest in the amount of $905,000 is not an enforceable obligation and directed SARA to remove that portion of the loan from its financial statements. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

Commercial Paper Obligation – During fiscal year 2010, the City, as agent for the Agency, borrowed $12,000,000 from the issuance of commercial paper notes from the Financing Authority's commercial paper program and deposited the funds into the Low and Moderate Income Housing Fund for the purpose of constructing affordable housing. The Oversight Board approved the inclusion of this obligation along with accrued interest and fees as an enforceable obligation totaling $14,227,000. A payment of $4,750,000 was made by the SARA in June 2016. The repayment of the commercial paper proceeds is reported in the ROPS in the amount of $9,477,000 as of June 30, 2016. This obligation is memorialized in the SERAF Loan agreement and was approved by the Oversight Board and Successor Agency Board on May 26, 2016 and June 28, 2016, respectively.

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 ("Original 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"), which amended and restated the Original Agreement in its entirety. 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 related to the Amended Agreement.

At July 1, 2015, the amount due to the County was $44,097,000. During the year ended June 30, 2016, the County withheld $23,640,000 in the RPTTF for payments of its prior years' pass-through payments. In addition, during the fiscal year 2015-2016, the SARA accrued pass-through amounts of $25,741,000 and accumulated interest of $808,000. The total amount due to the County under the pass-through agreement at June 30, 2016 is $47,006,000. 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 County Settlement Agreement. The County 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 County Settlement Agreement, the Agency agreed to pay the County $21,500,000 of County 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. The Agency agreed to make in five installments no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

The SARA had sufficient redevelopment property tax revenues to make the first annual installment payments of $4,712,000 in the fiscal year 2016. As of June 30, 2016, the accrued pass-through payments and accumulated accrued interest are $18,850,000 and $6,439,000, respectively.

Debt Service Requirements – The debt service requirements for all debt are based upon a fixed rate of interest, except 1996 Merged Area Revenue Bonds Series A and B, 2003 Merged Area Revenue Bonds Series A and B, 2010 Housing Set-Aside Bonds Series C, HUD Section 108 Loans and the SERAF Loan, which bear interest at variable rates. For purposes of calculating the annual debt service requirements for variable rate debt at June 30, 2016, the following assumed effective rates have been used:

Debt	Effective Interest Rate
1996 Merged Area Revenue, Series A	0.55%
1996 Merged Area Revenue, Series B	0.54%
2003 Merged Area Revenue, Series A	0.73%
2003 Merged Area Revenue, Series B	0.55%
2010 Housing Set-Aside, Series C	1.70%
HUD Section 108 Loan	0.87%
SERAF Loan	0.55%

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2016, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending	Merged Tax Allocation		Housing Tax Allocation Bonds (1)		Merged Area Revenue Bonds (2)		Pledge and Other Agreements	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 62,920	$ 68,471	$ 11,890	$ 12,060	$ 6,230	$ 883	$ 13,125	$ 5,502
2018	65,905	65,374	12,510	11,566	4,595	1,145	13,765	4,840
2019	68,205	62,138	13,165	11,045	4,675	1,347	14,450	4,132
2020	71,330	58,668	13,840	10,492	4,765	1,529	15,155	3,398
2021	74,950	54,959	14,560	9,902	5,245	1,597	15,895	6,180
2022-2026	407,440	214,437	79,780	39,698	28,585	5,542	43,345	160
2027-2031	403,785	111,229	81,495	21,510	14,815	1,992	-	-
2032-2036	279,210	30,395	59,460	5,896	7,600	136	-	-
2037-2041	5,400	115	-	-	-	-	-	-
Total	$ 1,439,145	$ 665,786	$ 286,700	$ 122,170	$ 76,510	$ 14,171	$ 115,735	$ 24,212

Year Ending	Obligations with 3rd Parties		Obligations with the City		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 16,312	$ 6,760	$ 27,566	$ 430	$ 138,043	$ 94,106
2018	6,512	377	4,727	-	108,014	83,302
2019	1,890	424	-	-	102,385	79,086
2020	1,990	442	-	-	107,080	74,529
2021	2,100	388	-	-	112,750	73,026
2022-2026	12,221	875	-	-	571,371	260,713
2027-2031	-	-	-	-	500,095	134,731
2032-2036	-	-	-	-	346,270	36,427
2037-2041	-	-	28,408	109	33,808	224
Total	$ 41,025	$ 9,266	$ 60,701	$ 539	$ 2,019,816	$ 836,144

(1) *Assumes the 2010C Bonds would not be payable upon demand in the event that there is not a further extension of the April 28, 2017 Mandatory Purchase Date. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.*

(2) *Assumes the 1996 A/B and 2003 A/B Bonds would not be payable on demand upon expiration of the LOCs on March 31, 2018. 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 SARA's Senior Tax Allocation Bonds Series 1999 and Series 2006D. According to the indentures for these bonds, in the event that such surety bond for any reason lapses or expires, and the remaining amount on deposit in the Bond Reserve Fund (as defined in the indentures) are less than the Bond Reserve Requirement (as defined in the indentures), the SARA is to address such shortfall by delivering to the trustee (i) a replacement surety bond, insurance policy or letter of credit or (ii) make the required deposits to the Bond Reserve Fund.

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. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.

Long Term Reimbursement Advance – When redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City Council 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 (4^{th} and San Fernando Parking Facility Project); Education Revenue Augmentation Fund ("ERAF") payments; and the SARA annual administrative budget and City support service expenses. On September 26, 2013 (as amended on August 27,2015), the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement in order to establish an obligation for the SARA to repay the City for these advances.

Effective September 22, 2015, with the passage of SB 107, a city may loan funds to a Successor Agency that receives an insufficient distribution from the RPTTF and an enforceable obligation shall be deemed to be created for such loans. The receipt and use of such funds shall be reflected on the ROPS and subject to the approval of the Oversight Board. The interest payable on any such loan shall be calculated on a fixed annual simple basis at a rate not to exceed the most recently published interest rate for funds deposited into the Local Agency Investment Fund during the previous fiscal quarter. The repayment of such loan shall be subordinate to other approved enforceable obligations. Given the relevant provisions of SB 107, a reimbursement agreement is no longer necessary to establish the obligation to repay such loan. The City has advanced $13,070,000 as of June 30, 2016 to the SARA for its enforceable obligations and other administrative expenses, and the SARA did not repay these amounts to the City.

4. Commitments and Contingencies Related to SARA

Environmental Land Remediation Obligation

A review of the SARA's property during the year ended June 30, 2016 reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses), except the Miraido property and Convention Center South Hall Site as discussed below. In the unlikely possibility, given dissolution, a land remediation obligation occurs on a property due to a change in the purpose (i.e., convert to housing or retail project), the SARA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

Miraido Property - On December 2, 2010, the Agency received a Notice of Responsibility from the County for soil remediation at the Miraido Village Site located at 560 North 6th Street in San José. The Agency as owner of the underlying land leased the site under a ground lease (the "Ground Lease") to the Japantown Development Limited Partnership ("Miraido"). Miraido constructed an apartment complex on the Ground Lease site. The Agency received a Notice of Responsibility as an additional responsible party. The cleanup process is currently underway with Miraido's consultant working with the Santa Clara County Department of Environmental Health on finalizing the details of the cleanup process. As of June 30, 2016, Miraido's consultant at the direction of Miraido is continuing to mitigate the environmental contamination of the site. It is anticipated that it will take approximately one to two years to complete. Upon completion, Miraido expects to receive a 'No Further Action" letter.

Miraido is responsible for all cleanup activities under its Ground Lease with the Agency. Miraido's consultant has estimated that the cost to achieve case closure is approximately $450,000 at Miraido's cost, with which the SARA's consultant concurs. Under the Ground Lease, Miraido is required to indemnify the SARA if the SARA incurs any costs as a result of the condition of the property. As of June 30, 2016, the SARA has not incurred any cleanup cost. Miraido's failure to indemnify the SARA as required under the Ground Lease would constitute a default under the Ground Lease.

Convention Center South Hall Site – The South Hall Site is contaminated with gasoline and diesel products. The San Francisco Regional Water Quality Control Board ("Regional Board") has requested a Site Management Plan be prepared for the site. The Regional Board also requested a residential deed restriction be placed on the South Hall Site. A Phase I and Phase II study of the South Hall Site was prepared for the Agency indicating site contamination. There are no immediate plans to prepare a Site Management Plan. The extent and cost of mitigating the contamination is unknown.

Arbitrage Obligation

Subsequent to the dissolution of the former Agency, the SARA Board appointed the City Director of Finance as the SARA's Chief Financial Officer. The Chief Financial Officer directed a comprehensive review of compliance with regulatory and tax compliance of the SARA's debt portfolio. As a result of that review, it was determined that arbitrage rebate calculations were required for a number of the outstanding tax-exempt bonds in SARA's debt portfolio. The City on behalf of the SARA has engaged the services of a rebate consultant. Staff of both the SARA and the City are working with the rebate consultant to complete the calculations. The SARA may owe arbitrage rebate to the IRS, but at this point the amount due is unknown.

Litigation Against County Auditor-Controller SARA

The City, on its own behalf, and the SARA filed a lawsuit on June 26, 2012, entitled *City of San Jose as Successor Agency to the San Jose Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.,* Case No. 34-2012-8000190, in the Superior Court for Sacramento County. The suit seeks to compel the County Auditor Controller to disburse funds to the Successor Agency which the Agency previously received as tax increment. In June, 2012, the County began withholding a portion of defined tax increment claiming the withheld amounts were special levies, including 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"). The County asserted that, although it previously disbursed these funds to the Redevelopment Agency as tax increment, the Agency was never entitled to receive funds attributable to these levies. The lawsuit will also determine the priority of the County's pass-through payments under the Amended Agreement. The Sacramento Superior Court ruled that the County Auditor Controller could not withhold funds attributable to the PERS levy from the Successor Agency and the Redevelopment Dissolution Law did not require the County to subordinate its pass through payments to any Agency debt other than secured bond debt. The Superior Court did not rule on the Water District Levy.

The City and County both appealed the Superior Court decision to the Third District Court of Appeal, Case No. C074539 ("Court of Appeal"). The Court of Appeal held oral argument on September 26, 2016. On November 3, 2016, the Court of Appeal issued a decision finding that the PERS levy tax increment was wrongfully withheld by the County prior to September 22, 2015, and the issue of the withholding of that increment after that date to the present is to be the subject of a further trial court hearing. In addition, the appellate court found that the County's pass through agreement was subordinate to bond debt of the Agency, but not other Agency debt based upon the express provisions of the Redevelopment Dissolution Law.

The County has continued to withhold the revenues associated with the special levies, and at June 30, 2016, the amount withheld from the SARA is approximately $39,113,000. It should be noted that SB 107, which became effective on September 22, 2015, contains a provision that special property taxes approved by the voters of a taxing entity to make payments in support of pension programs or in support of capital projects and programs related to the State Water Project, and levied in addition to property taxes, shall be allocated to, and when collected shall be paid into, the fund of that taxing entity, unless the amounts in question are pledged as security for payment of an enforceable obligation and needed for payment thereof. SB 107 will affect the future allocation of funds distributed by the County-Auditor Controller into the SARA's RPTTF.

D. Subsequent Events

1. Tax and Revenue Anticipation Note

On July 1, 2016, 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 "2016 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 2016 Note bearing interest at a variable rate based on a LIBOR rate, plus a margin of 0.325% for Bank fees. Under the Note Purchase Agreement, at the City's option on any interest payment date, the City may prepay the 2016 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 2016 Note is a pledge of the City's 2016-2017 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 2016 Note has a stated maturity of June 30, 2017.

2. Norman Y. Mineta San José International Airport

Airport Revenue Bond Ratings - On September 2, 2016, Fitch Ratings reaffirmed the ratings for the City's Airport revenue bonds at "A-", with a stable rating outlook. Fitch Ratings also reaffirmed the underlying "BBB+" rating on the bank note associated with subordinated commercial paper notes series A-1 (non-AMT), A-2 (non-AMT/Private Activity), B (AMT) and C (Taxable) with a stable rating outlook.

On October 27, 2016, Moody's Investors Service reaffirmed the ratings for the City's Airport revenue bonds at "A2", with a stable rating outlook.

Potential Claim - The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current Lease and Operating Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as "Rentable Terminal Space" under the terms of the Airline Lease and Operating Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2, and the City will therefore take a position with the passenger airlines that the City is only liable to the passenger airlines for one year's overpayment of terminal rents in the approximate amount of $2.5 million.

At this time it is impossible to predict the outcome of this potential unasserted claim, the possible loss or range of loss, or whether the unasserted claim will be made and if made, when it would be resolved.

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

On October 10, 2013, the SARA Oversight Board approved the transfer of government purpose assets with the book value of $9,890,000 at June 30, 2014 to the City. The SARA transferred seven properties with the book value of $2,442,000 in July 2015, and the remaining properties with the book value of $7,448,000 transferred in August 2016. The transfer of these properties was reviewed and approved by the DOF.

In July 2016, the SARA sold property (92 South Montgomery Street) to Imwalle Annex HBD, LLC, with the net book value of $1,364,000 for $613,000 and recognized a loss of $754,000 after transaction costs.

In August 2016, the SARA sold property (226 Balbach Avenue) to the City with the book value of $2,375,000 for $2,400,000 and recognized a net gain of $23,000 after transaction costs. The net proceeds of $1,918,000 were used to redeem 2003 Merged Revenue Series A bonds and $480,000 was used to pay the accrued interest owed to the County under the County Settlement Agreement.

In August 2016, the SARA sold property (300 South Almaden Boulevard) to the County of Santa Clara with the net book value of $1,304,000 for $96,000 and recognized a loss of $1,209,000 after transaction costs.

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City of San José
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2016
($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							
Taxes:							
Property	$ 255,210	262,810	489	263,299	-	263,300	
Sales	190,260	201,840	(43)	201,797	-	201,797	
Utility	114,825	114,825	(1,351)	113,474	-	113,474	
State of California in-lieu	435	435	(25)	410	-	410	
Franchise	47,582	48,932	17	48,949	-	48,949	
Business Tax	44,425	49,725	1,139	50,864	-	50,864	
Other	14,700	16,300	265	16,565	-	16,565	
Licenses, permits and fines	64,077	67,077	2,779	69,856	-	69,856	
Intergovernmental	5,522	10,190	(1,087)	9,103	-	9,103	
Charges for current services	41,908	45,798	2,312	48,110	-	48,110	
Other revenues	36,784	40,798	3,784	44,582	-	44,582	
Investment income	3,158	3,144	968	4,112	546	4,658	(1)
Total revenues	818,886	861,874	9,247	871,121	546	871,668	
EXPENDITURES							
Current:							
General government	161,274	138,888	(18,303)	120,585	(28,492)	92,093	(2)
Public safety	557,153	531,059	(14,236)	516,823	(2,902)	513,921	(2)
Community services	143,717	148,790	(8,320)	140,470	(8,355)	132,115	(2)
Sanitation	2,651	2,624	(920)	1,704	(14)	1,690	(2)
Capital maintenance	205,467	150,212	(47,747)	102,465	(17,141)	85,324	(2)
Capital outlay	-	26,832	-	26,832	-	26,832	
Debt service:			-	-	-		
Principal	2,168	525	938	1,463	-	1,463	
Interest	1,200	1,200	-	1,200	-	1,200	
Total expenditures	1,073,630	1,000,130	(88,588)	911,542	(56,904)	854,638	
Excess (deficiency) of revenues over expenditures	(254,744)	(138,256)	97,835	(40,421)	57,450	17,030	
OTHER FINANCING SOURCES (USES)							
Capital lease financing proceeds	-						
Loan proceeds	-	-	-	-	-	-	
Proceeds from sale of capital assets	4,388	4,388	(540)	3,848	-	3,848	
S A R A			-	-	-	-	
Operating transfers in	10,962	10,962	(709)	10,253	-	10,253	
Operating transfers-out	(28,796)	(28,822)	776	(28,046)	-	(28,046)	
Total other financing sources (uses)	(13,446)	(13,472)	(473)	(13,945)	-	(13,945)	
Net change in fund balances	(268,190)	(151,728)	97,362	(54,366)	57,450	3,085	
Fund balance - beginning	268,915	268,915	-	268,915	47,040	315,954	
Beginning encumbrance	-	-	-	44,395	(44,395)	-	
Fund balance - ending	$ 725	117,187	97,362	258,944	60,095	319,039	

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.

City of San José
Housing Activities
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	
REVENUE							
Intergovernmental	$ 5,716	7,915	(981)	6,934	-	6,934	
Investment income	1,009	1,089	1,347	2,436	59	2,495	(1)
Other revenues	7,452	14,712	(2,030)	12,682	(6,306)	6,376	(3)
Total revenues	14,177	23,716	(1,664)	22,052	(6,247)	15,805	
EXPENDITURES							
Current:							
Community services	26,685	42,770	(8,653)	34,117	20,140	13,978	(2), (3)
Total expenditures	26,685	42,770	(8,653)	34,117	20,140	13,978	
Excess (deficiency) of revenues over expenditures	(12,508)	(19,054)	6,989	(12,065)	(26,387)	1,827	
OTHER FINANCING SOURCES (USES)							
Transfers in			(537)	(537)	537		
Transfers out	(46)	(77)		(77)		(77)	
Total other financing sources (uses)	(46)	(77)	(537)	(614)	537	(77)	
Net change in fund balances	(12,554)	(19,131)	6,452	(12,679)	(25,850)	1,750	
Fund balance - beginning	38,025	38,025	-	38,025	46,602	84,627	
Add beginning encumbrance balance			-	3,604	(3,604)	-	
Fund balances - ending	$ 25,471	18,894	6,452	28,950	17,148	86,377	

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								
Investment income	$	6,975	6,975	10,852	17,827	236	18,063	(1)
Other revenues			42,190	(6,153)	36,037	(21,705)	14,333	(3)
Total revenues		6,975	49,165	4,699	53,865	(21,469)	32,395	
EXPENDITURES								
Current:								
Community services		10,756	33,005	(13,365)	19,640	(9,608)	10,031	(2), (3)
Total expenditures		10,756	33,005	(13,365)	19,640	(9,608)	10,031	
Excess (deficiency) of revenues over expenditures		(3,781)	16,160	18,064	34,225	(11,861)	22,364	
OTHER FINANCING SOURCES (USES)								
Transfers out		(404)	(404)		(404)		(404)	
Extraordinary gain/loss								
Total other financing sources (uses)		(404)	(404)		(404)		(404)	
Net change in fund balances		(4,185)	15,756	18,064	33,821	(11,861)	21,960	
Fund balance - beginning		28,461	28,461	-	28,461	298,039	326,500	
Add beginning encumbrance balance				-	1,964	(1,964)	-	
Fund balances - ending	$	24,276	44,217	18,064	64,246	284,215	348,460	

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)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 132,480	$ 129,279	$ 123,583	$ 105,297	$ 121,008	$ 77,918	$ 52,315	$ 53,103	$ 56,372	$ 51,192
Contributions in relation to the actuarially determined contributions	132,480	129,279	123,583	105,297	121,008	77,918	52,315	53,103	56,372	51,192
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 186,874	$ 180,226	$ 180,083	$ 180,333	$ 184,750	$ 222,464	$ 239,570	$ 243,196	$ 240,503	**
Contributions as a percentage of covered-employee payroll	70.89%	71.73%	68.63%	58.39%	65.50%	35.02%	21.84%	21.84%	23.44%	

**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, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005
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	7.00%	7.13%	7.25%	7.25%	7.50%	7.75%	8%	8%
Salary increases	3.25% 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.	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.
Amortization payment growth rate	3.25%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
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 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
Mortality	Male and Female RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three 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 2010 using scale AA and set back three years			Male and female RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years.	Male and female RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years and female rates are set forward one year.		Male and female 1994 Group Annuity Mortiality Table. Male rates are set back four years and female rates are set forward one year.

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 129,456	$ 114,751	$ 102,811	$ 103,109	$ 87,082	$ 59,180	$ 54,566	$ 57,020	$ 54,958	$ 51,004
Contributions in relation to the actuarially determined contributions	124,723	114,751	107,544	103,109	87,082	59,180	54,566	57,020	54,958	51,004
Contribution deficiency (excess)	$ 4,733	$ -	$ (4,733)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 257,771	$ 240,678	$ 219,434	$ 217,375	$ 223,158	$ 275,869	$ 308,684	$ 320,993	$ 302,414	-
Contributions as a percentage of covered-employee payroll	48.39%	47.68%	49.01%	47.43%	39.02%	21.45%	17.68%	17.76%	18.17%	0.00%

Because an Actuarially Determined Contribution (ADC) has been calculated historically, the full 10 years of information in the above schedule is required. Contributions reported for FYE 2014 included $4.7 million that should information in the above schedule is required. Contributions reported for FYE 2014 included $4.7 million that should have been credited to the OPEB plan. This amount was corrected in FYE 2016.

Valuation date	June 30, 2014	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	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	5-year smoothed market
Discount rate	7.00%	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	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	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	2.85%	2.43%	3.25%	3.25%	3.90%	3.83%	4.25%	4.25%
COLA	3%	3%	3%	3%	3%	3%	3%	3%
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	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 bene-ficiaries. 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 bene- ficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 Group Annuity Mortality Table was used for healthy retirees and bene-ficiaries. The disabled mortality table used was the 1981 Disability Mortality Table	The 1994 Group Annuity Mortality Table was used for healthy retirees and bene- ficiaries. 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):	2016		2015	
Total pension liability	**PFDRP**	**FCERS**	**PFDRP**	**FCERS**
Service cost (middle of year)	$ 74,531	$ 49,011	$ 74,895	$ 46,795
Interest (includes interest on service cost)	274,488	229,610	262,738	221,690
Differences between expected and actual experience	(8,673)	39,720	21,457	13,005
Changes of assumptions	90,179	205,875	56,311	108,674
Benefit payments, including refunds of member contributions	(186,939)	(173,318)	(176,253)	(164,562)
Net change in total pension liability	243,586	350,898	239,148	225,602
Total pension liability - beginning	3,976,513	3,341,250	3,737,364	3,115,648
Total pension liability - ending	$ 4,220,099	$ 3,692,148	$ 3,976,513	$ 3,341,250
Plan fiduciary net position				
Contibutions - employer	$ 132,480	$ 124,723	$ 129,279	$ 114,751
Contibutions - member	21,508	15,920	20,747	13,621
Net investment income	(29,206)	(35,011)	(27,690)	(16,642)
Benefit payments, including refunds of member contributions	(186,940)	(173,318)	(176,253)	(164,562)
Administrative expense	(4,256)	(3,941)	(4,191)	(3,898)
Net change in plan fiduciary net position	(66,414)	(71,627)	(58,108)	(56,730)
Plan fiduciary net position - beginning	3,110,065	1,930,507	3,168,173	1,987,237
Plan fiduciary net position - ending	$ 3,043,651	$ 1,858,880	$ 3,110,065	$ 1,930,507
Net pension liability - ending	$ 1,176,448	$ 1,833,268	$ 866,447	$ 1,410,743
Plan fiduciary net position as a percentage of the total pension liability	72.12%	50.35%	78.21%	57.78%
Covered employee payroll	$ 186,874	$ 257,771	$ 180,226	$ 240,678
Net pension liability as a percentage of covered employee payroll	629.53%	711.20%	480.75%	586.15%

Schedule of Investment Returns – Defined Benefit Pension Plans

	2016		2015	
	PFDRP	FCERS	PFDRP	FCERS
Annual money-weighted rate of return, net of investment expense	(0.85%)	(0.79%)	(0.85%)	(1.07%)

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios – CalPERS

(Dollar amounts in thousands):	2016	2015
Measurement date:	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.03783%	0.01697%
Proportionate share of the net pension liability	$ 1,037	$ 1,056
Covered employee payroll	$ 589	$ 692
Proportionate share of the net pension liability as percentage of covered-employee payroll	176.06%	152.60%
Plan's fiduciary net position	3,671	3,395
Plan's fiduciary net position as a percentage of the total pension liability	77.96%	76.28%

Notes to Schedule:

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)	2016	2015
Actuarially determined contribution	$ 148	$ 107
Contributions in relation to the actuarially determined contributions	156	107
Contribution deficiency (excess)	$ (8)	$ -
Covered - employee payroll	$ 756	$ 589
Contributions as a percentage of covered employee payroll	20.63%	17.06%

Notes to Schedule:

Valuation date:	6/30/2013
Methods and assumptions used to determine contribution rates:	
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization method	Level Percentage of Payroll
Asset valuation method	Market Value
Actuarial Assumptions	
Discount Rate	7.5% (net of administrative expenses)
Projected Salary increase	3.30% to 14.20% Depending on Age, Service and Type of Employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2016. Additional years will be displayed as they occur.

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
6/30/13	75,035	700,525	625,490	11%	184,645	339%
6/30/14	93,605	706,709	613,104	13%	188,189	326%
6/30/15	114,565	739,753	625,188	15%	184,733	338%

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
6/30/13	157,695	870,872	713,177	18%	226,098	315%
6/30/14	199,776	729,406	529,630	27%	234,677	226%
6/30/15	209,761	817,673	607,912	26%	251,430	242%

(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 18, 2016, the City Council approved certain fiscal year 2016 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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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Grant Thornton LLP
150 Almaden Boulevard, Suite 60
San Jose, CA 95113-2015

T 408-275-9000
F 408-275-0582
www.GrantThornton.com

Honorable 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, 2016, 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, 2016.

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 design 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 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 City'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.

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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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2016-001 to 2016-006, that we consider to be significant deficiencies in the City's internal control.

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*.

City's response to findings

The City's response to our findings, which is described in the accompanying Corrective Action Plan, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the City's response.

Intended purpose

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 City'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 City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

San José, California
November 16, 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Grant Thornton LLP
150 Almaden Boulevard, Suite 60
San Jose, CA 95113-2015

T 408-275-9000
F 408-275-0582
www.GrantThornton.com

Honorable City Council
City of San José, California

Report on compliance for each major federal program

We have audited the compliance of City of San José, California (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the City's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).Those standards and the Uniform Guidance 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, 2016.

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 of compliance, we considered the City's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances 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 the Uniform Guidance, 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 a 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. Given these limitations, during our audit we did not identify any deficiencies in the City's 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

San José, California
November 16, 2016

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Agriculture Food and Nutrition Service				
Pass-through California Department of Education Nutrition Services Division:				
Summer Food Service Program for Children	10.559	05394-SFSP-43	$ 51,927	$ -
Total U.S. Department of Agriculture Food and Nutrition Service			51,927	-
U.S. Department of Commerce				
Direct program:				
Economic Adjustment Assistance	11.307	07-79-06769	1,096,792	-
Total U.S. Department of Commerce			1,096,792	-
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	22,893	-
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-06-0021	10,505,148	2,666,326
Housing and Economic Recovery Act 2008 - Neighborhood Stabilization Program I	14.218	B-08-MN-06-0008	3,747	-
Subtotal CDBG - Entitlement Grants Cluster			10,531,788	2,666,326
Emergency Solutions Grant Program	14.231	E14-MC-06-0021	153,428	153,428
Emergency Solutions Grant Program	14.231	E15-MC-06-0021	753,341	728,011
Subtotal Emergency Solutions Grant Program			906,769	881,439
Home Investment Partnerships Program	14.239	M12-MC060215	322,350	-
Home Investment Partnerships Program	14.239	M14-MC060215	1,255,046	-
Home Investment Partnerships Program	14.239	M15-MC060215	7,429,691	622,399
Subtotal Home Investment Partnerships Program			9,007,087	622,399
Housing Opportunities for Persons with AIDS	14.241	CAH14F004	(21,750)	-
Housing Opportunities for Persons with AIDS	14.241	CAH15F004	782,354	738,525
Housing Opportunities for Persons with AIDS	14.241	CAH130005	424,281	416,752
Subtotal Housing Opportunities for Persons with AIDS			1,184,885	1,155,277
Pass-through County of Santa Clara:				
ARRA - Neighborhood Stabilization Program II	14.256	B-09-CN-CA-0054	107,744	-
Total U.S. Department of Housing and Urban Development			21,738,273	5,325,441

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

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	2015-PB-FX-K009	52,693	27,430
Community-Based Violence Prevention Program	16.123	2012-MU-FX-0011	116,795	69,730
Subtotal Community-Based Violence Prevetion Program			169,488	97,160
Services for Trafficking Victims	16.320	2011-VT-BX-K006	1,398	-
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	2012-NY-FX-0002	254,997	-
Missing Children's Assistance	16.543	2014-MC-FX-K039	381,462	-
Enforcement of Protection Orders Program	16.590	2013-WE-AX-0033	185,800	18,067
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2010-UL-WX-0028	34,994	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0211	28,606	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0066	165,072	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0642	30,997	11,907
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0071	19,173	-
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			243,848	11,907
Total U.S. Department of Justice			1,271,987	127,134

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 Labor				
Pass-through State of California, Employment Development Department:				
Workforce Investment Act (WIA)/Workforce Innovation and Opportunity Act (WIOA) Cluster:				
WIA/WIOA Adult Program:				
WIA/WIOA Adult	17.258	K698394201	209,854	-
WIA/WIOA Adult	17.258	K594793202	712,417	503,662
WIA/WIOA Adult	17.258	K698394202	1,602,004	473,608
WIA/WIOA Adult	17.258	K594793500	528,081	-
Subtotal - WIA/WIOA Adult Program			3,052,356	977,270
WIA/WIOA Youth Activities	17.259	K594793301	1,053,524	410,661
WIA/WIOA Youth Activities	17.259	K698394301	1,379,551	427,015
Subtotal - WIA/WIOA Youth Activities			2,433,075	837,676
WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277	K6983941028	176,670	-
WIA Dislocated Worker Formula Grants:				
WIA DLW RD2	17.278	K594793502	1,291,623	439,981
WIA DLW RD1	17.278	K698394501	454,275	-
WIA DLW RD1	17.278	K698394502	793,721	331,884
WIA RR	17.278	K594793541	40,737	-
WIA RR	17.278	K594793293	115,687	-
WIA RR	17.278	K698394292	39,527	-
WIA RR	17.278	K698394540	143,030	-
WIA RR	17.278	K698394541	596,601	-
WIA RR	17.278	K698394293	46,251	-
WIA RR	17.278	K594793292	2,381	-
Subtotal - WIA Dislocated Worker Formula Grants			3,523,833	771,865
Subtotal WIA Cluster			9,185,934	2,586,811
Total U.S. Department of Labor			9,185,934	2,586,811

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

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:				
Airport Improvement Program	20.106	3-06-0226-083-2014	3,525	-
Airport Improvement Program	20.106	3-06-0226-084-2014	28,639	-
Airport Improvement Program	20.106	3-06-0226-085-2015	2,521,139	-
Airport Improvement Program	20.106	3-06-2226-086-2015	11,475	-
Airport Improvement Program	20.106	3-06-0226-087-2015	3,183,938	-
Subtotal Airport Improvement Program			5,748,716	-
Highway Planning and Construction Cluster:				
Pass-through California Department of Transportation:				
Highway Planning and Construction:				
TiMC (HPP 2017) $5.4M	20.205	HPLUL-5005(085)	216,205	-
E. Santa Clara Street Bridge at Coyote Creek	20.205	BRLZ-5005(089)	27,326	-
TCSP Grant - Branham Lane/Montery Highway Rail	20.205	TCSP10-5005(100)	9,382	
Pavement Maintenance - Federal	20.205	STPL-5005(134)	6,216,609	-
North First Street Bicycle Lane Improvements	20.205	HSIPL-5005(123)	18,607	-
OCALA Improvements	20.205	HSIPL-5005(135)	258,870	-
Park Avenue Bicycle Lane Improvements	20.205	HSIPL-5005(121)	3,250	-
Autumn Street Extension	20.205	TCSPL-5005(122)	4,749	-
Smart Intersections Program	20.205	N/A	14,326	-
Subtotal Highway Planning and Construction			6,769,324	-
Recreational Trails Program:				
CMAQ Los Gatos Creek Reach	20.219	SCL110029	212,721	-
Subtotal Recreational Trails Program			212,721	-
Subtotal pass-through California Department of Transportation			6,982,045	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

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 Metropolitan Transportation Commission:				
Highway Planning and Construction:				
The Alameda - A Plan for the Beautiful Way	20.205	STPL-5005(103)	55,906	-
Urban Village Planning for Stevens Creek & Santana Row, Valley Fair and Winchester Urban Villages	20.205	660076	108,195	-
Walk n' Roll San Jose! (Non-infrastructure)	20.205	CML-5005(107)	83,201	-
Walk n' Roll (Non-Infrastructure) Phase 2	20.205	CML-5005(128)	187,994	-
Walk n' Roll San Jose! (Infrastructure)	20.205	CML-5005(108) / CML-5005 (126)	208,754	-
Bucknall Road	20.205	SRTSL-5005(124)	202,496	-
Alameda "A Beautiful Way" Phase 2	20.205	CML-5005(129)	177,908	-
Jackson Ave Complete Streets	20.205	CML-5005(125)	47,206	-
Pedestrian Oriented Signals	20.205	CML-5005(127)	594,301	-
St. John Bike/Ped Phase 2	20.205	CML-5005(131)	106,973	-
San Carlos Multimodal Streetscape Improvements Phase 2	20.205	STPCML-5005(104)	1,098,314	-
Safe Routes to School Program	20.205	CML-5005(133)	16,529	-
Park Avenue Multimodal Improvements	20.205	RPSTPLE-5005(130)	422,550	-
Subtotal pass-through Metropolitan Transportation Commission			3,310,327	-
Subtotal Highway Planning and Construction Cluster			10,292,372	-
Pass-through California Office of Traffic Safety:				
State and Community Highway Safety				
Selective Traffic Enforcement Program	20.600	PT1651	81,407	-
Selective Traffic Enforcement Program	20.600	PT1554	52,337	-
Subtotal State and Community Highway Safety			133,744	-
Total U.S. Department of Transportation			16,174,832	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided To Subrecipients
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	25,000
Total National Endowment for the Arts			25,000	25,000
National Endowment for the Humanities				
Pass-through California State Library:				
Grants to States Programs:				
I Am San Jose	45.310	40-8459 LS-00-14-0005-14	19,622	-
Life Skills Academy	45.310	40-8589 LS-00-15-0005-15	4,943	-
Silicon Valley Employment and Busines Collaborative	45.310	40-8527 LS-00-15-0005-15	69,979	-
I Am San Jose - Continutation	45.310	40-8564 LS-00-15-0005-15	56,015	-
Science at Seven Trees	45.310	40-8590 LS-00-15-0005-15	4,983	-
Subtotal Grants to States Program			155,542	-
Total National Endowment for the Humanities			155,542	-
U.S. Environmental Protection Agency				
Pass-through SF Bay Fund:				
The San Francisco Bay Water Quality Improvement Fund	66.126	W9-00T60701	55,367	-
Total U.S. Environmental Protection Agency			55,367	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Concluded)
Year Ended June 30, 2016

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 Administrator for Community Living				
Pass-through Santa Clara County Social Services :				
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	4300010957	262,578	-
Nutrition Services Incentive Program	93.053	4300010957	83,729	-
Subtotal Aging Cluster			346,307	-
Total U.S. Department of Health and Human Services Administrator for Community Living			346,307	-
U.S. Department of Homeland Security				
Direct programs:				
Hazard Mitigation Grant	97.039	HMGP #1731-44-21	25,834	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2014-FH-00769	387,124	-
Pass-through the Bay Area UASI:				
Homeland Security Grant Program:				
Urban Areas Security Initiative Grant	97.067	N/A	327,792	-
Urban Areas Security Initiative Grant	97.067	N/A	323,351	-
Urban Areas Security Initiative Grant	97.067	2015-00078	152,070	-
Urban Areas Security Initiative Grant	97.067	2014-SS-00093	237,249	-
Subtotal pass-through the Bay Area UASI			1,040,462	-
Total U.S. Department of Homeland Security			1,453,420	-
Total Federal Awards			$ 51,555,381	$ 8,064,386

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, 2016, the City reversed certain accruals and received other cost reimbursements related to the Housing Opportunities for Persons with AIDS (CFDA No. 14.241) in the amounts of $21,750. This amount is reported as negative amounts in the SEFA for the year ended June 30, 2016.

(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) 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	$ 6,769,324
Pass-through Metropolitan Transportation Commission	3,310,327
CFDA No. 20.205 - Highway Planning and Construction	10,079,651
CFDA No. 20.219 - Recreational Trails Program	
Pass-through California Department of Transportation	212,721
Total Highway Planning and Construction Cluster	$ 10,292,372

(7) 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, 2016.

Program Title and Expenditure Category	Grant Number Grant Period	Cumulative Expense through 30-Jun-15	Actual 7/1/15-6/30/16 Non-Match	Actual 7/1/15-6/30/16 Match	Cumulative Expense through 30-Jun-16	Cumulative Program Revenue
Internet Crimes Against Children	2014-MC-FX-K039					
Task Force Program (Federal)	7/01/2014 - 09/30/2016					
Personal Services		$ 175,987	$ 142,780	$ -	$ 318,767	$ 318,767
Operating Expenses		22,837	238,682	-	261,519	$ 261,519
Equipment		77,197	-	-	77,197	$ 77,197
Total		$ 276,021	$ 381,462	$ -	$ 657,483	$ 657,483
Internet Crimes Against Children	IC-1507-7928					
Task Force Program (State)	07/01/2015 - 06/30/2016					
Personal Services		$ -	$ -	$ -	$ -	$ -
Operating Expenses		-	58,495	-	58,495	$ 58,495
Equipment		-	107,679	-	107,679	$ 107,679
Total		$ -	$ 166,174	$ -	$ 166,174	$ 166,174

CITY OF SAN JOSE, CALIFORNIA
Schedule of Findings
Year Ended June 30, 2016

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?	Yes
Noncompliance material to the financial statements noted?	None reported

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 2 CFR 200 Uniform Guidance?	No

Identification of major programs:

Federal Domestic Catalog Number(s)	Name of Federal Program or Cluster
17.258, 17.259, 17.277, 17.278	Workforce Investment Act (WIA)/Workforce Innovation and Opportunity Act (WIOA) Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs:	$1,546,648
Auditee qualified as a low-risk auditee?	Yes

Section II Financial Statement Findings

Finding 2016-001 Risks of decentralized accounting functions, reduced finance department staffing levels

Criteria

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

Condition

The City's preparation of its Comprehensive Annual Financial Report ("CAFR") is a responsibility centralized within the Finance Department who compiles and verifies financial data, accounting estimates and US GAAP application decisions maintained by that department along with those generated by the various departments within the City's decentralized structure.

The process of preparing an accurate CAFR is complicated by the variation in levels of supervisory review, reconciliation and processing flows within the finance and other departments along with the inconsistencies in accounting background among the departments. That coupled with employee turnover among finance functions and in the departments contributes to a challenge in maintaining an internal control environment to prepare an accurate CAFR.

We noticed several areas where this challenge was apparent:

- In the City's General Fund, we encountered an account entitled Other Liabilities with a balance of $30 million at June 30, 2016 for which there were no supporting_subsidiary ledgers to substantiate the composition of the recorded balances. In order to audit the recorded liabilities, we requested the creation of subsidiary ledgers for many of the accounts comprising the $30 million total. Once created and reviewed, , we noted a misapplication of cash receipts where amounts related to cash receipts were recorded as additions to other liabilities rather than reductions of receivables or recognized as revenue. This resulted in an overstatement of $4.1 million in other liabilities, $3.9 million in receivables and $0.2 million in revenue. See Appendix A.
- Pooled bank account reconciliation- some departmental reconciling items such as those for disbursements which had not cleared the bank (outstanding checks) were calculated as the difference between a multi-year summaries of expenses recorded and the a balance of disbursements which had not cleared the bank instead of being supported by a list of actual outstanding checks.
- Accounts receivable and advance/deposit payable, and accrued salaries and wages reconciliations- several departmental accounts receivable subsidiary ledgers provided did not agree to the general ledger, were not prepared timely and had not been through a supervisory review. Identified errors in these accounts are summarized in Appendix A.
- Schedule of Expenditures of Federal Awards- the review controls over this supplemental schedule to the financial statements did not identify errors in the expenditure data for two federal awards. The accuracy of this schedule is important to the annual federal compliance audit which uses this schedule as a basis for determining which federal programs are subject to audit in a given year.
- Loan loss reserve estimate- see following comment.

Cause
As noted in past audits and in other studies, the decentralized nature of accounting responsibilities and the turnover and staffing levels at the City contribute to the instances listed above. We understand the City has made strides in centralizing policies, providing employee training and examining efforts to hire and retain finance personnel. We commend the City for these efforts and encourage continued focus in this area and to ensure the maintenance of subsidiary ledgers and the complete reconciliation of those subsidiary ledgers to the general ledger.

Effect or Potential Effect
Errors such as those noted above are a risk in the current environment.

Views of Responsible Officials
Management concurs. Refer to Management's Corrective Action Plan.

Finding 2016-002 Controls over estimating loan loss reserves

Criteria
Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP. This includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Internal controls over financial statement estimates are particularly important given the important judgements inherent in making those estimates.

Condition
The City maintains a Housing Activities Fund and Low and Moderate Income Housing Asset Fund with total loans to borrowers of $ 131,239 million and $ 506,215 million, respectively, at June 30, 2016. Of those loan balances, management recorded an allowance for uncollectible loans for 43% and 55%, respectively, of the gross loan balances in those funds. Management's estimates were made using a methodology combining an allowance for risk and an allowance for present value discount. Management's methodology is documented and has been consistently applied for several years but the assumptions were not supported by evidence of incurred losses on loans such as historical results, industry data, actual performance of individual loans or current credit quality of the borrower. US GAAP outlines use of an incurred loss model when estimating loan losses. Inherent in that model is that a loss has occurred as of the financial statement date for a loan loss reserve to be accrued. In other words, expected future losses are not accrued, no matter how likely. Management was asked to provide evidence supporting the reasonableness of assumptions applied in the estimate. For example, we inquired about the policy to record a 40% reserve on certain categories of loans. Management was not ultimately able to adequately support the assumptions applied even though they were able to demonstrate they had complied with their policy.

We recommend management review loan reserve methodology in the context of applicable accounting standards and enhance documentation supporting the basis for assumptions and rates applied to the loans to estimate the reserve. We were able to independently develop an estimate within an acceptable range of the recorded balance to satisfy our audit objective.

Cause
The assumptions used in developing the loan loss reserve are based on an internal policy and have not been supported by evidence of incurred loss rates consistent with US GAAP's incurred loss model.

Effect or Potential Effect
Financial statements may be misstated if key assumptions in accounting estimates are not supported by evidence.

Views of Responsible Officials
Management concurs. Refer to Management's Corrective Action Plan.

Finding 2016-003 Informational Technology: City-Wide Information Security Program

Criteria
Internal controls over financial reporting are reliant on information technology ("IT") controls which are designed effectively. In that regard, an effectively designed IT environment is one where an organization:
(a) develops, documents, and disseminates to appropriate personnel, policies that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance; and procedures to facilitate the implementation of the policy and associated controls; and,
(b) periodically reviews and updates the current policy and procedures.

Condition
Systems impacted: The specific information systems impacted by the below findings were provided separately to management. In addition, the Grant Thornton team met with individual system owners and points of contact to discuss the nuances of these findings which varied slightly based on information system use, architecture, and other factors.

An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. Overall policies and plans are developed at the entity-wide level. System and application-specific procedures implement the entity-wide policy. Ongoing monitoring of control design, implementation, and operating effectiveness should also be applied so that the program includes continuous monitoring processes.

Critical within a well-established information security program are documented policies, procedures, and guidance, security roles and responsibilities identified and appropriately delineated across the organization, and performing ongoing evaluations to ensure that policies and controls intended to reduce risk are effective. Without these aspects, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Grant Thornton noted weaknesses within Management's information security program; specifically:

- Management had not assigned security responsibilities associated with its decentralized control environment. For example, there was no assignment of a centralized Chief Information Security Officer ("CISO") and/or Information Security Officer(s). Further decentralized information systems did not have a Component Security Officer ("CSO") or individual that was assigned to ensure the system/location met overarching security requirements.

- Management had not finalized, published, and communicated formal policies and procedures related to information technology (IT) control processes. Examples of draft policies and IT controls not formally documented include:

Policies in draft	**Not addressed in policy**
Acceptable use	Baseline security configuration setting and monitoring
Access to network and systems	Auditable event and monitoring
Anti-virus	Application change & emergency change management
Business continuity and disaster recovery	Incident response
Data classification and handling	Vulnerability scanning
Encryption	Security training
Information security	Backup and data retention
Network security	
Password	
Secure system development	

- Management did not have a processes implemented to perform continuous monitoring. Specifically, Management did not:
  - Perform periodic risk and vulnerability assessments, penetration testing, continuous monitoring through scanning or agent-based software tools, or perform other cybersecurity activities in order to identify, track and resolve security threats.
  - Perform security configuration management processes to establish and monitor platforms and software against best practices.

Cause
Due to budget constraints and significant reductions in Information Technology Department (ITD), Management has not developed or resourced an IT governance structure and processes that appropriately support the risks and threats associated with an organization of the City's size and with the added complexities of decentralization. Furthermore, while Management was in the process of finalizing and implementing City-wide policies and procedures over IT systems, they had not developed ongoing monitoring procedures to protect the integrity of financial data, nor were appropriate processes in place in order to monitor potential security threats.

Effect or Potential Effect
A lack of formal security responsibilities, as well as, policies and procedures related to security controls increases the risk that implementation of control activities may not be consistent throughout the divisions / components within the City.

Failure to perform network security vulnerabilities and penetration assessments increases the risk that the information system's security weaknesses are not identified and investigated in a timely fashion.
Failure to implement and monitor recommended security configuration and best practice settings increases the likelihood of misconfigurations that may be exploited.

Inadequate information security frameworks may lead to lapses in security requirements and consistent implementation across decentralized locations.

This could lead to errors, data loss, inappropriate access, and other risks with the potential to impair the confidentiality, integrity, and availability of systems and data. These issues may result in unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems, which may lead to misstatements on the financial statements.

Views of Responsible Officials
Management concurs. Refer to Management's Corrective Action Plan.

Finding 2016-004 Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring

Criteria
Internal controls over financial reporting are reliant on information IT controls which are designed effectively. In that regard, an effectively designed IT environment is one where an organization maintains the following: Account Management includes the following criteria:

a. Identifies and selects the types of information system accounts needed to support organizational missions/business functions;
b. Assigns account managers for information system accounts;
c. Establishes conditions for group and role membership;
d. Specifies authorized users of the information system, group and role membership, and access authorizations (i.e., privileges) and other attributes (as required) for each account;
e. Requires approvals by appropriate personnel for requests to create information system accounts;
f. Creates, enables, modifies, disables, and removes information system accounts in accordance with organization-defined procedures or conditions;
g. Monitors the use of information system accounts;
h. Notifies account managers when accounts are no longer required, when users are terminated or transferred, and when individual information system usage or need-to-know changes;
i. Authorizes access to the information system based on a valid access authorization, intended system usage, and other attributes as required by the organization;
j. Reviews accounts for compliance with account management requirements periodically; and,
k. Establishes a process for reissuing shared/group account credentials (if deployed) when individuals are removed from the group.
l. restrictions on the use of shared accounts such as defining the specific criteria that must be met in order to use a shared account and termination of the shared account credentials when members leave the group.

Password Strength the organization employs the principle of strong passwords, requiring credentials of reasonable complexity and inactivity-based log-out.

Separation of Duties the organization documents separation of duties of individuals and defines information system access authorizations to support separation of duties. Separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of malevolent activity without collusion. Separation of duties includes, for example: (i) dividing mission functions and information system support functions among different individuals and/or roles; (ii) conducting information system support functions with different individuals (e.g., system management, programming, configuration management, quality assurance and testing, and network security); and (iii) ensuring security personnel administering access control functions do not also administer audit functions.

*Least Privileg*e the organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions.

Access Restrictions for Change the organization defines, documents, approves, and enforces physical and logical access restrictions associated with changes to the information system. Organizations should maintain records of access to ensure that configuration change control is implemented and to support after-the-fact actions should organizations discover any unauthorized changes.

Audit Events the organization:
a. Determines that the information system is capable of auditing organization-defined auditable events;
b. Coordinates the security audit function with other organizational entities requiring audit-related information to enhance mutual support and to help guide the selection of auditable events;
c. Provides a rationale for why the auditable events are deemed to be adequate to support after-the-fact investigations of security incidents; and,
d. Determines that the organization-defined audited events are to be audited within the information system along with the frequency of (or situation requiring) auditing for each identified event.

Audit Review, Analysis, and Reporting the organization reviews and analyzes information system audit records periodically for indications of inappropriate or unusual activity and reports findings to the appropriate personnel or role within the organization. Information security-related auditing performed by organizations can include, for example, auditing that results from monitoring of account usage, remote access, wireless connectivity, mobile device connection, configuration settings, system component inventory, use of maintenance tools and nonlocal maintenance, physical access, temperature and humidity, equipment delivery and removal, communications at the information system boundaries, use of mobile code, and use of VoIP.

Condition
Systems impacted: The specific information systems impacted by the below findings were provided separately to management. In addition, the Grant Thornton team met with individual system owners and points of contact to discuss the nuances of these findings which varied slightly based on information system use, architecture, and other factors.

System authorization, access, and account management controls must be used to limit system activities to ensure legitimate use, least privilege, and segregation of duties. Access controls provide assurance that critical systems assets are safeguarded and that logical access to sensitive applications, system utilities, and data is provided only when authorized and appropriate. Further, broad or special (privileged) access privileges, such as those associated with operating /database system software, administrative accounts, and /or superusers, may allow normal controls to be overridden or otherwise circumvented. Additionally, a lack of logging and monitoring broad or privileged access may result in unusual or suspicious activity going unidentified. Grant Thornton noted the following. Grant Thornton noted Management should address the following:
Account Management

- Management did not have a process to consistently document and retain approvals related to initial authorization and ongoing changes to user's access for seven systems tested.
- Management did not perform periodic access recertification for users (including privileged users) and system accounts for 11 systems tested.
- Management did not define the timeframe in which a separated employee or contractor's access from the Network must be disabled after separation and the timeframe in which a reassigned employee's access must be reviewed and updated after reassignment.

Password Configuration
Grant Thornton noted that there was no consistent password policy City-wide for the systems identified above. As a result we noted that password security configuration settings were not consistently aligned with best practices across the network, platforms, and devices. Specifically, we noted information systems did not meet some or all of the following:

- Minimum length requirements
- Enforce the use of alpha numeric characters
- Restrict the use of common words; and,
- Apply password expiration

In addition, we noted that information systems did not log users out after a period of inactivity or lock users out after a set number of failed password attempts.

Broad / Privileged User Accounts

- For one system tested we noted the IT team had access to the operating system and the database.
- Management did not consistently segregate system management functions such as user and system administration from functional responsibilities for seven systems tested. Further system users had IT administrative responsibilities.
- We noted that an system / tool was utilized to make direct changes to production data for a system tested. This tool enables users to bypass transactions made via the applications in the normal course of business, circumvent manual controls in place and update data directly in the database. Per discussion with Management, users require approvals before making changes to data via this tool; however; there were no systematic restrictions that required approvals prior to the updates being made.

Shared Accounts

- We noted instances where systems utilized shared accounts which negate accountability of use. Specifically a shared account was used to make direct data changes via the tool described above and to transfer information into systems.

Audit Logging and Monitoring

- Management did not log and/or monitor activities associated with privileged user accounts (e.g. system administrators, user administrators, network administrators, operators, and developers) for four systems tested. Further one system had limitations which did not allow it to log activities.
- We noted a lack of formally defined auditable events (such as privileged use, invalid password attempts, key configuration changes, or changes made directly to financial data), investigation and analysis processes.

Cause

- Management had not implemented a policy and procedures that appropriately documents account management requirements as part of their internal control framework.
- Management had not defined City-wide password security configurations. Additionally, some information systems did not have the technical capability to enforce password configuration best practices.
- Management had not defined requirements for privileged user accounts, shared accounts, logging/ monitoring, and segregation of duties in policy and procedures.

Effect or Potential Effect

Account Management

- Without formally completing or approving access requests, changes or timely terminations of access, there is an increased risk of inappropriate or unauthorized access to information systems and financial data.
- Without a periodic review of user and system accounts, there is a greater probability that an access change made in error would not be identified in a timely manner.
- Without defining the requirements around logical and physical access removal for separated or reassigned employees and contractors, there is an increased risk that access will not be removed or will not be removed in a timely manner. This access may allow inappropriate access to execute system functions. This could also lead to a license violation issue.

Password Configuration

Failure to implement recommended security settings and best practices for passwords increases the likelihood of account compromise by malicious users

Broad / Privileged User Accounts

- Failure to effectively restrict access to applications based on job function and employ adequate segregation of duties increases the risk for abuse of system privileges, fraud, and inappropriate activity without collusion.
- Direct data changes bypass system transactions and controls and therefore increase the risk of inappropriate updates to data. This may impact the organization's ability to rely on the completeness, accuracy, and validity of financial data. Further, the use of shared user accounts on a production system reduces the audit and accountability of users within the system and password security. In other words, there is no traceability of user's activity to perform these changes to production data.

Shared Accounts

Shared accounts negate accountability of use in that Management is not able to identify the user that made changes.

Audit Logging and Monitoring

Failure to maintain adequate logging and monitoring of higher risk application events and privileged access increases the risk that suspicious activities may not be identified and investigated.

This could lead to errors, data loss, inappropriate access, and other risks with the potential to impair the confidentiality, integrity, and availability of systems and data. These issues may result in unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems, which may lead to misstatements on the financial statements.

Views of Responsible Officials
Management concurs. Refer to Management's Corrective Action Plan.

Finding 2016-005 Information Technology: Change Management

Criteria
Internal controls over financial reporting are reliant on IT controls which are designed effectively. In that regard, an effectively designed IT environment is one where an organization:

a. Determines the types of changes to the information system that are configuration-controlled;
b. Reviews proposed configuration-controlled changes to the information system and approves or disapproves such changes with explicit consideration for security impact analyses;
c. Documents configuration change decisions associated with the information system;
d. Implements approved configuration-controlled changes to the information system;
e. Retains records of configuration-controlled changes to the information system for an organization-defined time period;
f. Audits and reviews activities associated with configuration-controlled changes to the information system; and,
g. Coordinates and provides oversight for configuration change control activities through an organization-defined configuration change control element (e.g., committee, board).

Condition
Systems impacted: The specific information systems impacted by the below findings were provided separately to management. In addition, the Grant Thornton team met with individual system owners and points of contact to discuss the nuances of these findings which varied slightly based on information system use, architecture, and other factors.

Change management processes provide assurance that software, data, and other changes associated with information systems are approved and tested so they do not introduce functional or security risks. A disciplined process for testing, approving, and migrating changes between environments, including into production, is essential to ensure that systems operate as intended and that no unauthorized changes are implemented.

Grant Thornton noted that Management did not have a process to consistently document and retain evidence related to change management activities including change request and approval, scheduling, initiation, testing, implementation approvals and post-implementation review for eight systems tested. In addition, we noted that City personnel do not have access to source code for one system tested, which is handled by the vendor, but were responsible for user acceptance testing and certain approvals, which were not consistently documented and retained.

Cause

As part of the internal controls framework, management has not incorporated a policy and procedure to periodically monitor and review the configuration items that are migrated to production. Additionally, IT personnel did not consistently document and retain evidence related to change management activities (e.g. change request and approval, scheduling, initiation, testing, implementation approvals and post-implementation review).

Effect or Potential Effect

Without formally completing or approving change management activities for system changes, patches and modifications, there is an increased risk that change management controls will not be completed. Without effective control over changes that are migrated to the production environment, there is an increased risk that an inappropriate code change could be introduced into the production environment, potentially impacting the financial statement and related processes (i.e. cash accountability, financial reporting, etc.).

Inappropriate code change could have a negative impact on system functionality, availability, or ability to produce complete and accurate financial data. These issues may result in unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems, which may lead to misstatements on the financial statements.

Views of Responsible Officials

Management concurs. Refer to Management's Corrective Action Plan.

Finding 2016-006 Fair value of investments held in Retirement Plans under GASB 72 (applicable to Office of Retirement Services and reported for Informational Purposes)

Criteria

Establishing and maintaining an internal control structure is an important management responsibility. To provide reasonable assurance that an entity's objectives will be achieved, the internal control structure should be under ongoing supervision by management to determine that it is operating as intended and that it is modified as appropriate for changes in conditions.

Condition

Grant Thornton noted that the Retirement Office had not developed a comprehensive analysis of valuation techniques applied to its level 1 investments, level 2 investments, level 3 investments and investments measured using the net asset value and did not have a clearly articulated means of demonstrating how fair values recognized in the financial statements were validated.

GASB 72 became effective for the Retirement Office for the year ended June 30, 2016 with presentation of comparable 2015 information required. GASB 72 requires new disclosures in the financial statements regarding the inputs to the valuation techniques applied in determining the fair values of the investments in the Retirement Office's investment portfolios. This necessitates analysis by management of methods used by the custodian and investment managers to measure fair value and to undertake periodic validation of the amounts provided by those parties.

GASB 72 does not change the accounting treatment for the investments, but rather defines fair value and the way it is to be measured and recognized in financial statements, establishes new disclosure requirements and sets new expectations regarding related documentation. Historically the standard practice had been limited to accepting values provided by third parties on the basis of an expectation that they had effective controls over fair value measurements.

Cause
The Retirement Office did not have a process in place for fully implementing this new accounting standard.

Effect or Potential Effect
Clear support was not initially provided demonstrating management's understanding of valuation techniques and the related validation of amounts provided by the custodian and investment managers.

Management should develop and implement a comprehensive policy for fair value measurements which includes, but is not limited to:

- Documentation of the techniques used to value all investment security types
- Periodic review of SOC 1 reports covering the valuation controls in place at the custodian and third party investment managers.

Selected validation of values provided by third parties using independent pricing sources applicable to the particular security types.

Views of Responsible Officials
Management concurs. Refer to Management's Corrective Action Plan.

Section III Federal Award Findings

None reported.

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Management Corrective Action Plan (Unaudited)

Finding 2016-001 Risks of Decentralized Accounting Functions, Reduced Finance Department Staffing Levels

Management Response:
The City believes the control deficiencies identified during the audit are not significant. During the audit, the total amount of potential adjustments ($10.8 million) identified for fiscal year 2015-2016 was smaller than the total adjustments ($20.7 million) for fiscal year 2014-2015. For the General Fund, the total adjustments were $8.3 million for fiscal year 2015-2016, while the adjustments were $16.0 million for fiscal year 2014-2015.

All of the potential adjustments were deemed immaterial by Grant Thornton and no adjustments were required to this year's financial statements. Additionally, the listing and detailed discussion of adjustments are materially insignificant in the entirety of the City's financial statements.

The City will address the following areas identified by Grant Thornton:

- Other Liabilities: The Finance Department will work with departments to ensure a regular reconciliation of subledgers for Other Liabilities are reconciled to the general ledger.
- Pooled bank account reconciliation: The Finance Department will work with departments to ensure that a list of outstanding checks is submitted to the Finance Department to support the outstanding checks reported in the City-wide cash bank reconciliations.
- The Finance Department will continue to encourage departments to prepare account reconciliations and ensure these accounts reconcile with general ledger balances, and to provide proper review of schedules including Expenditures of Federal Awards.

The City continues to make modest investments in addressing the challenges associated with the City's decentralized accounting functions, reduced staffing levels in the Finance Department, high staff turnover in certain critical job classifications and increased complexities associated with financial accounting and reporting.

For example, in addition to utilizing additional modules of a new financial reporting software, the Finance Department strategically assigns critical areas of the complex accounting and financial areas to more seasoned employees, when available. In recruiting new employees, the Finance Department continues to evaluate, align, and provide consistency in the experience of professionals throughout the City by working with Human Resources and partners with other departments through active participation in the recruitment of new employees who will be assigned to accounting and fiscal functions throughout the City.

200 East Santa Clara Street, San José, CA 95113-1905 *tel* (408) 535-7000 *fax* (408) 292-6482 www.sanjoseca.gov

Finding 2016-002 Controls over Estimating Loan Loss Reserves

Management Response:
The City believes that the methodology for loan loss reserve is acceptable under GASB rules. The City has used this methodology for twenty seven years and this methodology has withstood internal and regular external audits. In addition, Grant Thornton was able to recalculate the loan loss reserve and Grant Thornton's methodology produced a result similar to the City's loan loss reserve. The City is committed to performing a regular and ongoing evaluation of the City's affordable housing loan portfolio and maintaining formal documentation of the loan loss reserve methodology including evidence-based assumptions and review of peer agencies.

Finding 2016-003 Informational Technology: City-Wide Information Security Program

Management Response:
The audit identifies significant resource needs that Management concurs with. In August 2016, the City recognized increasing cybersecurity risks affecting its functions and operations. The City is in the process of developing its first dedicated Cybersecurity function to confront emerging risks associated with data exfiltration, malware, social engineering, denial-of-service attacks, and advanced persistent threats. Management recognizes the importance of information and systems security to the organization's fiscal status, insurability, compliance with laws and regulations, and overall wellbeing.

The City is currently building the cybersecurity program around the NIST Cybersecurity Framework. The model addresses the following critical functions to adequately address the security of information and electronic assets: Identify, Protect, Detect, Respond, Recover. Policies in draft are being modified to include feedback from this audit and the work on the Office of the City Auditor. Management will focus more heavily on the Identify and Protect functions initially per the recommendations of this audit.

Finding 2016-004 Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring

Management Response:
Individual items are accurate and Management concurs with the Audit Criteria. Nonetheless, overall risk of occurrence and impacts of occurrence are most probably minor in the context of financial reporting—e.g. limits on network access restrict non-employee access; database edits would cause anomalies that would evidence elsewhere in reporting; small staff sizes extant in the City demands some roles be combined; and no evidence has emerged of any malicious activity.

Management agrees with the need to develop mature Access Control processes and Awareness and Training.

Finding 2016-005 Information Technology: Change Management

Management Response:
Comments are accurate and Management concurs with the Audit Criteria. However, overall risk of occurrence and impacts are most probably minor in the context of financial reporting—e.g. change controls occur on a technical level across system and application teams for major changes; backups are available in the event a critical restore of data is required; erroneous changes would likely cause data anomalies elsewhere in financial reports that would trigger review; and no evidence has emerged of any malicious activity.

Management agrees with the need to develop mature Information Protection Processes and Procedures and Awareness and Training. The City will commence implementation of appropriate tools, controls, and training of essential personnel.

Finding 2016-006 Fair Value of Investments Held in Retirement Plans under GASB 72(applicable to Office of Retirement Services and reported for Informational Purposes)

Office of Retirement Services Response:
As part of this year's financial statement preparation process, the Office of Retirement Services (ORS) investment staff documented how manager valuations and their respective valuation policies are utilized internally. In addition staff documented how the Plans' custodian, and general consultants, obtain and report valuations on behalf of the Plans. It is staff's intention to have these valuation procedures imbedded into the formal manager due diligence process currently being documented by an external third party. The formal manager due diligence process will also be formatted into the recent implementation of a research management system including the archiving of manager valuation policies.

In addition to the changes that the Investments team will be implementing in the future, accounting staff of the ORS be obtaining every single Schedule K-1 and audited financial statements for each applicable investment. Then an analysis similar to what was done this year will be completed and compared to the unaudited statements provided by the investment manager to provide assurance and comfort over the valuation that is provided**.**

CITY OF SAN JOSE, CALIFORNIA
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Schedule of Prior Year Findings

None reported for the year ended June 30, 2015.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE PASSENGER FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES

Grant Thornton LLP
150 Almaden Blvd., Suite 600
San Jose, CA 95113

T +1 408 275 9000
F +1 408 275 0582
www.GrantThornton.com

Honorable City Council
City of San José, California

Report on compliance for the Passenger Facility Charge program

We have audited the compliance of Norman Y. Mineta San José International Airport (A Department of the City of San José) (the "Airport") with the types of compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies ("Guide"), issued by the Federal Aviation Administration (FAA), that could have a direct and material effect on its passenger facility charge program (the "PFC program") for the year ended June 30, 2016.

Management's responsibility

Management is responsible for compliance with the requirements described in the Guide as applicable to the Airport's PFC program.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for the Airport's PFC program 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 the audit requirements of 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 direct and material effect on the PFC 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 on compliance for the PFC program. However, our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion on the PFC program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program for the year ended June 30, 2016.

Report on internal control over compliance

Management of the Airport 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 of compliance, we considered the Airport's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the PFC program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the PFC program and to test and report on internal control over compliance in accordance with the Guide, 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 with a type of compliance requirement of the PFC program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 the PFC 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 the PFC 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. Given these limitations, during our audit we did not identify any deficiencies in the Airport's 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 the Guide. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

San José, California
December 1, 2016

CITY OF SAN JOSE, CALIFORNIA
Schedule of Passenger Facility Charge Revenue and Expenditures
Year Ended June 30, 2016

	Passenger Facility Charge Revenues	Interest Earned	Total Revenues	Expenditures on Approved Projects	Under (over) Expenditures on Approved Projects
Fiscal year 2015-16 transactions:					
Quarter ended September 30, 2015	$ 3,195,210	$ 1,408	$ 3,196,618	$ 11,654,794	
Quarter ended December 31, 2015	4,561,704	20,502	4,582,206	-	
Quarter ended March 31, 2016	4,656,631	28,096	4,684,727	13,173,875	
Quarter ended June 30, 2016	8,189,454	66,085	8,255,539	-	
	$ 20,602,999	$ 116,091	$ 20,719,090	$ 24,828,669	(4,109,579)
			Balance, beginning of year		20,441,222
			Balance, end of year		$ 16,331,643

See accompanying notes to the Schedule of Passenger Facility Charge Revenue and Expenditures.

CITY OF SAN JOSE, CALIFORNIA
Notes to the Schedule of Passenger Facility Charge Revenue and Expenditures
Year Ended June 30, 2016

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 $24,828,669 from accumulated PFC Revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in the year ended June 30, 2016.

(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, 2016 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	$ 3,656,081
#40B	Runway 12R/30L Extension	01-12-C-00-SJC	38,671,724	1,654,613
#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	3,916,120
#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	431,550
#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	12,212,305
#68	Terminal B Extension, Phase I	08-16-C-00-SJC	110,159,000	2,958,000
#69	Roadway Improvements: Grade Separations	08-16-C-00-SJC	10,244,000	-
	Total Passenger Facility Charge Projects		$ 919,182,836	$ 24,828,669

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE CUSTOMER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

Grant Thornton LLP
150 Almaden Blvd., Suite 600
San Jose, CA 95113

T +1 408 275 9000
F +1 408 275 0582
www.GrantThornton.com

Honorable City Council
City of San José, California

Report on compliance for the Customer Facility Charge program

We have audited the compliance of Norman Y. Mineta San José International Airport (A Department of the City of San José) (the "Airport") with the types of compliance requirements described in the *California Civil Code Section 1936, as amended by the Senate Bill 1192 and Assembly Bill 359 ("Code"),* that could have a direct and material effect on its customer facility charge program (the "CFC program") for the year ended June 30, 2016.

Management's responsibility

Management is responsible for compliance with the requirements described in the Code as applicable to the Airport's CFC program.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for the Airport's CFC program 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 the audit requirements of the Code. Those standards and the Code 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 the CFC 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 on compliance for the CFC program. However, our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion on the CFC program

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the CFC program for the year ended June 30, 2016.

Grant Thornton

Report on internal control over compliance

Management of the Airport 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 of compliance, we considered the Airport's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the CFC program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the CFC program and to test and report on internal control over compliance in accordance with the Code, 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 with a type of compliance requirement of the CFC program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 the CFC 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 the CFC 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. Given these limitations, during our audit we did not identify any deficiencies in the Airport's 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 the Code. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

San José, California
December 1, 2016

CITY OF SAN JOSE, CALIFORNIA
Schedule of Customer Facility Charges Revenues and Expenditures
Year Ended June 30, 2016

Revenues		
Customer facility charges	$	19,887,878
Facility rent		2,524,361
Investment income		82,854
Total revenues		22,495,093
Expenditures		
Transportation expenditures		2,123,836
Debt service expenditures		17,812,854
Total expenditures		19,936,690
Revenues over expenditures	$	2,558,403

See accompanying notes to the Schedule of Customer Facility Charge Revenues and Expenditures.

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CITY OF SAN JOSE, CALIFORNIA
Note to the Schedule of Customer Facility Charges Revenues and Expenditures
Year Ended June 30, 2016

(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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