

Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2012
San José, California

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Comprehensive Annual Financial Report
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Human Resources

Transportation

City Clerk

Information Technology

City Manager

Parks, Recreation and Neighborhood Services

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November 19, 2012

HONORABLE MAYOR and CITY COUNCIL

**THE COMPREHENSIVE ANNUAL FINANCIAL
REPORT OF THE CITY OF SAN JOSE**

We are pleased to present the Comprehensive Annual Financial Report (“CAFR”) of the City of San José (“City”) for the fiscal year July 1, 2011 through June 30, 2012 as required by Sections 805(a) and 1215 of the City Charter. Although submitted to the Mayor and City Council (“Council”) for consideration, the CAFR is also intended to provide relevant financial information to the residents of San José, taxpayers, creditors, investors, and other interested parties.

This letter of transmittal provides a non-technical summary of City finances, services, achievements, and economic prospects. We ask that readers who wish a more detailed discussion of the City’s financial results refer to Management’s Discussion & Analysis (“MD&A”) contained in the Financial Section of the CAFR.

The City’s Administration is responsible for the accuracy of the information contained in this report, the adequacy of its disclosures, and the fairness of its presentation. We believe this CAFR to be complete and reliable in all material respects. To provide a reasonable basis for making this representation, we have established a comprehensive system of internal controls designed to protect City assets from loss, to identify and record transactions accurately, and to compile the information necessary to produce financial statements in conformity with generally accepted accounting principles.

The City contracted with Macias Gini & O’Connell LLP, a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the City’s financial statements for fiscal year 2011-2012 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an “unqualified” or “clean” opinion. The independent auditor’s report includes explanatory paragraphs discussing the changes to California Redevelopment Law and the dissolution of the Redevelopment Agency of the City of San José (“Agency”); the Special Termination Event under the Continuing Covenant of the 2010 C Housing Set-Aside Tax Allocation Bonds; the uncertainties over the validation of certain obligations and asset transfers of the former Agency to the City and its related entities; and that the actuarial value for the City’s two pension systems reflect actuarial accrued liabilities exceeding the actuarial value of their assets for both the retirement and postemployment healthcare plans. The independent auditor’s report is included in the Financial Section of this report.

In addition, Macias Gini & O’Connell LLP is in the process of auditing the City’s major program expenditures of federal funds for compliance with the Federal Single Audit Act Amendments of 1996, the Office of Management and Budget Circular A-133 regulating Single Audits, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR, and when completed, may be obtained upon request from the City’s Department of Finance.



Letter of Transmittal (Continued)

This CAFR is organized into three sections:

- The Introductory Section is intended to familiarize the reader with the organizational structure of the City, the nature and scope of City services, and specifics of the City's legal operating environment.
- The Financial Section includes Management's Discussion & Analysis, Basic Financial Statements, Notes to Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for each of the City's major funds, non-major governmental funds, as well as proprietary funds, internal service funds, and fiduciary funds. This section also contains the independent auditor's report on the Basic Financial Statements.
- The Statistical Section presents up to ten years of detailed statistical data on the City's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.

REPORTING ENTITY

San José is a charter city that has operated under a council-manager form of government since 1916. Under the City Charter, the Mayor and Council form the legislative body that represents the community and is empowered to formulate Citywide policy. The Council consists of a Mayor and ten Council members. The Mayor is elected at large for a four-year term, and Council members are elected by district for staggered four-year terms. The Mayor and Council members are limited to two consecutive four-year terms. Under the Charter, the Mayor recommends policy, program, and budget priorities to the Council, which in turn approves policy direction for the City. The City Manager is appointed by the Council and serves as the chief administrative officer of the organization responsible for the administration of City affairs, day-to-day operations, and implementation of Council policies. In addition to the City Manager, the City Attorney, City Clerk, City Auditor, and Independent Police Auditor are appointed by and report directly to the Council.

Prior to February 1, 2012, the Council had been acting as the Redevelopment Agency Board and had the authority to appoint the Director of the Redevelopment Agency ("Agency") to administer redevelopment projects and programs. Pursuant to the passage of state legislation in 2011, AB X1 26, redevelopment agencies in California were dissolved effective February 1, 2012. Effective February 1, 2012, the Council became the Successor Agency to the Redevelopment Agency of the City of San José ("SARA") and per the legislation assets, properties, contracts, leases, books, records, buildings and equipment were transferred to SARA on February 1, 2012 by operation of law. SARA is responsible for the management of City redevelopment projects currently underway, making payments identified on the Enforceable Obligation Payment Schedule ("EOPS") and the subsequent Recognized Obligation Payment Schedules ("ROPS"), and the orderly disposition of assets and properties. Activities of SARA are supervised by a seven-member Oversight Board that has authority over the former Agency's financial affairs and is comprised of representatives of the local taxing agencies that serve the San José redevelopment project area: the City, County of Santa Clara, special districts, and educational agencies.

The City provides a range of municipal services, including police and fire protection, sanitation services, environmental management, maintenance of streets and infrastructure, and the administration of library services, recreational activities, and cultural facilities. The City operates a parking program, a municipal water system, a wastewater treatment facility, the Mineta San José International Airport, and three municipal golf courses. In addition, the City oversees convention, cultural event and hospitality facilities that include the San José McEnery Convention Center, Center for the Performing Arts, California Theatre,

Letter of Transmittal (Continued)

Mexican Heritage Plaza, Dolce Hayes Mansion and Conference Center, and the HP Pavilion at San José – home of the San José Sharks of the National Hockey League.

San José covers approximately 179 square miles at the south end of the San Francisco Bay and is the county seat of Santa Clara County. With a 2012 estimated population of 971,372¹, it is the tenth largest city in the United States and the third largest city in California. In addition, San José is the oldest city in California, developing from a Spanish pueblo established on November 29, 1777. The City has transformed dramatically from the rich agricultural setting of its early years into the largest city in the Silicon Valley, known as the “Capital of Silicon Valley.” Silicon Valley is home to many of the world’s largest technology companies and is a global center of technology innovation. Service providers account for approximately 78 percent² of the employment in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (“MSA”) with the majority of employment related to professional and business services, education and health services, government, and retail. In addition, durable goods manufacturing, primarily computer equipment, semiconductor components, and electronic instruments, accounts for approximately 16.3 percent³ of the MSA employment.

The CAFR includes all funds of the City, as well as all governmental organizations and activities for which the Council has financial accountability. These organizations include the former Agency through its dissolution date, Parking Authority of the City, San José-Santa Clara Clean Water Financing Authority, the City’s Financing Authority, and the San José Diridon Development Authority. The CAFR also includes SARA for the five-month period ended June 30, 2012.

ECONOMIC CONDITION and FISCAL OUTLOOK

Fiscal year 2011-2012 finished with encouraging though modest signs of improvement in City revenue growth. However, the City still faces fiscal challenges for its long-term financial outlook. The City’s five-year Fiscal Reform Plan (“Reform Plan”) approved by the Council in fiscal year 2010-2011 continues to be a policy guide and operational blueprint for the development of future budgets to achieve fiscal stability and organizational sustainability. The Reform Plan envisions achieving General Fund savings through implementing recommendations related to revenues, retirement costs, organizational changes, and service delivery efficiencies.

On June 5, 2012, San José voters approved a comprehensive pension reform measure that established parameters for a new pension benefit structure for new City employees (“Tier 2”), established higher employee retirement contribution rates for current City employees who choose to stay in the existing plan, and provided current City employees the choice to opt in to a lower cost retirement plan with a reduced benefit structure from the existing plan. The implementation of the Tier 2 plan was effective for all members of the Federated City Employees’ Retirement System hired on or after September 30, 2012. The City will continue to focus on controlling the growth in retirement costs to maintain financial stability and to ensure appropriate levels of service delivery for San José residents.

The City Council approved a balanced fiscal year 2012-2013 budget in June 2012. Ten prior consecutive years of budgetary shortfalls required significant reductions in services, staffing, and compensation to achieve balanced budgets, but the fiscal year 2012-2013 budget allowed for setting aside a \$9.0 million reserve to help address a forecasted \$22.5 million shortfall⁴ in fiscal year 2013-2014. This two-year “bridge” strategy is intended to provide a smooth transition towards the projected budgetary stabilization

¹ State of California, Department of Finance, Population Estimates for Cities and Counties, January 2012.

² State of California, Employment Development Department, Labor Market Information Division, March 2012.

³ State of California, Employment Development Department, Labor Market Information Division, March 2012.

⁴ City Manager’s Budget Message, May 1, 2012.

Letter of Transmittal (Continued)

occurring over the next several years. The prior decade of budget shortfalls also required the sustained use of surplus reserves.

In fiscal year 2012-2013, the City aims to begin the effort to restore key services in public safety, and maintenance of City critical infrastructure areas at the same level of January 1, 2011. The fiscal year 2012-2013 budget includes the funding to: (1) open four newly constructed libraries and one community center that had been unopened due to budget constraints; (2) begin to address the critical replacement, repair, and maintenance at City facilities and infrastructure; (3) address essential operational and organizational needs; (4) continue implementing new models for service delivery to improve efficiency, reduce costs, and enhance service levels.

In addition to these budgetary challenges, the City faces the likely impacts associated with State actions dissolving the former Agency. The dissolution process, in conjunction with the lingering effects of the economic downturn, will require City funds be expended in fiscal year 2012-2013 and possibly beyond to ensure payment of SARA obligations that the City would be contractually obligated to pay, as well as administrative costs due to the forecasted insufficiency in redevelopment property tax increment revenues to pay for all obligations.

The San José June 2012 unemployment rate of 9.7 percent represents an improvement over the June 2011 unemployment rate of 11.4 percent, and although better than the statewide rate of 10.7 percent⁵, it is still high compared to historic local norms. While San José and the nation continue to face uncertain economic times, the City will strive to maintain a course of fiscal prudence and community engagement to achieve budgetary stability and sustainability.

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. Although the Moody's and S&P ratings reflect a one-notch downgrade from the prior year, the City remains the highest rated large city (with population over 250,000) in California, and third highest among the nation's ten largest cities. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence and sound financial operations and strong budgetary practices. However, rating agencies express concern that years of budget pressures resulting in service cuts and labor concessions may make future cuts more challenging. Overall, the current maintenance of these ratings translates to significant interest cost savings in the City's debt program which in turn benefit the taxpayers of the San José community.

SIGNIFICANT EVENTS and ACCOMPLISHMENTS

Highlights of activities and accomplishments for the fiscal year ended June 30, 2012, include the following:

- ❖ In August 2011, the Norman Y. Mineta San José International Airport (the "Airport") received a national award for Innovative Design in Engineering and Architecture with Structural Steel from the American Institute of Steel Construction in recognition of the new Terminal B and Terminal B Concourse. This award is considered the most prestigious award in the structural steel industry for outstanding achievements in engineering and architecture on steel-framed building projects. The Airport was one of 14 winners from approximately 100 competing projects across the nation judged on the creative use of structural steel including design, visual impact, and architectural advances.
- ❖ In August 2011, the renovated Watson Park was reopened. The park had been closed since 2005 as a result of the discovery of refuse materials uncovered during excavation on the site that required

⁵ State of California, Employment Development Department, Labor Market Information Division, June 2012.

Letter of Transmittal (Continued)

remediation. The 35-acre park now has two soccer fields, basketball courts, a playground, dog parks for both small and large dogs, restrooms, and a parking area.

- ❖ In August 2011, the San José Housing Department won the 2011 National Association of Housing and Redevelopment Officials Award of Excellence for the Casa Feliz Studio project that provides affordable rental apartments for low-income tenants in San José. The award recognizes outstanding innovation and achievement in housing and community development programs throughout the country. The Casa Feliz Studio project has sixty affordable rental apartments for low-income tenants and twenty-one units set aside for residents with developmental disabilities.
- ❖ In September 2011, Happy Hollow Zoo received the 2011 Jean M. Hromadka Excellence in Animal Care Award. This award was given based on outstanding animal husbandry, enrichment for all species, research, exhibit design, public education, and the national accreditation of Happy Hollow Zoo.
- ❖ In September 2011, the Environmental Services Department received LEED Gold Certification from the U.S. Green Building Council for the City's Environmental Services Building ("ESB") located on Zanker Road, adjacent to the San José/Santa Clara Water Pollution Control Plant. This is the second highest level of certification of green buildings. The ESB achieved all seventeen energy efficiency and renewable energy credits, making it one of the most energy efficient buildings in San José.
- ❖ In September 2011, the San José Housing Department was selected to be the first recipient of the Robert C. Larson Workforce Housing Public Policy Award. This award recognized exemplary state and local efforts that provide ongoing and sustainable support for the production, rehabilitation, or preservation of workforce housing. The Housing Department was recognized for implementing successful public policies to address workforce housing needs of working families.
- ❖ In October 2011, Storm Water Solutions Magazine selected the San José Environmental Innovation Center ("SJEIC") as a winner of the Storm Water Solution Top Project for innovative use of storm water pollution measures. The SJEIC uses technologically advanced green design elements to ensure all runoff is treated prior to entering the storm drain system. The technology includes a modular wetland mechanical unit, which is one of the first successful adaptations of this technology in Northern California, as well as a bioretention area consisting of a special soil mix (sand, topsoil, and compost) specifically designed for this project.
- ❖ In October 2011, the City received the 2011 National Medal for Museum and Library Service for meeting the information and learning needs of its diverse community, innovative and educational programs, and for providing its customers with on demand services and self-service options that enhance their library experience. The City's library system was the first municipal library in California and one of only ten libraries in the nation to receive the award.
- ❖ In November 2011, the MetLife Foundation and Local Initiatives Support Corporation selected the San José Police Department ("SJPD"), Strong Neighborhoods Initiative, and CommUniverCity as one of the top ten projects from around the country to receive the 2011 Community & Policy Partnership Award for Neighborhood Revitalization. A successful partnership model between community organizations in the McKinley and Olinder neighborhoods and SJPD worked to reduce crime, and revitalize and improve safety in neighborhoods.
- ❖ In November 2011, the City received the "Community Bay Steward" award at Save the Bay's annual event. San José was recognized for adopting the most comprehensive ordinance to reduce single-use carryout bags in the nation. Several local, state, and federal legislators, community leaders, non-profits, regulators and private sector partners participated in the event. Save the Bay is the largest regional organization working to protect, restore, and celebrate San Francisco Bay.

Letter of Transmittal (Continued)

- ❖ In December 2011, the City's Parks, Recreation and Neighborhood Services Department ("PRNS") won the 2012 Learning Resources Network International Award for Marketing. PRNS staff developed an innovative marketing approach that uses Quick Response codes to help increase customer contact, market programs, and improve customer retention.
- ❖ In December 2011, the City became the first city in the nation to earn the E-Stewards Enterprise designation from the Basel Action Network, which recognizes companies, institutions, and government bodies that commit to globally responsible recycling and refurbishment of electric equipment. The E-Stewards Enterprise designation recognized the City's achievements in upholding the high standards for the responsible management of e-waste, such as adopting an Environmentally Preferable Procurement Policy and committing to do business with certified recyclers.
- ❖ In January 2012, The Boys and Girls Club of Silicon Valley ("BGCSV") honored the City's PRNS Reuse Program with the 2011 Community Partner Government Award. As a Reuse Program Partner, the Boys and Girls Club operates seven sites throughout the San José providing youth leadership, athletic leagues, community events, and recreational programs. PRNS received this award for being a source of active community supporter, partner, and volunteer for BGCSV.
- ❖ In March 2012, the City was recognized with three awards of excellence by the California Parks and Recreation Society ("CPRS") for three projects: Coyote Creek Trail Master Plan, Guadalupe River Trail Reach 6, and San José Family Camp. The CPRS is an advocate for California's park and recreation professionals.
- ❖ In April 2012, Waste & Recycling News ("WRN") awarded the 2012 Green City Award to San José for having the most effective and successful residential recycling program for a large city in the United States. WRN is a national publication in the solid waste industry, and its annual Green City Awards program recognizes municipalities that have shown exceptional leadership in communicating and promoting residential recycling programs.
- ❖ In May 2012, the Smart Start San José program received an award from the California Child Development Administrators Association, a statewide organization for Program Design in Early Education. The Smart Start San José program promotes quality childcare programs as an essential step for young children's success in school and life.
- ❖ In May 2012, the Envision San José General Plan won the 2012 Comprehensive Planning Large Jurisdiction Award from the Northern California Chapter of the American Planning Association. The award recognized the teamwork across multiple City departments, an extensive community engagement process, and the City's contributions to the field of long-range planning.
- ❖ In June 2012, San José was named a Community Solutions PaceSetter by the Campaign for Grade-Level Reading for promoting youth reading skills. The City was recognized for its collaboration with the Santa Clara County Office of Education and other local partners to enhance early education through the SJ2020 Initiative that supports early learning and school readiness programs. The City is one of 124 cities, counties, and towns nationwide that has committed to significantly increase the number of low-income students who read at their grade level by the end of third grade.
- ❖ In June 2012, the City's Public Library received the 2012 Top Innovator Award from the Urban Libraries Council. The Library was selected for its *Work Wise* literacy program in the category of Education, Literacy and Lifelong Learning. *Work Wise* is a vocational and literacy training program that improves the job performance of workers in San José.

Letter of Transmittal (Continued)

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

The City is committed to providing excellent municipal services to its residents, businesses and visitors. The City organization is structured into six City Service Areas (“CSAs”) that integrate services provided by separate departments and offices into key alignments from the community’s perspective. The CSAs are: Community & Economic Development; Environmental & Utility Services; Neighborhood Services; Public Safety; Strategic Support; and Transportation & Aviation Services. The City publishes a five-year Capital Improvement Program (“CIP”) that guides the City in the planning, scheduling, and budgeting of capital improvement projects. The CIP is updated annually and approved by the City Council. Significant issues and projects included in the 2013-2017 CIP, presented within the CSA structure, are as follows:

Community & Economic Development

The Community and Economic Development CSA seeks to manage the growth and change of the City in order to encourage a strong economy, create and preserve healthy neighborhoods, ensure a diverse range of employment and housing opportunities, and encourage a diverse range of arts, cultural and entertainment offerings. One of the primary capital programs of this CSA is the Developer Assisted Projects Capital Program to ensure that residential developments include the construction of public improvements necessary to maintain or improve the City’s infrastructure. This capital program includes the Underground Utility Fund and the Residential Construction Tax Contribution Fund that facilitate the undergrounding of existing overhead facilities and to reimburse developers for the construction of certain street improvements throughout the City. Funding is derived from fees associated with residential development and as such continues to be impacted by the economic downturn. Program funding of \$8.1 million is allocated for the 2013-2017 CIP, of which \$4.1 million is allocated in 2012-2013.

- The Underground Utility Fund is used to account for developer fees that are collected when a developer opts out of placing facilities underground at the time of development. The Fund is used to establish Rule 20B Underground Utility Districts that combine several smaller undergrounding projects into one large project to achieve economies of scale and minimize the undesirable result of piecemeal undergrounding of utility facilities throughout the City. In addition, the Fund accounts for undergrounding projects financed by Pacific Gas and Electric Company, known as Rule 20A projects, as mandated by the California Public Utilities Commission. AT&T and Comcast also set aside funds to participate in Rule 20A projects. The Developer Assisted Projects Capital Program allocates funding of \$5.8 million for the Rule 20A and Rule 20B programs during the 2013-2017 CIP.
- The Residential Construction Tax Contribution Fund (“RCTCF”) was established to account for taxes collected from developers that construct housing, and in turn reimburse developers that construct qualified improvements on City streets in connection with new residential developments. The principal objective of the program funded by the RCTCF is to achieve the General Plan goal of assigning priority to the installation and maintenance of median island construction and center strip paving.

Environmental & Utility Services

The Environmental and Utility Services CSA Capital Improvement Program is designed to achieve the outcomes of a reliable utility infrastructure; healthy streams, rivers, marsh, and bay; and a safe, reliable and sufficient water supply. In order to help achieve CSA objectives, this capital program is organized in the City’s CIP under the Sanitary Sewer System, Storm Sewer System, Water Pollution Control Plant, and Water Utility System. The fiscal years 2013-2017 combined funding for the four capital programs totals \$617.8 million.

- The Sanitary Sewer System Capital Program for fiscal years 2013-2017 plans funding of \$209.9 million, of which \$102.0 million is allocated in 2012-2013. The program’s funding is used to enhance sewer capacity for economic development and to rehabilitate existing sewers. This level of funding does not include an increase for Sewer Service and Use Charge fees in 2012-2013. However, current

Letter of Transmittal (Continued)

estimates suggest that annual rate increases of approximately 3% would need to resume in 2014-2015 to meet the anticipated needs of this capital program. The Sanitary Sewer System consists of approximately 2,500 miles of sewer mains with a replacement value estimated at \$3.5 billion. Projects of note in this CIP include the construction of a new Fourth Major Interceptor. The Interceptor System is the primary arterial sewage collection point for all local sewer systems of the City and the ultimate conveyance of wastewater to the Water Pollution Control Plant. When completed, the Fourth Major Interceptor will allow for one of the three older interceptors to be removed from service for routine maintenance or rehabilitation.

- The Storm Sewer System Capital Program for fiscal years 2013-2017 plans funding of \$45.3 million, of which \$15.2 million is allocated in 2012-2013. This level of funding did not require a rate increase in fiscal year 2012-2013, and no rate increases were assumed for the four years of the CIP beyond 2012-2013. The existing storm sewer main system is approximately 1,150 miles long. The program's 2013-2017 objectives include the installation of technology and infrastructure to maximize the efficiency of the storm drain collection system; increase the reliability of storm pump stations; manage the quality of storm water runoff; and minimize water from pooling in residential areas. Projects of note in the 2013-2017 CIP include: replacement or rehabilitation of high-priority storm pump stations (\$2.8 million); various small neighborhood storm sewer improvement projects (\$2.7 million); and continuation of the Storm Drainage Improvement – Special Corridors Project (\$3.8 million).
- The San José/Santa Clara Water Pollution Control Plant (“WPCP”) is a regional wastewater treatment facility serving eight sewage collection agencies including municipalities and sanitary sewer districts. The WPCP Capital Program for 2013-2017 plans funding totaling \$339.2 million, of which \$144.3 million is budgeted in 2012-2013. This level of funding does not include a rate increase in 2012-2013, but moderate rate increases were projected for the next four years of this capital program. WPCP's five-year capital program incorporates the anticipated results of a three-year master planning effort for rehabilitating and modernizing the plant that has not been completed, as well as a new packaged approach for implementation of the recommended capital improvement projects. Package 1 includes critical rehabilitation projects covering the various treatment process areas at the Plant. Package 2, not included in the this capital program, will include implementation of several new technology projects to improve, enhance, and replace existing treatment process technologies to be completed over a period of seven years. Package 3, also not included in this capital program, will include end-of-life cycle replacement projects for existing infrastructure to be constructed beyond the 10 to 15-year horizon. Funding options for Packages 2 and 3 may include debt financing to spread costs over the life of the projects and potentially ease the potential impact of rate increases on users. Anticipated projects of note in the 2013-2017 capital program and anticipated costs include: primary tanks rehabilitation (\$33.2 million); biosolids transition technology and digester rehabilitation program (\$66.2 million); headworks repairs (\$13.4 million); advanced process control and automation (\$6.5 million); and site facility improvements (\$32.4 million).
- The Water Utility System Capital Program is developed to ensure reliable infrastructure for the San José Municipal Water System. Municipal Water provides water service to approximately 26,000 customers in five service areas: Evergreen, North San José, Alviso, Edenvale, and Coyote Valley. The Evergreen Service Area contains approximately 92 percent of the total customers served and accounts for 72% of the total water usage in the system. The Water Utility System Capital Program plans funding of \$23.4 million for fiscal years 2013-2017 and includes the construction of new facilities, maintenance of existing infrastructure, and improvements to the existing Municipal Water facilities.

Neighborhood Services

The goal of the Neighborhood Services CSA is to provide services to residents and neighborhoods that promote safe and clean parks, facilities and attractions, and support vibrant cultural, learning and leisure opportunities. In November 2000, San José voters approved a \$228.0 million bond measure for park and recreational facility improvements and a \$212.0 million bond measure for library facility improvements. As

Letter of Transmittal (Continued)

a result of these successful bond measures, major investments in the City's libraries, parks, and community centers have been made over the past decade, and all bond-funded projects are anticipated to be completed within this five-year CIP. Funding for the Neighborhood Services 2013-2017 Capital Program is programmed at \$297.8 million.

- The objective of the Library Capital Program is to provide readily accessible and high quality library services to San José residents. The Library Capital Program provides funding to construct new library facilities, renovate existing facilities, acquire materials, install automation equipment, and support general facility improvements. The 2013-2017 Library Capital Program plans funding of \$57.0 million, of which \$38.2 million is allocated in 2012-2013. A total of \$19.6 million is allocated in the 2013-2017 capital program for the completion of branch library bond projects including the opening of two new branches (Bascom Branch and Southeast Branch) and three expanded/relocated branches (Calabazas Branch, Educational Park Branch, and Seven Trees Branch). Four of the five new and expanded libraries are scheduled to open during 2012-2013. In addition to bond-funded projects, this capital program allocates funding for the acquisition of new library materials (\$18.5 million), automation projects and system maintenance projects (\$4.5 million), and maintenance of library facilities (\$3.0 million).
- The mission of the Parks, Recreation, and Neighborhood Services Department is "*To build healthy communities through people, parks, and programs*". This mission is the basis for the long-term acquisition, development, and maintenance of parks, recreational facilities, trails, and open space through the Parks and Community Facilities Development Capital Program. The 2013-2017 Capital Program allocates funding of \$240.8 million, of which \$162.3 million is allocated in 2012-2013. The 2013-2017 capital program focuses on delivering projects that will help the parks system become financially and environmentally sustainable by building out the trail network, banking land for future park development, constructing artificial turf sports fields, and replacing aging infrastructure. The Parks and Recreation Bond Projects Fund totals \$34.5 million for the anticipated completion of new softball and soccer sports complexes in the 2013-2017 capital program. In addition to bond-funded projects, this capital program includes funding for trail development in the amount of \$12.9 million of which \$10.4 million is budgeted in 2012-2013.

Public Safety

The Public Safety CSA's objective is to provide, maintain, and improve facilities and equipment that support the effective delivery of emergency services. To help effectuate this goal in March 2002, San José voters approved the \$159.0 million Neighborhood Security Act Bond Measure to provide the funding for police and fire capital improvements with the goal of improving response times to emergency incidents, public access to public safety services, and working conditions for public safety personnel. The 2013-2017 Public Safety Capital Program allocates funding of \$50.7 million, of which \$22.1 million is budgeted in 2012-2013. The remaining projects funded by the Neighborhood Security Act Bond Measure are scheduled for completion during the 2013-2017 CIP.

- The Police Department's Public Safety Bond Program projects initially included the construction of a South San José Police Substation, community policing centers, renovation of the 9-1-1 Communications Dispatch Center, and a Driver Safety Training Center. The development of previous Public Safety capital programs included partial defunding of community policing centers and the full defunding of the Driver Safety Training Center in order to fully fund the South San José Police Substation. Although the Police Substation was completed in 2010-2011, its opening has been delayed to September 2013 due to funding constraints for operations.
- Fire Department Public Safety Bond Program projects include the construction of three new fire stations, relocating six fire stations, rebuilding one fire station, consolidating one fire station, remodeling 16 fire stations, and renovating existing fire training facilities. In 2012-2013, the focus will be on completing design work and construction for new and relocated fire stations. In addition to the

Letter of Transmittal (Continued)

funds provided through the Fire Department Public Safety Bond Program, the 2013-2017 CIP budgets \$27.9 million of funding for fire apparatus repair and replacement. The City's investment in fire apparatus has significantly improved the reliability of the Fire Department's fleet and its ability to respond to emergencies in accordance with established response time performance measures.

Strategic Support

The Strategic Support CSA is comprised of internal functions that enable the five other CSAs to deliver services to the community. The City departments which comprise the Strategic Support CSA endeavor to design, build, and maintain City facilities while managing the City's financial and technology systems. The Strategic Support CSA includes the Communications, Municipal Improvements, and Service Yards Capital Improvement Programs. The Strategic Support Capital Improvement Program for fiscal years 2013-2017 programs funding of \$62.1 million.

- The Communications Capital Program includes funding totaling \$6.8 million allocated to communications equipment upgrades and replacement. The Communications Capital Program priorities for 2013-2017 include the replacement of public safety-related communications equipment, maintenance of existing radio equipment to extend useful life, and strategic planning for future communication upgrades and technology changes.
- The 2013-2017 Municipal Improvements Capital Program allocates funding of \$33.1 million, of which \$29.1 million is allocated in 2012-2013. The Municipal Improvements Capital Program budgets funding for capital improvements and maintenance for City facilities and their operating systems not funded in other capital programs. The following projects are included in the funding allocated to 2012-2013: the Convention Center Expansion and Renovation Project (\$14.7 million), the Household Hazardous Waste Las Plumas Facility Project (\$8.4 million), and the Police Communications Emergency Uninterrupted Power Supply Project (\$3.8 million).
- The Service Yard Capital Program allocates funds for the construction and capital improvements for support facilities that maintain City vehicles, buildings, sewer systems, pavement, and related public infrastructure facilities. The 2013-2017 Service Yard Capital Program plans funding of \$32.4 million, of which \$4.0 million is allocated in 2012-2013.

Transportation & Aviation Services

The Transportation and Aviation Services CSA facilitates the provision of a safe and efficient transportation system including freeways, transit, streets, bicycle and parking facilities, and sidewalks, as well as Mineta San José International Airport and its support facilities. Transportation and Aviation infrastructure and services provide an important resource to support the community's livability and economy. The Transportation and Aviation Services CSA includes the Traffic, Parking, and Airport Capital Programs and includes \$630.9 million in funding for fiscal years 2013-2017.

- The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sound surface transportation system, consistent with the goals and policies of the City's General Plan. The General Plan defines a network of major streets, bikeways, pedestrian corridors, and regional transportation facilities needed to support land uses within the City. The 2013-2017 Traffic Capital Program plans funding of \$278.5 million, of which \$110.8 million is allocated in 2012-2013. The maintenance activities in the Traffic Capital Program include pavement maintenance, bridge maintenance, traffic signal rehabilitation, and citywide emergency repairs. The adopted CIP allocates \$109.0 million for maintenance activities, of which \$106.8 million is earmarked for pavement maintenance. In addition \$33.4 million is allocated toward projects and programs that improve operational efficiency and enhance safety of the City's transportation network. The 2013-2017 capital program also allocates \$27.3 million for the development of local transportation enhancements throughout the City including the streets extension, and pedestrian and bicycle related improvements.

Letter of Transmittal (Continued)

- The Parking Capital Program's primary responsibilities are developing new parking facilities, maintaining and improving existing facilities and upgrading, and replacing both on-street and off-street parking equipment. The off-street component of the program currently operates eight garages and nine surface lots with approximately 7,500 parking spaces, mostly in San José's downtown core. The on-street component currently operates approximately 2,600 metered parking spaces in the areas of Downtown, Japantown, Civic Center, and HP Arena/Diridon Station. The 2013-2017 capital program primarily focuses on projects to upgrade equipment, security, and technology of existing parking facilities. The Parking Capital Program for fiscal years 2013-2017 plans funding of \$6.7 million, of which \$3.3 million is allocated in 2012-2013.
- The Airport's Capital Program for fiscal years 2013-2017 totals \$345.7 million, of which \$214.4 million is allocated in 2012-2013. The 2013-2017 CIP focuses on the maintenance and preservation of Airport infrastructure that reflects a transition from the successful completion of Phase 1 of the Terminal Area Improvement Program to the business needs and opportunities beyond the terminal area. Non-terminal area opportunities include the development of the Airport's west side and the rehabilitation of areas in the northeast and southeast of the Airport. In addition, the Airport's Taxiway W Improvements Project addresses safety concerns identified by the FAA Runway Safety Action Team, and will add taxiway capacity and improve airfield efficiency that will support the anticipated development of the Airport's west side for future growth of general aviation. The Airport Capital Program allocates \$41.4 million towards the Taxiway W Improvements Project. Taxiway W construction funding includes extension, reconstruction of taxiways, preventive pavement maintenance, and various improvements pursuant to FAA requirements.

FINANCIAL INFORMATION

The City's Administration is responsible for establishing and maintaining internal controls that safeguard the City's assets from loss, theft, or misuse, and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of federal, state and county funding, the City is responsible for providing assurance that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these award programs. Internal controls are subject to periodic evaluation by management, the Office of the City Auditor, and the City's outside independent auditors.

As part of the City's single audit procedures, tests are performed to determine the effectiveness of the internal controls over major Federal award programs and the City's compliance with applicable laws and regulations related to these award programs.

Budgetary Controls

The City maintains budgetary controls through the City Council's adoption of an annual appropriation ordinance and by maintaining an encumbrance accounting system. Expenditures for City operations and other purposes identified in the annual budget cannot legally exceed the budgeted amounts approved by the City Council.

Letter of Transmittal (Continued)

The City also uses encumbrance accounting as another technique for accomplishing budgetary control. An encumbrance is a commitment of a future expenditure earmarked for a particular purpose that reduces the amount of budgetary authority available for general spending. At the end of the fiscal year, encumbered appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse.

The City continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

Debt Management Policy

The City's Debt Management Policy was adopted by the City Council on May 21, 2002, and is reviewed annually. The Debt Management Policy establishes the following equally important objectives:

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve the highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with applicable State and Federal laws

The first set of program-specific policies, related to the City's multifamily housing program, was adopted by the City Council on June 11, 2002 and subsequently amended on December 6, 2005.

AWARDS

The Government Finance Officers Association ("GFOA") of the United States and Canada awarded its Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2011. This was the twenty-fourth consecutive year the City has received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such report must satisfy accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

The Certificate of Achievement is valid for one year only. The City believes this CAFR continues to conform to the Certificate of Achievement Program requirements and will be submitting it to GFOA for consideration of the annual award.

For the twenty-second consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the fiscal year beginning July 1, 2011. To qualify for this award, the government unit must publish a budget document that meets program criteria as a policy document, a financial plan, an operations guide, and a communications medium.

ACKNOWLEDGMENTS

The preparation of this CAFR represents the culmination of a concerted team effort by the entire staff of the Finance Department. Many members of the Department demonstrated exemplary personal determination and dedicated many long days of focused attention to produce this document.

Letter of Transmittal (Concluded)

In addition, staff in all City departments and the Successor Agency of the Redevelopment Agency should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The City also recognizes the contributions and positive working relationship with Macias Gini & O'Connell LLP.

Finally, we wish to express our sincere appreciation to the Mayor and City Council for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors, especially their role in guiding the City to a secure financial condition that assures resources are available to provide core services to the community.

Respectfully submitted,



DEBRA FIGONE
City Manager



JULIA H. COOPER
Acting Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Jose
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Dandson

President

Jeffrey R. Green

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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California**

Special Performance Measures Recognition

For the Fiscal Year Beginning

July 1, 2011

Linda C. Danson Jeffrey R. Snow

President

Executive Director

San José Mayor & City Council

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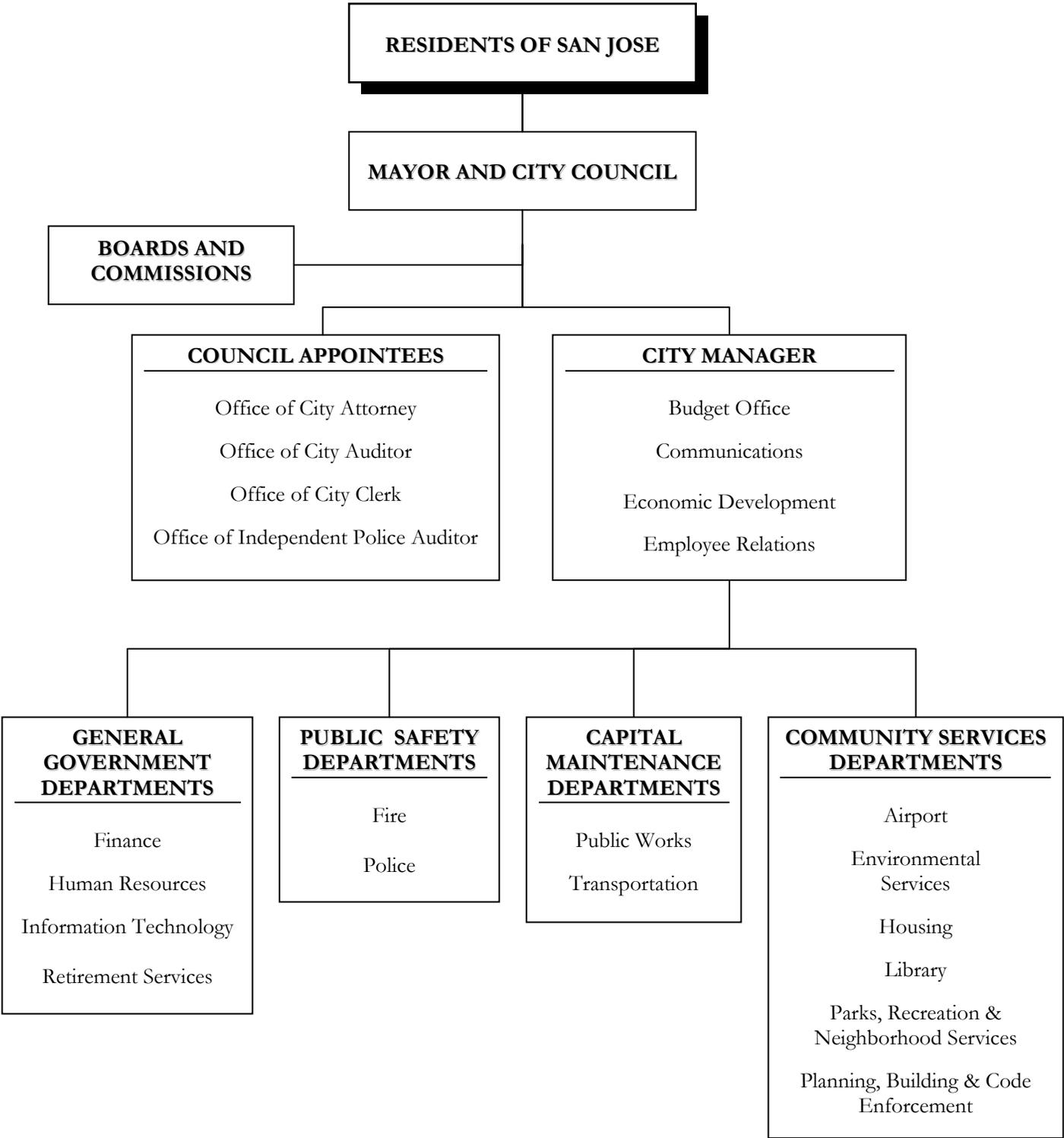


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CITY ORGANIZATION BY FUNCTION



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City Council
City of San José, California

Independent Auditor's Report

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I.A. to the basic financial statements, the California State Legislature enacted legislation that dissolved redevelopment agencies in the State of California as of February 1, 2012. On February 1, 2012, the City, as the Successor Agency to the Redevelopment Agency of the City of San José, became responsible for overseeing the dissolution process and the wind down of redevelopment activity.

As discussed in Note IV.C.3. to the basic financial statements, on June 8, 2012, Moody's Investors Service downgraded the former Redevelopment Agency of the City of San José's Senior Obligations Rating to below "Baa1", which triggered a Special Termination Event under the Continuing Covenant Agreement of its 2010 C Housing Set-Aside Tax Allocation Bonds (Bonds). The Bonds has an outstanding balance at June 30, 2012 of \$88.6 million and are reported as a current liability. For the period commencing on August 15, 2012 and ended on November 15, 2012, the bank agreed to forebear from exercising its rights and remedies under the bond documents in respect to the existing default. Negotiations are presently underway to extend the forbearance agreement. The City cannot predict the outcome of the negotiations.

As discussed in Note IV.D.3. to the basic financial statements, in connection with the Redevelopment Dissolution Law, the County of Santa Clara's Auditor-Controller issued its Agreed-Upon Procedures Report on October 5, 2012, which identified three separate issues questioning a total of \$203.0 million of assets held by the City and a component unit, which are currently in dispute by the City and the Successor Agency to the Redevelopment Agency of the City of San José. The City has requested meet and confer meetings with the State Department of Finance and is in the process of other administrative procedures to resolve these issues. Due to uncertainties with the Redevelopment Dissolution Law, the ultimate outcome of these issues cannot presently be determined, accordingly, no provision for any liability that may result has been recorded in the financial statements. It is reasonably possible that a determination may be made at a later date by an appropriate State or judicial authority that would resolve this matter unfavorably to the City.

As described in Note IV.A.1.4. to the basic financial statements, based on the most recent actuarial valuations as of June 30, 2011, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2011, the value of the defined benefit pension plans' actuarial accrued liability exceeded the actuarial value of their assets by \$510.3 million and \$981.6 million, respectively. Also, as described in Note IV.A.2.4., based on the most recent actuarial valuations as of June 30, 2011, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2011, the value of the postemployment healthcare plans' actuarial accrued liability exceeded the actuarial value of their assets by \$943.1 million and \$1,009.9 million, respectively.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedules of revenues, expenditures, and changes in fund balances – budget and actual for the General Fund, Housing Activities Fund and the Affordable Housing Investment Fund; and the schedules of funding progress listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor governmental, internal service, trust and agency funds financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor governmental, internal service, trust and agency funds financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & Cannel LLP

Walnut Creek, California

November 19, 2012

City of San José
Management's Discussion and Analysis
(Required Supplementary Information - Unaudited)
June 30, 2012

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, 2012. 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 assets for the City's governmental and business-type activities indicates that as of June 30, 2012, total assets exceed total liabilities by \$7.410 billion. Of this amount, \$131.7 million represents unrestricted net assets, which is comprised of a deficit balance of \$197.3 million for governmental activities, and a positive balance of \$329.0 million for business-type activities. In addition, the City's restricted net assets total \$1.068 billion (\$939.5 million for governmental activities and \$128.4 million for business-type activities) and are dedicated to specific purposes. Lastly, net assets of \$6.210 billion are invested in capital assets, net of related debt (\$5.351 billion for governmental activities and \$859.4 million for business-type activities).
- Total net assets increased by \$1.761 billion or 31.2 percent during 2011-2012 from \$5.648 billion to \$7.410 billion. The majority of the increase was primarily due to the extraordinary gain on the dissolution of the former Redevelopment Agency ("Agency") of \$2.062 billion resulting from the transfer of liabilities in excess of its assets to the Successor Agency to the Redevelopment Agency of the City of San José ("SARA"), a private-purpose trust fund reported in the financial statements of the City. Excluding the extraordinary gain, net assets decreased by \$300.6 million.
- In accordance with the decision of the California Supreme Court on December 29, 2011, all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. Prior to that date, the final seven months of activity of the former Agency was reported in the governmental funds and governmental activities of the City. After the date of dissolution, the assets, liabilities, and activities of the former Agency were reported in SARA. The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual in nature and infrequent in occurrence. Accordingly, the movement of the liabilities in excess of its assets of the former Agency as of February 1, 2012 from governmental funds of the City to SARA was recorded as an extraordinary gain in the governmental fund financial statements (\$70.5 million) and in the government-wide financial statements (\$2.104 billion). In connection with the dissolution, the City also incurred extraordinary losses that offset some of this gain including the transfers-out of Housing Activities Fund's cash to pay SARA's enforceable obligations (\$6.9 million) and the invalidation of loans and interest between the former Agency and the City (\$35.3 million). The receipt of these liabilities in excess of assets as of February 1, 2012 was reported in the SARA trust fund as an extraordinary loss (\$2.062 billion). A reconciliation of the difference between the extraordinary gain in the governmental fund financial statements and the government-wide financial statements is shown on page 53 under Note I.F.16.
- Governmental funds reported a combined ending fund balance of \$1.186 billion at June 30, 2012, which is \$62.3 million or 5.0 percent less than the June 30, 2011 balance. The decrease was attributable to the dissolution of the former Agency (\$60.6 million) and a decrease in the fund balance for Housing Activities (\$363.0 million), and Special Assessment Districts (\$26.2 million). These decreases were partially offset by increases in fund balance including the General Fund (\$16.4 million), Affordable Housing Investment Fund (\$355.1 million), and other nonmajor funds (\$16.5 million).
- Unassigned fund balance totals \$49.2 million, which is 4.1 percent of combined governmental fund balances at June 30, 2012.

City of San José
Management's Discussion and Analysis (Continued)
(Required Supplementary Information - Unaudited)
June 30, 2012

- Total long-term obligations decreased by \$1.821 billion to \$3.493 billion at June 30, 2012, which represents a decrease of 34.3 percent compared to \$5.315 billion at June 30, 2011. The primary factor leading to this decrease was the \$2.313 billion transfer of former Agency debt to SARA. This decrease was partially offset by the issuances of the Norman Y. Mineta San José International Airport ("Airport") Revenue Bonds in the amount of \$508.6 million to refund certain variable rate commercial paper notes (a current obligation) (\$354.3 million) and to refund existing revenue bonds totaling (\$92.2 million).

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 the 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 assets** presents information on all assets and liabilities and reports the difference between the two as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 various parking management operations.

The government-wide financial statements include the primary government of the City, the former Agency for a seven-month period, and four separate components for which the City is financially accountable.

City of San José
Management's Discussion and Analysis (Continued)
(Required Supplementary Information - Unaudited)
June 30, 2012

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, former Redevelopment Agency, Housing Activities, Affordable Housing Investment, Special Assessment Districts, and the San José Financing Authority Debt Service, 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 projects 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 management operations in proprietary funds.

The City accounts for its Public Works program support, employee benefits, and stores, 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 the 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 Affordable Housing Investment Fund. In addition, pension and other postemployment healthcare schedules present the City's progress toward funding its obligations to

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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 assets: As noted earlier, net assets may serve as a useful indicator of a government's financial position. As of June 30, 2012, the City's total assets exceed total liabilities by \$7.410 billion.

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

Statement of Net Assets
June 30, 2012 and 2011
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Assets:						
Current and other assets..... \$	1,616,435	1,646,164	786,254	745,374	2,402,689	2,391,538
Capital assets.....	6,597,594	7,090,733	2,158,564	2,206,930	8,756,158	9,297,663
Total assets.....	<u>8,214,029</u>	<u>8,736,897</u>	<u>2,944,818</u>	<u>2,952,304</u>	<u>11,158,847</u>	<u>11,689,201</u>
Liabilities:						
Current and other liabilities.....	154,890	259,550	101,211	466,655	256,101	726,205
Long-term liabilities.....	1,966,262	4,173,724	1,526,807	1,140,808	3,493,069	5,314,532
Total liabilities.....	<u>2,121,152</u>	<u>4,433,274</u>	<u>1,628,018</u>	<u>1,607,463</u>	<u>3,749,170</u>	<u>6,040,737</u>
Net assets:						
Invested in capital assets, net of related debt.....	5,350,666	3,810,801	859,392	889,674	6,210,058	4,700,475
Restricted net assets.....	939,509	622,241	128,361	122,534	1,067,870	744,775
Unrestricted net assets.....	(197,298)	(129,419)	329,047	332,633	131,749	203,214
Total net assets..... \$	<u>6,092,877</u>	<u>4,303,623</u>	<u>1,316,800</u>	<u>1,344,841</u>	<u>7,409,677</u>	<u>5,648,464</u>

At June 30, 2012, the City reported positive balances in all three categories of net assets on a total basis.

Net assets invested in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire them) of \$6.210 billion comprise 83.8 percent of the City's total net assets. 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 2011-2012, net assets invested in capital assets, net of related debt for governmental activities increased by \$1.510 billion primarily due to the net effect of transfers of the former Agency's capital related long-term debt (\$1.945 billion) and capital assets (\$180.4 million) to SARA.

A portion of the City's net assets, \$1.068 billion or 14.4 percent are subject to legal restrictions on their use, including \$939.5 million in governmental activities and \$128.4 million in business-type activities. During 2011-2012, restricted net assets increased by \$323.1 million primarily due to the transfer of the former Agency's Housing Tax Allocation Bonds (\$329.0 million) to SARA. Of the total net assets, \$131.7 million or 1.8 percent represents unrestricted net assets, which comprises a deficit balance of \$197.3 million for governmental activities, and a positive balance of \$329.0 million for business-type activities.

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Primary factors contributing to the governmental activities deficit balance are the City's other postemployment benefits and workers' compensation long-term liabilities.

During 2011-2012, the City's total net assets increased by \$1.761 billion or 31.2 percent. The increase in total net assets is primarily attributed to an extraordinary gain of \$2.062 billion resulting from the transfer of liabilities in excess of assets to SARA. Excluding the extraordinary gain, total net assets decreased by \$300.6 million, or \$81.4 million lower than the decrease of \$382.0 million experienced in 2010-2011. Expenses decreased by \$104.6 million from the prior fiscal year.

Notable changes in the statement of net assets between June 30, 2012 and June 30, 2011 include:

- Capital assets decreased by \$541.5 million or 5.8 percent compared to the prior fiscal year. Governmental capital assets decreased by \$493.1 million and business-type capital assets decreased by \$48.4 million. The decrease in governmental capital assets resulted from transfers of the former Agency's capital assets to SARA totaling \$180.4 million, and depreciation expense of \$362.7 million for major infrastructure and other assets. The decrease in governmental capital assets was slightly offset by additions (net) to capital assets of \$58.8 million. The decrease in business-type capital assets was primarily due to depreciation expense of \$81.3 million but was offset by additional projects at the Wastewater (\$13.8 million) and at the Airport (\$16.5 million). Projects completed as of June 30, 2012 include the Terminal Equity Improvement, Terminal B Phase I project, airport signage, surface parking, South Loop parking, and airfield improvements.
- Current and other assets increased by \$11.2 million or 0.5 percent due to an increase of \$40.9 million for business-type activities, which was partially offset by a decrease of \$29.7 million for governmental activities. The increase in current assets for business-type activities is due to the net proceeds of \$43.9 million from the issuance of revenue bonds to refund existing bonds and certain commercial paper notes for Airport capital projects. The decrease in governmental activities is primarily the result of a decrease in cash balances of governmental activities due to the payment of pension contributions during the year.
- Long-term liabilities decreased by a net amount of \$1.821 billion or 34.3 percent. The net decrease was primarily the result of the transfer of the former Agency's long-term debt (\$2.313 billion) to SARA. The decrease was partially offset by the issuance of 2011 Airport revenue bonds (\$508.6 million) to refund various short-term commercial paper notes (\$354.3 million) and revenue bonds (\$92.2 million). In addition, the Airport used \$21.9 million of the proceeds to pay down various revenue bonds.
- Current and other liabilities for the City decreased by \$470.1 million or 64.7 percent due to a decrease of \$104.7 million for governmental activities and a decrease of \$365.4 million for business-type activities. The decrease for governmental activities is primarily due to short-term liabilities previously recorded by the former Agency (\$138.9 million) that are now recorded in the SARA financial statements. The decrease for business-type activities is primarily the result of a \$7.9 million pay down of commercial paper notes payable and the refunding of \$354.2 million of short-term commercial paper notes payable with long-term bonds for the Airport.

Unrestricted net assets for governmental activities decreased by \$67.9 million or 52.4 percent resulting in a deficit balance of \$197.3 million at year-end. A significant part of the reduction in unrestricted net assets is the result of continued under-funding of the annual required contribution of the City's other postemployment benefits thereby increasing its net other post employment benefits obligation (NOPEBO) and reducing net assets by an additional \$68.1 million. At June 30, 2012, the City's NOPEBO balance for governmental activities is \$292.2 million.

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

Statement of Activities
For the Years Ended June 30, 2012 and 2011
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011
Revenues:						
Program revenues:						
Fees, fines, and charges for services.....	\$ 340,932	316,858	362,623	349,167	703,555	666,025
Operating grants and contributions.....	123,829	100,045	670	701	124,499	100,746
Capital grants and contributions.....	22,749	33,041	10,899	19,413	33,648	52,454
General revenues:						
Property taxes.....	404,877	481,145	-	-	404,877	481,145
Utility taxes.....	110,912	108,528	-	-	110,912	108,528
Franchise fees.....	41,709	41,273	-	-	41,709	41,273
Transient occupancy taxes.....	22,451	18,102	-	-	22,451	18,102
Sales taxes shared revenue.....	154,026	137,970	-	-	154,026	137,970
State of California in-lieu.....	2,611	4,889	-	-	2,611	4,889
Business taxes.....	41,134	37,963	-	-	41,134	37,963
Unrestricted interest and investment earnings....	6,950	8,142	3,562	3,886	10,512	12,028
Other revenue.....	21,207	33,237	-	-	21,207	33,237
Total revenues.....	<u>1,293,387</u>	<u>1,321,193</u>	<u>377,754</u>	<u>373,167</u>	<u>1,671,141</u>	<u>1,694,360</u>
Expenses:						
General government.....	111,996	148,515	-	-	111,996	148,515
Public safety.....	490,442	487,659	-	-	490,442	487,659
Community services.....	247,518	254,481	-	-	247,518	254,481
Sanitation.....	135,543	129,138	-	-	135,543	129,138
Capital maintenance.....	473,674	515,909	-	-	473,674	515,909
Interest and fiscal charges.....	123,696	163,280	-	-	123,696	163,280
Norman Y. Mineta San José International						
Airport.....	-	-	200,380	195,867	200,380	195,867
Wastewater Treatment System.....	-	-	149,980	147,283	149,980	147,283
Municipal Water System.....	-	-	29,260	24,600	29,260	24,600
Parking System.....	-	-	9,290	9,630	9,290	9,630
Total expenses.....	<u>1,582,869</u>	<u>1,698,982</u>	<u>388,910</u>	<u>377,380</u>	<u>1,971,779</u>	<u>2,076,362</u>
Deficiency before transfers and extraordinary items	(289,482)	(377,789)	(11,156)	(4,213)	(300,638)	(382,002)
Transfers.....	3,357	5,303	(3,357)	(5,303)	-	-
Extraordinary gain (loss) on dissolution of the former Redevelopment Agency.....	2,075,379	-	(13,528)	-	2,061,851	-
Change in net assets.....	<u>1,789,254</u>	<u>(372,486)</u>	<u>(28,041)</u>	<u>(9,516)</u>	<u>1,761,213</u>	<u>(382,002)</u>
Net assets at beginning of year	<u>4,303,623</u>	<u>4,676,109</u>	<u>1,344,841</u>	<u>1,354,357</u>	<u>5,648,464</u>	<u>6,030,466</u>
Net assets at end of year.....	<u>\$ 6,092,877</u>	<u>4,303,623</u>	<u>1,316,800</u>	<u>1,344,841</u>	<u>7,409,677</u>	<u>5,648,464</u>

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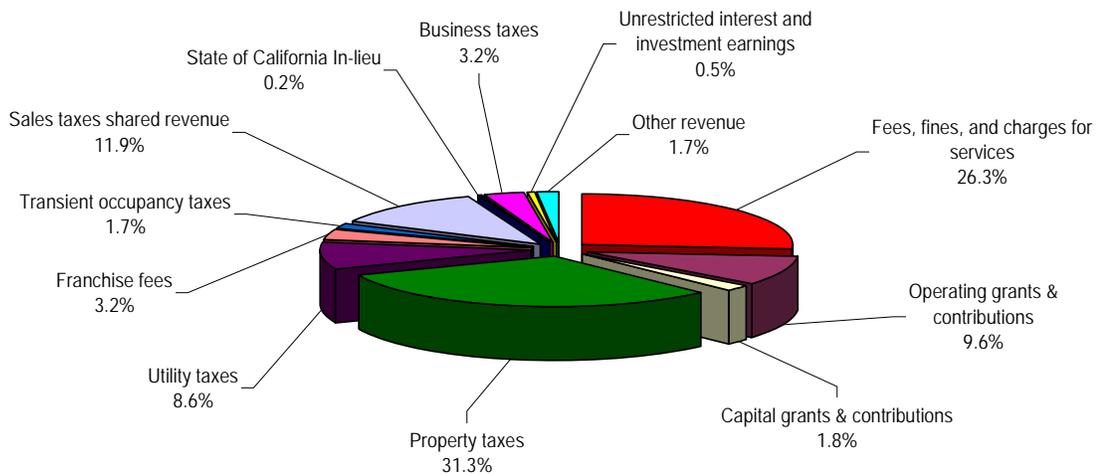
Governmental activities: Net assets for governmental activities increased by \$1.789 billion or 41.6 percent during 2011-2012 from \$4.304 billion to \$6.093 billion. Total expenses decreased by \$116.1 million whereas total revenues decreased by \$27.8 million. Although the year over year decrease in expenses was larger compared to the year over year decrease in revenues, expenses continue to exceed revenues resulting in a decrease in net assets before transfers and extraordinary items. Significant elements of the decrease in net assets before transfers and extraordinary items for governmental activities from June 30, 2011 to June 30, 2012 are as follows:

- Contributing factors resulting in increases to certain revenue categories are as follows; Transient occupancy tax receipts from guests staying in the City's local hotels increased by \$4.3 million or 24.0 percent. For the fourteen largest hotels in the City, the average room rate increased from \$117 to \$129 and the occupancy rate rose from 58.5 percent to 61.6 percent during the year indicating signs of economic recovery. Operating grants and contributions increased by \$23.8 million or 23.8 percent primarily due to additional Federal and State grants received for public safety (\$10.3 million), neighborhood stabilization program (\$12.2 million), HOME grants (\$3.5 million), and Mobilehome Seismic Retrofit (\$5.6 million). Sales tax revenue increased by \$16.1 million or 11.6 percent indicating a modest improvement in consumer spending. Business tax revenues improved by \$3.2 million or 8.4 percent. Fees, fines, and charges for services increased by \$24.1 million or 7.6 percent primarily due to higher developer revenues for in-lieu fees, and fee increases charged by the City for services such as building permits. Utility taxes increased by \$2.4 million or 2.2 percent due to higher utility charges.
- Contributing factors resulting in decreases to certain revenue categories are as follows: State of California in lieu decreased by \$2.3 million or 46.6 percent due to a re-categorization of aircraft property tax revenue, which was formerly included as aircraft in-lieu tax in the revenue from the State of California category, is now included in the property tax category. Capital grants and contributions decreased by \$10.3 million or 31.1 percent primarily due to a decrease of \$7.5 million in dedication of capital assets from developers. Property tax revenues decreased by \$76.3 million or 15.9 percent due to the redistribution of the June 2012 former Agency's property tax revenues in the amount of \$82.2 million into the SARA private-purpose trust fund.
- Interest and investment income showed a decrease of \$1.2 million or 14.6 percent from the prior year due to a decrease in the fair value of investments. In addition, lower cash balances combined with lower interest yields contributed to the decrease. The increase in pre-payment of the City's contribution to its two retirement plans in July 2011, along with expenses continuing to outpace revenues, caused lower cash balances. In addition, the annualized investment interest yield for the City's investment pool declined from 0.7 percent as of June 30, 2011 to 0.6 percent as of June 30, 2012, reflecting the continued lower interest rate environment experienced in the capital markets.
- General government expenses decreased by \$36.5 million or 24.6 percent during 2011-2012 primarily due to a decrease in expenses recorded by the former Agency (\$13.3 million) during the last seven months of its existence. The decrease in general government expenses (\$7.3 million) attributable to the General Fund is explained in more detail in the governmental fund section later in this document.
- Public safety expenses increased by \$2.8 million during 2011-2012 due to increases in pension and healthcare rates.
- Community services expenses decreased by \$7.0 million or 2.7 percent primarily resulting from large reductions in service levels for branch libraries (open 39 hours per week as compared to 47 hours in the prior year) and for parks maintenance and enhancement combined with staffing level reductions to align with service eliminations.

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- Sanitation expenses increased by \$6.4 million or 5.0 percent primarily due to an increase in costs for the commercial solid waste recycling program.
- Capital maintenance decreased by \$42.2 million or 8.2 percent primarily due to reductions in capital maintenance spending programs.
- Interest and fiscal charges decreased by \$39.6 million or 24.2 percent primarily due to obligations of the former Agency that are now reported under the SARA private-purpose trust fund.

Governmental Activities Revenues 2012

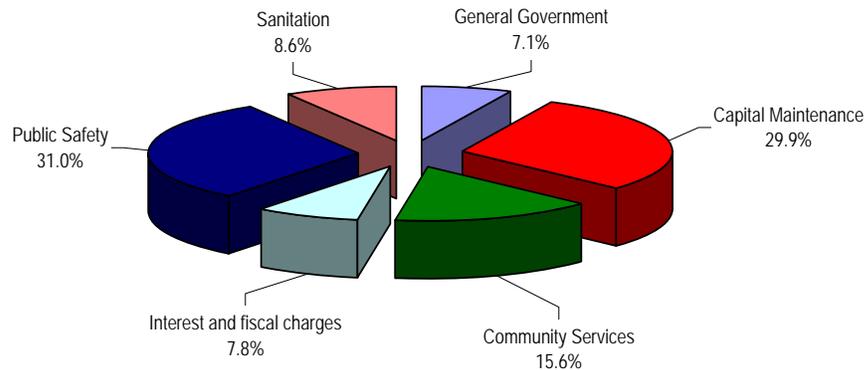


The chart above shows the primary components of governmental activities revenue sources for 2011-2012. Of the \$1.293 billion in total revenues generated by governmental activities, 79.1 percent is attributable to four categories: property taxes (31.3 percent), fees, fines, and charges for services (26.3 percent), sales taxes (11.9 percent), and operating grants and contributions (9.6 percent). Except for property taxes, which were down by \$76.3 million compared to the previous year attributable to the dissolution of the former Agency, sales taxes, utility taxes, and revenues for fees, fines and charges for services increased slightly over the prior year.

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The chart below shows the principal categories of 2011-2012 expenses for governmental activities. Of the \$1.583 billion in total expenses incurred by governmental activities, the categories accounting for 76.5 percent of the total are: public safety (31.0 percent); capital maintenance (29.9 percent); and community services (15.6 percent).

Governmental Activities Expenses 2012



Business-type activities: Business-type activities net assets decreased by \$28.0 million or 2.1 percent to \$1.317 billion during 2011-2012.

The notable components of net assets for business-type activities during 2011-2012 are:

- Airport net assets decreased by \$35.5 million or 8.5 percent. The Airport had an operating income of \$6.2 million, an increase of \$19.8 million or 145.3 percent compared to the prior year loss of \$13.6 million. Operating revenues increased by \$9.3 million or 7.3 percent despite the decline in major airport traffic activities. Revenue increases were experienced in terminal rentals, parking and roadway, Customer Facility Charges and fuel handling fees. These increases were offset by decreases in landing fees, terminal buildings and concessions, airfield, and general aviation and other revenues. Operating expenses of \$130.9 million were \$10.5 million or 7.4 percent lower compared to 2010-2011, highlighted by decreases in expenses associated with terminal building and concessions (\$9.4 million) and general and administrative (\$0.8 million) due to outsourcing of custodial services and the reduction in building maintenance staff. Nonoperating expenses exceeded nonoperating revenues by \$49.0 million, which represented an increase of \$14.9 million from 2010-2011. This increase in nonoperating expenses was mainly due to the expensing of interest costs in 2011-2012 for construction projects substantially completed in the prior fiscal year.
- Wastewater Treatment System net assets increased by \$20.4 million or 2.7 percent from \$757.0 million to \$777.4 million. Operating revenues were flat at \$167.7 million when compared to operating revenues for the previous year. Although sewer service charges increased by \$3.6 million due to a 3.0 percent sewer rate increase effective July 1, 2011, and increases were experienced in sewer connection fees (\$1.0 million) and recycled water sales and other miscellaneous revenues (\$1.1 million), these increases in revenues were offset by a \$5.7 million

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decrease in contribution from the City of Santa Clara and other participating agencies to the Treatment Plant's costs. Total operating expenses increased by \$2.6 million or 1.8 percent primarily due to a \$2.1 million increase in other postemployment benefits costs, and a \$0.5 million increase in various project costs incurred to rehabilitate the aging treatment plant and sewer collection system. Net nonoperating expenses increased by \$0.9 million mainly due to decreases in the fair value of investments. Capital grants and contributions decreased by \$5.0 million primarily due to a \$3.4 million reduction in grants received from the U.S. Bureau of Reclamation for construction of wastewater recycling facilities and recycled water projects. In addition, there were reduction in reimbursements from the California Department of Transportation (\$1.2 million) and capital dedications from developers (\$0.7 million) as projects were substantially completed.

- Municipal Water System net assets decreased by \$1.0 million or 1.2 percent from \$84.1 million to \$83.1 million. Operating revenues of \$28.5 million increased by \$2.5 million or 9.7 percent, which includes a 3.8 percent rate increase effective July 1, 2011. Operating expenses of \$29.3 million increased by \$4.7 million or 19.0 percent mainly due to higher wholesale prices of water.
- Parking System net assets decreased by \$11.9 million or 13.7 percent from \$87.1 million to \$75.1 million primarily due to a \$13.5 million extraordinary loss from the dissolution of the former Agency. As mentioned in the financial highlights above, pursuant to AB X1 26, all prior loans made between the City and the former Agency, except for loans made from the Affordable Housing Investment Fund for payment of Supplemental Education Revenue Augmentation Fund ("SERAF"), were invalidated on February 1, 2012. As such, the Parking System loans to the former Agency totaling \$13.5 million were written off and reported as an extraordinary loss to the fund. Operating revenues increased by \$2.0 million or 21.4 percent primarily due to more activity at the parking facilities resulting from an improving economy. Operating expenses decreased by \$0.3 million or 3.5 percent reflecting reductions to operations and maintenance costs. Net nonoperating revenues were flat when compared to the previous year.

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, 2012, the City's governmental funds reported combined fund balances of \$1.186 billion, a decrease of \$62.3 million or 5.0 percent compared to the balance at June 30, 2011. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- \$20.5 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;
- \$921.6 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;
- \$91.9 million is reported as committed fund balance that had been limited by formal Council action to specific purposes.
- \$102.9 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.
- \$49.2 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.

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Revenues and other financing sources for governmental funds totaled approximately \$1.777 billion in 2011-2012, an increase of \$72.6 million or 4.3 percent from 2010-2011 primarily due to increases in transfers-in (\$269.5 million). The increase was partially offset by the absence of long-term debt issuance (\$162.0 million) in the current year.

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2012, the General Fund's available (unassigned) fund balance is \$49.4 million or 27.0 percent of the \$183.0 million total General Fund balance. Comparing available 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, 2012, available fund balance represents 7.3 percent of total General Fund expenditures of \$673.0 million, while total fund balance represents 27.2 percent of total General Fund expenditures. This measure of financial health shows a modest improvement from the prior fiscal year. At June 30, 2011, the same measures were 6.5 percent and 24.3 percent, respectively.

For the first time in five years, revenues exceeded expenditures resulting in an excess of \$48.9 million in 2011-2012. The excess was generated through a combination of slightly stronger revenues and continued implementation of cost reduction measures including deep service reductions and eliminations, reduction in employee total compensation, and service delivery changes.

In 2011-2012, General Fund revenues of \$721.9 million were \$41.1 million or 6.0 percent higher than 2010-2011 revenues of \$680.8 million. Taxes and special assessments revenues increased by \$65.2 million or 13.2 percent. The increase was attributed to the following: reclassification of business taxes to business tax category (\$37.4 million), increases in sales tax (\$16.1 million), property tax (\$4.5 million), marijuana business tax (\$2.5 million), utility tax (\$2.4 million), transient occupancy tax revenues (\$1.8 million), and electric franchise fees (\$0.4 million).

License, permits and fines decreased by \$31.3 million or 33.5 percent primarily due to a reclassification of \$37.4 million formerly in this category to the business taxes category to conform to budgetary practices but was offset by an increase of \$6.1 million in revenues from various permits. Intergovernmental revenues rose by \$9.1 million due to a new SAFER grant (\$4.6 million), 2010 COPS Hiring Program (\$2.1 million), 2009 Assistance Firefighters Grant (\$1.7 million), and 2009 UASI grant (\$1.2 million). Charges for services increased by \$2.2 million due to increases in departmental charges from Public Works for services related to engineering, grinding, and utility excavations, and from Parks, Recreation and Neighborhood fees (\$0.8 million). Investment income showed a gain of \$1.1 million over the prior year mainly due to an increase in fair value of investments. Other revenue decreased by \$5.2 million due to the nonrecurring termination of the Airport West Option Payment (\$2.0 million) received in the prior year and decreases in other miscellaneous revenues.

2011-2012 General Fund expenditures of \$673.0 million were \$12.7 million or 1.9 percent lower than 2010-2011 expenditures of \$685.7 million. General government expenditures decreased by \$7.3 million primarily due to a lower sick leave payout (\$8.3 million) but were partially offset by an increase in expenditures resulting from the transfer of the Public Works Real Estate Services Unit to the Office of Economic Development (\$1.7 million).

Public safety expenditures increased by \$11.9 million due primarily to the reduction in cost reimbursement through overhead allocation resulting from salary and position reductions (\$9.2 million) and expenditures related to the Fire Self-contained Breathing Apparatus program.

Community services expenditures decreased by \$6.0 million due to substantial staffing and service cuts in libraries and reduced expenditures for park enhancement and other community support programs. Sanitation expenditures slightly increased by \$0.1 million due to additional costs for commercial solid waste programs. Infrastructure and fixed asset capital outlay expenditures increased by \$1.6 million due to costs associated with additional fire equipment.

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Capital maintenance expenditures decreased by \$13.0 million or 26.1 percent primarily due to reductions in staffing and compensation of personnel in Public Works, the transfer of the real estate division of Public Works to the Office of Economic Development, and reduction in custodial services costs.

Redevelopment Agency fund: As mentioned under the Financial Highlights section of this MD&A, the California Supreme Court upheld AB X1 26 and dissolved all redevelopment agencies in the State of California effective February 1, 2012. As such, for 2011-2012, only seven months of revenues and expenditures of the former Agency were reported in the governmental funds. The remaining five month period (February 1 through June 30) of financial activity of the former Agency was reported in a private purpose trust fund under SARA.

Housing Activities fund: The Housing Activities fund accounts for the City's commitment to providing affordable housing activities. 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, 2012, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first time homebuyers was \$61.1 million. This balance includes loans to developers for various projects, including Taylor Oaks Apartments, Northrup, Roundtable, Kings Crossing, Peacock Commons, Archer Studios, Canoas, Terrace, Curtner Gardens, Homesafe, Markham Plaza, Plaza Del Sol, Verandas, and Willow Glen Senior Housing. Additions to the loan receivable balance were offset by an increase in the valuation allowance in the Housing Activities fund based on the City's annual review of the valuations and adjustments reflecting the terms of the loans.

Prior to the dissolution of the former Agency, the Housing Activities fund was a special revenue fund that accounted for all of the City's affordable housing activities, including the twenty percent requirement to set-aside funds from former Agency incremental property taxes for low and moderate income housing and related expenditures. Upon dissolution of the former Agency and the City Council's election to retain the housing assets, functions, and powers previously performed by the former Agency, the City created a housing successor fund (Affordable Housing Investment Fund) and transferred the assets and housing activities associated with the twenty percent incremental property taxes set-aside funds for low and moderate income housing.

Affordable Housing Investment fund: The Affordable Housing Investment Fund is the City housing successor fund, which 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 former Agency. At June 30, 2012, the fund's loan receivable balance (net) was \$253.5 million and includes the following low and affordable housing projects including the Belovida, Almaden, Orvieto Apartments, Cinnabar Commons, El Parador and El Paseo Studios, Hillview Glen, Monte Vista, Oak Tree Village, Rincon De Los Esteros, and Terramina Square.

On October 16, 2012, the Affordable Housing Investment Fund was renamed the Low and Moderate Income Housing Asset fund to comply with the requirements of Assembly Bill 1484.

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 \$52.9 million in special assessment and special tax debt outstanding at June 30, 2012 is secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt. The City is not obligated to cure any deficiency or redeem any debt of special assessment districts from City funds.

Total expenditures for 2011-2012 increased by \$28.3 million or 211.9 percent compared to the prior fiscal year primarily due to expenditures associated with the Convention Center renovation and expansion.

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Financing Authority fund: The City's Financing Authority Debt Service fund accounts for the issuance of commercial paper notes secured by lease revenues as a mechanism for financing City public improvements and purposes such as: Phase II improvements of the City's Central Service Yard; non-construction costs for technology, furniture, and equipment at City Hall; capital improvements at the City's HP Pavilion, procuring the consolidated utility billing system; and making the loan to the Housing Activities fund to finance low and moderate income housing activities and programs. The amount of commercial paper notes outstanding decreased from \$46.6 million on June 30, 2011 to \$45.3 million on June 30, 2012, a decrease of \$1.3 million, which represented defeasance of commercial paper notes.

Other financing sources (net of uses) decreased by \$12.9 million or 27.3 percent to \$34.4 million primarily due to a \$24.4 million decrease in transfers-out offset by a \$7.0 million decrease in transfers-in.

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, 2012, the unrestricted net assets were \$64.0 million for the Airport, \$237.7 million for the Wastewater Treatment System, \$15.7 million for the Municipal Water System and \$11.6 million for the Parking System. Net assets for proprietary funds fell from \$1.345 billion at June 30, 2011 to \$1.317 billion at June 30, 2012, resulting in a decrease of \$28.0 million or 2.1 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 2011-2012 budgets in June 2011.

During the fiscal year ended June 30, 2012, there was a \$41.2 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 sales tax, utility, business tax, licenses, permits and fines, intergovernmental, charges for current services, and other revenues

Actual budgetary basis expenditures of \$694.1 million were \$49.7 million less than the amended budget and \$45.4 million less than the original budget. Savings were experienced over all expenditure categories.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to \$8.756 billion at June 30, 2012. 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, 2012, net capital assets decreased by \$541.5 million (\$493.1 million in governmental activities and \$48.4 million in business-type activities) or 5.8 percent compared to net capital assets at June 30, 2011. The decrease in capital assets of \$493.1 million in governmental activities is primarily due to depreciation expense of \$362.7 million and the transfer of capital assets totaling \$180.4 million to SARA during 2011-2012. These decreases were partially offset by additional infrastructure projects totaling \$58.8 million in the governmental activities. The decrease of \$48.4 million in capital assets in the

City of San José
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business-type activities resulted from depreciation expense of \$81.3 million, offset by additions of capital projects of \$30.3 million at the Airport and Wastewater.

Total construction-in-progress increased by \$1.7 million or 1.3 percent from \$138.2 million at June 30, 2011 to \$139.9 million at June 30, 2012. The construction-in-progress for the governmental activities remained flat at \$69.8 million. Business-type activities contributed a modest increase of \$1.8 million to the total construction-in-progress as addition to Airport construction-in-progress totaling \$16.5 million was offset by a \$7.3 million projects that were completed and placed in-service. The completed Airport projects include the following: improvements to the terminal area roadway, which included a widened Airport Blvd and a dedicated shuttle lane between Terminal A and the new rental car garage, Green Island Parking; Terminal B Parking, South Loop Parking, and airfield improvements.

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, 2011 and June 30, 2012 (in thousands):

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 463,726	528,605	134,926	134,926	598,652	663,531
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	69,764	69,813	70,159	68,368	139,923	138,181
Buildings	1,037,128	1,161,245	1,253,657	1,287,753	2,290,785	2,448,998
Improvements, other than buildings	189,103	194,400	604,248	614,558	793,351	808,958
Infrastructure	4,813,511	5,107,454	-	-	4,813,511	5,107,454
Furniture and fixtures, vehicles, equipment	23,867	28,528	81,233	86,554	105,100	115,082
Property under capital leases	495	688	1,459	1,889	1,954	2,577
Total capital assets	\$ 6,597,594	7,090,733	2,158,564	2,206,930	8,756,158	9,297,663

Commitments outstanding as of June 30, 2012, related to governmental and business-type activities construction in progress totaled approximately \$3.8 million and \$18.2 million, respectively. Additional information about the City's capital assets can be found in Note III.D. to the financial statements.

General Fund 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 on the City's 2011-2012 tax roll was \$124.438 billion, which results in a net total debt capacity of \$18.666 billion. As of June 30, 2012, the City had \$460.7 million of General Obligation bonds outstanding.

General Obligation Bonds and Other Bond Ratings

The City continues to receive high general credit ratings from all three national rating agencies despite the difficult financial and economic conditions nationally and locally. In March 2012, Moody's Investors Service ("Moody's") downgraded the City's general obligation rating from Aaa to Aa1 citing a multi-year erosion of the City's General Fund reserves and the City's management being significantly challenged to

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manage retirement costs. In April 2012, Standard & Poor's ("S&P") also downgraded the City's general obligation rating from AAA to AA+ reflecting long-term structural budget challenges. These downgrades follow actions from Fitch Ratings ("Fitch") in 2011 when Fitch downgraded the City's general obligation rating from AAA to AA+ reflecting a reduction of fund balance in the General Fund following several years of structural imbalance, high and rising pension and retiree healthcare costs, and reduced expenditure flexibility following significant labor concessions and service reductions already implemented.

During the year, Standard & Poor's reduced its ratings on the Airport Bonds from A to A- and revised the outlook from negative to stable. As of June 30, 2012, the Airport's bond ratings were A2 from Moody's, A- from Fitch and A- from Standard & Poor's.

Subsequent to June 30, 2012, the Airport Revenue Bonds were downgraded by Fitch Ratings from A- with a negative outlook to BBB+ with a stable outlook.

Outstanding Debt

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

During 2011-2012, the City's gross outstanding long-term debt decreased by \$1.854 billion to \$2.961 billion, comprised of governmental activities (\$1.465 billion) and business-type activities (\$1.495 billion). The balances at June 30, 2011 were \$3.705 billion for governmental activities and \$1.110 billion for business-type activities, for a total of \$4.815 billion. The decrease of \$1.854 billion is primarily due to the transfer of \$2.313 billion of long-term debt of the former Agency to SARA but was offset by the issuance of the 2011 Airport revenue bonds. For more information on the dissolution of the former Agency, please refer to the financial highlights of this MD&A and the Notes to Basic Financial Statements on page 54.

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

	<u>As of</u> <u>June 30, 2012</u>	<u>As of</u> <u>June 30, 2011</u>	<u>Net</u> <u>Change</u>
Governmental Activities:			
General obligation bonds	\$ 460,670	480,320	(19,650)
HUD Section 108 loan	20,803	21,877	(1,074)
San Jose Financing Authority			
Lease revenue bonds	659,578	669,233	(9,655)
Lease revenue bonds with reimbursement agreement	129,020	-	129,020
Revenue bonds with pledge agreement	35,105	-	35,105
Special assessment bonds with limited governmental commitment	160,310	163,904	(3,594)
Redevelopment Agency	-	2,369,575	(2,369,575)
Sub-total	<u>1,465,486</u>	<u>3,704,909</u>	<u>(2,239,423)</u>
Business-Type Activities:			
Revenue bonds	1,468,705	1,079,125	389,580
State of CA-Revolving Fund Loan	26,746	30,651	(3,905)
Sub-total	<u>1,495,451</u>	<u>1,109,776</u>	<u>385,675</u>
Total:	<u>\$ 2,960,937</u>	<u>4,814,685</u>	<u>(1,853,748)</u>

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

City of San José
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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The City completed 2011-2012 with better operating financial results than expected when the 2011-2012 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 as the local economy continues to work its way out of the Great Recession. A set of 2012-2013 budget balancing strategies were developed through a comprehensive community outreach process and City Council Study Sessions including a Council Priority Setting Study Session. In June 2012, the City Council approved a balanced General Fund budget for fiscal year 2012-2013, with a projected surplus of \$9.0 million, a significant change compared to the \$115.0 million shortfall addressed in the 2011-2012 Adopted Budget.
- Due to the improved forecast, the City does not face further service cuts in fiscal year 2012-2013. Instead, reductions are limited to areas where alternative service delivery models can reduce costs and enhance service levels. In addition, the \$9.0 million projected surplus will be used to meet projected shortfalls in future years.
- The insufficient property tax revenues to pay enforceable obligations of the former Agency is projected to be \$24.4 million in 2012-2013. As a result, it was assumed that City funds would be used to ensure adequate funding for SARA obligations for which the City was obligated. This resulted in a \$19.0 million transfer from the General Fund, with the General Purpose Parking Fund and the Community Development Block Grant Fund addressing the remaining shortfall. More information on SARA is provided in Note IV.C.1-6.
- As of June 30, 2011, the most recent actuarial valuation date, the Police and Fire Department Retirement Plan ("PFDRP") had an 84.0 percent actuarial funded ratio for pension benefits. The actuarial accrued liability for pension benefits was \$3.196 billion, and the actuarial value of assets was \$2.686 billion resulting in an unfunded actuarial accrued liability ("UAAL") of \$510.3 million. As of June 30, 2011, the most recent actuarial valuation date, the Federated City Employees' Retirement System ("FCERS") had a 65.0 percent actuarial funded ratio for pension benefits. The actuarial accrued liability for benefits was \$2.770 billion and the actuarial value of assets was \$1.789 billion, resulting in a UAAL of \$981.6 million.
- The adopted 2012-2013 operating budget projects retirement costs at \$187.7 million in the General Fund and \$246.5 million in all funds, based on analysis provided by Cheiron, the City Retirement Boards' actuary. Compared to 2012-2013 levels, City retirement contributions for all funds are forecasted to grow approximately 27.0 percent by 2016-2017.
- As noted in the Trust and Agency Funds section of this CAFR, the PFDRP's net assets experienced a decrease of \$46.0 million in 2011-2012 following a \$372.5 million increase in net assets in the prior year primarily as a result of the depreciation of the fair value of investments caused by a short-term deterioration of the equity investment market. The FCERS's net assets experienced a decrease of \$109.0 million in 2011-2012 following a \$275.3 million increase in net assets in the prior year primarily as a result of the depreciation of the fair value of investments caused by a short-term deterioration in the investment market.
- For 2012-2013, the City's contribution rates for pension benefits, as a percentage of payroll, are as follows: for police and fire members of PFDRP, 56.6 percent and 58.4 percent, respectively, and 44.5 percent for FCERS members. For 2012-2013, the City's contribution rates for health and dental benefits, as a percentage of payroll, are as follows: for police and fire members of PFDRP, 9.0 percent and 6.6 percent, respectively, and 7.9 percent for FCERS members.
- 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

City of San José
Management's Discussion and Analysis (Concluded)
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sum prepayments of City required contributions for pension benefits and postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for 2012-2013 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 \$120.2 million and \$121.0 million, respectively, paid by the City in July 2012.

- Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Contributions to PFDRP for the fiscal year ended June 30, 2012 for Fire members of PFDRP were based on the Board's 10-year cash flow funding policy. The Police members of PFDRP and the bargaining units representing the FCERS's members entered into Memoranda of Agreements ("MOA") with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the GASB Statement No. 45 annual required contribution (ARC) over 5 years beginning fiscal 2009-2010 and ending 2013-2014. Effective June 26, 2011, the Fire members entered into an MOA with the City to phase-in to full funding of the ARC over a five year period with fiscal year 2011-2012 as the first year of the phase-in.
- As of June 30, 2011, the most recent actuarial valuation date, the PFDRP was 6.0 percent funded for other postemployment benefits. The actuarial accrued liability for benefits was \$1.004 billion, and the actuarial value of assets was \$60.7 million resulting in a UAAL of \$943.1 million. As of June 30, 2011, the most recent actuarial valuation date, the FCERS was 12.0 percent funded for other postemployment benefits. The actuarial accrued liability for benefits was \$1.145 billion and the actuarial value of assets was \$135.5 million, resulting in a UAAL of \$1.001 billion.

All of these factors were considered in preparing the City's budget for 2012-2013.

REQUEST 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. 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 E. Santa Clara Street, San José, CA 95113.

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Basic Financial Statements



City of San José
Statement of Net Assets
June 30, 2012
(\$000's)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 568,627	389,120	957,747
Receivables (net of allowances for uncollectibles)	144,028	13,405	157,433
Due from outside agencies	3,133	66	3,199
Internal balances	(5,245)	5,245	-
Inventories	1,214	1,179	2,393
Loans receivable (net of allowances for uncollectibles)	321,445	250	321,695
Advances and deposits	298	5,331	5,629
Other assets	41,233	191	41,424
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	40,054	118,575	158,629
Cash and investments held with fiscal agent	253,193	231,517	484,710
Other cash and investments	5,710	-	5,710
Receivables (net of allowances for uncollectibles)	-	3,672	3,672
Deferred bond issuance costs (net of accumulated amortization)	14,919	17,703	32,622
Long-term receivables from SARA	227,826	-	227,826
Capital assets (net of accumulated depreciation):			
Nondepreciable	533,490	217,967	751,457
Depreciable	6,064,104	1,940,597	8,004,701
Total assets	<u>8,214,029</u>	<u>2,944,818</u>	<u>11,158,847</u>
LIABILITIES			
Accounts payable	33,339	14,839	48,178
Accrued liabilities	14,678	1,663	16,341
Interest payable	10,753	26,139	36,892
Due to SARA	850	-	850
Due to outside agencies	457	-	457
Short-term notes payable	45,348	47,937	93,285
Unearned revenue	15,124	5,470	20,594
Advances, deposits, and reimbursable credits	9,649	5,163	14,812
Long-term payables - SARA	280	-	280
Other liabilities	24,412	-	24,412
Long-term obligations:			
Due within one year	69,666	29,087	98,753
Due in more than one year	1,896,596	1,497,720	3,394,316
Total liabilities	<u>2,121,152</u>	<u>1,628,018</u>	<u>3,749,170</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,350,666	859,392	6,210,058
Restricted for:			
Debt service	50,305	24,462	74,767
Capital projects	358,319	103,899	462,218
Community services	526,442	-	526,442
Public safety	4,443	-	4,443
Unrestricted	(197,298)	329,047	131,749
Total net assets	<u>\$ 6,092,877</u>	<u>1,316,800</u>	<u>7,409,677</u>

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, 2012
(\$000's)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -Type Activities	
Governmental activities:							
General government	\$ 111,996	24,732	171	-	(87,093)	-	(87,093)
Public safety	490,442	22,099	21,721	-	(446,622)	-	(446,622)
Community services	247,518	90,252	70,529	-	(86,737)	-	(86,737)
Sanitation	135,543	151,644	-	85	16,186	-	16,186
Capital maintenance	473,674	52,205	31,408	22,664	(367,397)	-	(367,397)
Interest and fiscal charges	123,696	-	-	-	(123,696)	-	(123,696)
Total governmental activities	1,582,869	340,932	123,829	22,749	(1,095,359)	-	(1,095,359)
Business -Type activities:							
Norman Y. Mineta San José							
International Airport	200,380	154,713	670	7,399	-	(37,598)	(37,598)
Wastewater Treatment System	149,980	167,783	-	3,371	-	21,174	21,174
Municipal Water System	29,260	28,542	-	129	-	(589)	(589)
Parking System	9,290	11,585	-	-	-	2,295	2,295
Total business-type activities	388,910	362,623	670	10,899	-	(14,718)	(14,718)
Total	\$ 1,971,779	703,555	124,499	33,648	(1,095,359)	(14,718)	(1,110,077)
General revenues:							
Taxes and franchise fees:							
Property and other taxes					404,877	-	404,877
Utility					110,912	-	110,912
Franchise					41,709	-	41,709
Transient occupancy					22,451	-	22,451
Business taxes					41,134	-	41,134
Sales taxes shared revenue					154,026	-	154,026
State of California in-lieu					2,611	-	2,611
Unrestricted interest and investment income					6,950	3,562	10,512
Other revenue					21,207	-	21,207
Transfers					3,357	(3,357)	-
Total general revenues and transfers					809,234	205	809,439
Extraordinary gain (loss) from							
dissolution of the Redevelopment Agency					2,075,379	(13,528)	2,061,851
Change in net assets					1,789,254	(28,041)	1,761,213
Net assets - beginning					4,303,623	1,344,841	5,648,464
Net assets - ending					\$ 6,092,877	1,316,800	7,409,677

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2012
(\$000's)

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Housing Activities</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 187,781	-	4,313
Receivables (net of allowance for uncollectibles)	50,540	-	2,671
Due from outside agencies	3,090	-	-
Due from other funds	1,438	-	-
Loans receivables (net of allowance for uncollectibles)	2,241	-	61,121
Advances and deposits	252	-	-
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	726	-	1,348
Cash and investments held with fiscal agent	11	-	3
Other cash and investments	-	-	-
Advances to other funds	3,297	-	-
Advances receivable - SARA	-	-	-
Other assets	-	-	-
Total assets	<u>\$ 249,376</u>	<u>-</u>	<u>69,456</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 9,651	-	962
Accrued salaries, wages, and payroll taxes	12,096	-	28
Due to other funds	-	-	-
Due to SARA	124	-	726
Due to other agencies	457	-	-
Short-term notes payable	-	-	-
Deferred revenue	4,322	-	23,009
Advances, deposits, and reimbursable credits	7	-	-
Advances from other funds	18,200	-	-
Long-term advances from SARA	-	-	-
Other liabilities	21,491	-	-
Total liabilities	<u>66,348</u>	<u>-</u>	<u>24,725</u>
Fund balances:			
Nonspendable	13	-	-
Restricted	392	-	44,731
Committed	63,014	-	-
Assigned	70,236	-	-
Unassigned	49,373	-	-
Total fund balances	<u>183,028</u>	<u>-</u>	<u>44,731</u>
Total liabilities and fund balances	<u>\$ 249,376</u>	<u>-</u>	<u>69,456</u>

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

Affordable Housing Investment Fund	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
36,058	-	-	319,456	547,608
1,436	53,250	-	35,904	143,801
-	-	-	43	3,133
-	-	-	10,297	11,735
253,477	-	-	4,606	321,445
-	5	-	41	298
-	625	-	37,355	40,054
-	130,062	59,703	63,414	253,193
-	-	-	5,710	5,710
-	-	14,091	15,656	33,044
65,371	-	-	-	65,371
20,771	-	-	20,462	41,233
<u>377,113</u>	<u>183,942</u>	<u>73,794</u>	<u>512,944</u>	<u>1,466,625</u>
41	1,400	91	20,415	32,560
110	23	-	2,000	14,257
-	-	103	11,833	11,936
-	-	-	-	850
-	-	-	-	457
-	-	45,348	-	45,348
7,448	52,885	-	14,995	102,659
-	4,138	-	5,504	9,649
14,091	-	3,297	2,500	38,088
280	-	-	-	280
-	-	-	2,921	24,412
<u>21,970</u>	<u>58,446</u>	<u>48,839</u>	<u>60,168</u>	<u>280,496</u>
-	5	-	20,503	20,521
355,143	125,491	24,955	370,844	921,556
-	-	-	28,928	91,942
-	-	-	32,673	102,909
-	-	-	(172)	49,201
<u>355,143</u>	<u>125,496</u>	<u>24,955</u>	<u>452,776</u>	<u>1,186,129</u>
<u>377,113</u>	<u>183,942</u>	<u>73,794</u>	<u>512,944</u>	<u>1,466,625</u>

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2012
(\$000's)

Total fund balances-governmental funds (Page 25) \$ 1,186,129

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	463,726	
Construction in progress	69,764	
Infrastructure assets	11,365,408	
Other capital assets	1,758,071	
Accumulated depreciation	7,066,078	
Total capital assets	6,590,891	6,590,891

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis. 34,650

Long-term receivables associated with lease and pledge revenue agreements from the private-purpose trust fund are not current financial resources and therefore are not reported in the governmental funds 162,455

Bond issuance 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 assets. 14,919

Special assessments are reported as revenue when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred revenue (a liability) since they are not available. 52,885

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. (10,753)

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 assets. 24,635

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and notes payable	(1,469,561)	
Accreted interest on capital appreciation bonds	(510)	
Accrued vacation, sick leave and compensatory time	(54,328)	
Estimated liability for self-insurance	(137,720)	
Net other postemployment benefits obligation	(292,244)	
Other	(8,571)	
Total long-term liabilities	(1,962,934)	(1,962,934)

Net assets of governmental activities (Page 22) \$ 6,092,877

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, 2012
(\$000's)

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Housing Activities</u>
REVENUES			
Taxes and special assessments	\$ 561,088	87,662	-
Licenses, permits, and fines	62,197	-	-
Intergovernmental	24,664	26	23,594
Charges for current services	35,405	-	-
Rent	-	353	-
Investment income	4,681	297	1,891
Other revenue	33,839	1,577	9,556
Total revenues	<u>721,874</u>	<u>89,915</u>	<u>35,041</u>
EXPENDITURES			
Current:			
General government	71,897	1,520	-
Public safety	444,336	-	-
Community services	114,048	-	38,398
Sanitation	849	-	-
Capital maintenance	36,671	16,192	-
Capital outlay	3,577	96	-
Debt service:			
Principal	1,074	74,955	-
Interest and fiscal charges	536	56,350	-
Total expenditures	<u>672,988</u>	<u>149,113</u>	<u>38,398</u>
Excess (deficiency) of revenues over (under) expenditures	<u>48,886</u>	<u>(59,198)</u>	<u>(3,357)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	969	11,268	-
Reclassification of demand bonds to short-term liability	-	(88,600)	-
Transfers in	12,605	25,156	17,532
Transfers out	(27,233)	(19,720)	(370,286)
Total other financing sources (uses)	<u>(13,659)</u>	<u>(71,896)</u>	<u>(352,754)</u>
Extraordinary gain (loss) from dissolution of the Redevelopment Agency	<u>(18,820)</u>	<u>70,478</u>	<u>(6,863)</u>
Net change in fund balances	16,407	(60,616)	(362,974)
Fund balances - beginning	<u>166,621</u>	<u>60,616</u>	<u>407,705</u>
Fund balances - ending	<u>\$ 183,028</u>	<u>-</u>	<u>44,731</u>

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

Affordable Housing Investment Fund	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
-	14,645	-	128,970	792,365
-	-	-	-	62,197
-	-	1,831	62,054	112,169
-	-	-	192,117	227,522
-	-	-	20,617	20,970
7,401	554	509	1,467	16,800
6,013	416	-	4,880	56,281
<u>13,414</u>	<u>15,615</u>	<u>2,340</u>	<u>410,105</u>	<u>1,288,304</u>
-	-	-	14,968	88,385
-	-	-	1,454	445,790
4,318	-	-	57,955	214,719
-	-	-	133,059	133,908
-	65	-	107,418	160,346
-	27,926	-	21,439	53,038
-	3,594	11,305	19,650	110,578
-	10,135	25,984	23,333	116,338
<u>4,318</u>	<u>41,720</u>	<u>37,289</u>	<u>379,276</u>	<u>1,323,102</u>
<u>9,096</u>	<u>(26,105)</u>	<u>(34,949)</u>	<u>30,829</u>	<u>(34,798)</u>
-	-	-	-	12,237
-	-	-	-	(88,600)
346,047	16	34,500	40,382	476,238
-	(143)	(58)	(54,732)	(472,172)
<u>346,047</u>	<u>(127)</u>	<u>34,442</u>	<u>(14,350)</u>	<u>(72,297)</u>
-	-	-	-	44,795
<u>355,143</u>	<u>(26,232)</u>	<u>(507)</u>	<u>16,479</u>	<u>(62,300)</u>
-	151,728	25,462	436,297	1,248,429
<u>355,143</u>	<u>125,496</u>	<u>24,955</u>	<u>452,776</u>	<u>1,186,129</u>

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, 2012
(\$000's)

Net change in fund balances—total governmental funds (Page 29) \$ (62,300)

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	53,038	
Depreciation expense	(359,192)	
Excess of depreciation expense over capital outlay		(306,154)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)

Donated assets	4,298	
Proceeds from sale of capital assets	(12,237)	
Gain on disposal of assets	3,403	
		(4,536)

Bond issuance 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.

(2,023)

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 assets 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.

110,578

Accrued interest expense 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, discounts and deferred amounts on refunding should be expensed as a component of interest expense on the statement of activities. This amount represents the net accrued interest expense and the amortization of bond premiums, discounts and deferred amounts on refunding not reported in governmental funds.

Accrued interest on capital appreciation bonds	(45)	
Increase in accrued interest expense	(7,914)	
Amortization of deferred amounts, premiums and discounts	339	
Total net interest expense and amortization of discount/premium		(7,620)

Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenue and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.

(6,383)

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 assets is included in governmental activities in the statement of activities.

3,227

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	(68,134)	
Net decrease in vacation, sick leave, and compensatory time	7,433	
Net increase in estimated liability for self-insurance	4,699	
Net decrease in other liabilities	1,283	
Total additional expenditures		(54,719)

Expenditures reported in the governmental funds but not in governmental activities include reclassification of demand bonds to short-term obligations

88,600

Long-term assets were not financial resources of the former Agency and the long-term liabilities were not due and payable, and as such the transfers of these liabilities in excess of assets to SARA are not recorded in the governmental funds.

2,030,584

Change in net assets of governmental activities (Page 23) \$ 1,789,254

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 Assets
Proprietary Funds
June 30, 2012
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
ASSETS						
Current assets:						
Equity in pooled cash and investments held in City Treasury	\$ 86,109	271,326	18,781	12,904	389,120	21,019
Receivables (net of allowance for uncollectibles)	8,547	1,981	2,661	216	13,405	227
Due from outside agencies	-	66	-	-	66	-
Due from other funds	-	377	-	-	377	-
Prepaid expenses, advances and deposits	186	-	-	-	186	-
Inventories	-	1,179	-	-	1,179	1,214
Total unrestricted current assets	94,842	274,929	21,442	13,120	404,333	22,460
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	63,087	53,451	-	2,037	118,575	-
Cash and investments held with fiscal agent	224,917	6,600	-	-	231,517	-
Receivables (net of allowances for uncollectibles)	3,672	-	-	-	3,672	-
Prepaid expenses, advances and deposits	5	-	-	-	5	-
Total restricted current assets	291,681	60,051	-	2,037	353,769	-
Total current assets	386,523	334,980	21,442	15,157	758,102	22,460
Noncurrent assets:						
Deferred bond issuance costs (net of accumulated amortization)	17,166	537	-	-	17,703	-
Loan receivable	250	-	-	-	250	-
Advances and deposits	5,331	-	-	-	5,331	-
Advances to other funds	-	5,044	-	-	5,044	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	117,749	80,027	605	19,586	217,967	-
Depreciable	1,365,496	466,384	66,843	41,874	1,940,597	6,703
Total noncurrent assets	1,505,992	551,992	67,448	61,460	2,186,892	6,703
Total assets	\$ 1,892,515	886,972	88,890	76,617	2,944,994	29,163

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

City of San José
Statement of Fund Net Assets
Proprietary Funds
June 30, 2012
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 3,570	7,257	2,852	745	14,424	779
Accrued liabilities	477	1,082	69	35	1,663	421
Interest payable	8	277	-	-	285	-
Due to other funds	-	-	176	-	176	-
Short-term notes payable	47,937	-	-	-	47,937	-
Accrued vacation, sick leave and compensatory time	1,536	2,230	157	77	4,000	-
Estimated liability for self-insurance	560	1,300	126	-	1,986	-
Advances and deposits payable	1,083	-	-	88	1,171	-
Unearned revenue	3,885	-	-	-	3,885	-
Loans payable	-	3,977	-	-	3,977	-
Pollution remediation obligation	330	-	-	-	330	-
Total current liabilities unrestricted	<u>59,386</u>	<u>16,123</u>	<u>3,380</u>	<u>945</u>	<u>79,834</u>	<u>1,200</u>
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	415	-	-	-	415	-
Interest payable	25,615	239	-	-	25,854	-
Unearned revenue	1,585	-	-	-	1,585	-
Current portion of bonds payable	13,296	5,114	-	-	18,410	-
Pollution remediation obligation	384	-	-	-	384	-
Total current liabilities payable from restricted assets	<u>41,295</u>	<u>5,353</u>	<u>-</u>	<u>-</u>	<u>46,648</u>	<u>-</u>
Total current liabilities	<u>100,681</u>	<u>21,476</u>	<u>3,380</u>	<u>945</u>	<u>126,482</u>	<u>1,200</u>
Noncurrent liabilities:						
Accrued vacation, sick leave and compensatory time	510	644	-	-	1,154	3,328
Estimated liability for self-insurance	1,071	1,939	-	-	3,010	-
Advance contributions from participating agencies	-	2,827	-	-	2,827	-
Advances, deposits and reimbursable credits	-	-	1,165	-	1,165	-
Loans payable	-	22,769	-	-	22,769	-
Bonds payable (net of premium/discount and deferred loss on refunding)	1,399,159	43,647	-	-	1,442,806	-
Net other postemployment benefits obligation	9,964	16,261	1,223	533	27,981	-
Total noncurrent liabilities	<u>1,410,704</u>	<u>88,087</u>	<u>2,388</u>	<u>533</u>	<u>1,501,712</u>	<u>3,328</u>
Total liabilities	<u>1,511,385</u>	<u>109,563</u>	<u>5,768</u>	<u>1,478</u>	<u>1,628,194</u>	<u>4,528</u>
NET ASSETS						
Invested in capital assets, net of related debt	247,771	482,713	67,448	61,460	859,392	6,703
Restricted for debt service	16,176	6,249	-	2,037	24,462	-
Restricted for capital projects and other agreements	53,174	50,725	-	-	103,899	1,368
Unrestricted	64,009	237,722	15,674	11,642	329,047	16,564
Total net assets	<u>\$ 381,130</u>	<u>777,409</u>	<u>83,122</u>	<u>75,139</u>	<u>1,316,800</u>	<u>24,635</u>

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
OPERATING REVENUES						
Charges for services	\$ 46,141	140,968	28,472	11,585	227,166	113,223
Rentals and concessions	80,835	3,248	-	-	84,083	-
Customer transportation fees	10,137	-	-	-	10,137	-
Service connection, engineering and inspection	-	3,150	-	-	3,150	-
Contributions	-	14,387	-	-	14,387	-
Other	-	5,908	-	-	5,908	-
Total operating revenues	<u>137,113</u>	<u>167,661</u>	<u>28,472</u>	<u>11,585</u>	<u>344,831</u>	<u>113,223</u>
OPERATING EXPENSES						
Operations and maintenance	60,474	100,415	25,554	3,112	189,555	105,612
General and administrative	18,328	21,738	1,267	3,578	44,911	-
Depreciation and amortization	52,130	24,738	2,438	2,485	81,791	3,552
Materials and supplies	-	286	-	115	401	-
Other expenses	-	-	-	-	-	354
Total operating expenses	<u>130,932</u>	<u>147,177</u>	<u>29,259</u>	<u>9,290</u>	<u>316,658</u>	<u>109,518</u>
Operating income (loss)	<u>6,181</u>	<u>20,484</u>	<u>(787)</u>	<u>2,295</u>	<u>28,173</u>	<u>3,705</u>
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	16,787	-	-	-	16,787	-
Operating grants	670	-	-	-	670	-
Investment income	2,217	1,193	98	54	3,562	231
Interest expense	(69,438)	(2,654)	(1)	-	(72,093)	-
Contributions refunded from participating agencies	-	(146)	-	-	(146)	-
Loss on disposal of capital assets	(10)	(3)	-	-	(13)	-
Other revenues, net	813	122	70	-	1,005	-
Net nonoperating revenues (expenses)	<u>(48,961)</u>	<u>(1,488)</u>	<u>167</u>	<u>54</u>	<u>(50,228)</u>	<u>231</u>
Income (loss) before capital contributions, transfers, and extraordinary loss	<u>(42,780)</u>	<u>18,996</u>	<u>(620)</u>	<u>2,349</u>	<u>(22,055)</u>	<u>3,936</u>
Capital contributions	7,399	3,371	129	-	10,899	-
Transfers in	-	-	-	-	-	111
Transfers out	(115)	(1,980)	(508)	(754)	(3,357)	(820)
Extraordinary loss from dissolution of the Redevelopment Agency	-	-	-	(13,528)	(13,528)	-
Changes in net assets	<u>(35,496)</u>	<u>20,387</u>	<u>(999)</u>	<u>(11,933)</u>	<u>(28,041)</u>	<u>3,227</u>
Net assets - beginning	416,626	757,022	84,121	87,072	1,344,841	21,408
Net assets - ending	<u>\$ 381,130</u>	<u>777,409</u>	<u>83,122</u>	<u>75,139</u>	<u>1,316,800</u>	<u>24,635</u>

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, 2012
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 137,111	153,549	27,915	11,561	330,136	-
Cash received from interfund services provided	-	-	-	-	-	111,707
Payments to suppliers	(55,233)	(62,464)	(21,376)	(4,458)	(143,531)	(87,500)
Payments to employees	(25,912)	(64,026)	(4,270)	(2,189)	(96,397)	(19,235)
Other receipts	1,208	14,437	-	-	15,645	-
Net cash provided by operating activities	<u>57,174</u>	<u>41,496</u>	<u>2,269</u>	<u>4,914</u>	<u>105,853</u>	<u>4,972</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	-	-	-	-	-	111
Transfer to other funds	(115)	(1,980)	(508)	(754)	(3,357)	(820)
(Advances to) / payments from other funds	-	1,035	(1,000)	(1,681)	(1,646)	-
Subsidies from operating grants	740	-	-	-	740	-
Advances and deposits received	-	-	17	-	17	-
Net cash provided by (used in) noncapital and related financing activities	<u>625</u>	<u>(945)</u>	<u>(1,491)</u>	<u>(2,435)</u>	<u>(4,246)</u>	<u>(709)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	16,735	-	-	-	16,735	-
Refunded commercial paper	(354,250)	-	-	-	(354,250)	-
Proceeds from issuance of bonds	504,401	-	-	-	504,401	-
Payment for redemption of bonds	(92,165)	-	-	-	(92,165)	-
Principal payment on commercial paper	(7,892)	-	-	-	(7,892)	-
Subsidies from capital grants	6,197	3,962	-	-	10,159	-
Acquisition and construction of capital assets	(18,717)	(14,064)	(241)	(82)	(33,104)	(1,510)
Principal paid on debt	(21,915)	(8,850)	-	-	(30,765)	-
Bond issuance cost paid	(6,775)	-	-	-	(6,775)	-
Interest paid on debt	(61,776)	(2,569)	-	-	(64,345)	-
Advances and deposits received	594	-	-	-	594	-
Net cash used in capital and related financing activities	<u>(35,563)</u>	<u>(21,521)</u>	<u>(241)</u>	<u>(82)</u>	<u>(57,407)</u>	<u>(1,510)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	285,217	5,460	-	-	290,677	-
Purchase of investments	(300,469)	(6,248)	-	-	(306,717)	-
Interest received	1,057	1,355	90	54	2,556	231
Land and building rentals	-	79	-	-	79	-
Net cash provided by (used in) investing activities	<u>(14,195)</u>	<u>646</u>	<u>90</u>	<u>54</u>	<u>(13,405)</u>	<u>231</u>
Net change in cash and cash equivalents	8,041	19,676	627	2,451	30,795	2,984
Cash and cash equivalents - beginning	328,216	305,453	18,154	12,490	664,313	18,035
Cash and cash equivalents - ending	<u>\$ 336,257</u>	<u>325,129</u>	<u>18,781</u>	<u>14,941</u>	<u>695,108</u>	<u>21,019</u>

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, 2012
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 6,181	20,484	(787)	2,295	28,173	3,705
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	52,130	24,738	2,438	2,485	81,791	3,552
Other nonoperating revenues	813	42	70	-	925	-
Decrease (increase) in:						
Accounts receivable	(595)	234	(626)	(24)	(1,011)	932
Due from outside agencies	-	47	-	-	47	-
Inventories	-	(37)	-	-	(37)	(462)
Prepaid expenses, advances and deposits	3	-	-	-	3	-
Increase (decrease) in:						
Accounts payable and accrued liabilities	(3,775)	(7,684)	763	(3)	(10,699)	(1,843)
Accrued vacation, sick leave and compensatory time	(270)	(849)	-	(109)	(1,228)	(912)
Estimated liability for self-insurance	(674)	(929)	3	-	(1,600)	-
Unearned revenue	912	-	-	-	912	-
Advances and deposits payable	15	-	-	86	101	-
Other liabilities	2,434	5,450	408	184	8,476	-
Total adjustments	50,993	21,012	3,056	2,619	77,680	1,267
Net cash provided by operating activities	\$ 57,174	41,496	2,269	4,914	105,853	4,972
Reconciliation of cash and cash equivalents to the statement of net assets:						
Equity in pooled cash and investments held in City Treasury						
Unrestricted	\$ 86,109	271,326	18,781	12,904	389,120	21,019
Restricted	63,087	53,451	-	2,037	118,575	-
Cash and investments held with fiscal agent	224,917	6,600	-	-	231,517	-
Less investments not meeting the definition of cash equivalents	(37,856)	(6,248)	-	-	(44,104)	-
Cash and cash equivalents	\$ 336,257	325,129	18,781	14,941	695,108	21,019
Noncash noncapital, capital and related financing, and investing activities:						
Loss on disposal of capital assets	\$ (10)	(3)	-	-	(13)	-
Acquisition of capital assets on accounts payable and accrued liabilities	1,409	-	-	-	1,409	-
Capital contributions from developers	-	863	129	-	992	-
Amortization of deferred charges and other charges	473	149	-	-	622	-
Change in fair value of investments	961	259	-	-	1,220	-
Extraordinary loss on write-off of SERAF advance	-	-	-	(13,528)	(13,528)	-

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

City of San José
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(\$000's)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	\$ -	104	1,696
Cash and investments	-	6,965	-
Investments of retirement plans:			
Investments, excluding securities lending collateral:			
Fixed income	1,308,742	-	-
Global and domestic equity	1,488,100	-	-
Pooled international equity	488,819	-	-
Private equity	220,941	-	-
International currency contracts, net	941	-	-
Opportunistic	277,885	-	-
Real assets	447,805	-	-
Real estate	199,118	-	-
Securities lending cash collateral investment pool	239,396	-	-
Total investments of retirement plans	<u>4,671,747</u>	<u>-</u>	<u>-</u>
Receivables:			
Accrued investment income	12,908	-	2
Employee contributions	2,623	-	-
Employer contributions	3,563	-	-
Due from the City of San José	-	850	-
Other	6,003	519	-
Restricted cash and investments	-	153,999	-
Total current assets	<u>4,696,844</u>	<u>162,437</u>	<u>1,698</u>
Noncurrent assets:			
Advances to the City of San José	-	280	-
Loans receivable, net	-	31,275	-
Deposits	-	155	-
Deferred charges, net	-	30,940	-
Property held for resale	-	22,474	-
Capital assets:			
Nondepreciable	-	35,581	-
Depreciable, net	-	92,895	-
Total noncurrent assets	<u>-</u>	<u>213,600</u>	<u>-</u>
Total assets	<u>\$ 4,696,844</u>	<u>376,037</u>	<u>1,698</u>

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

City of San José
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(\$000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
LIABILITIES			
Current liabilities:	\$		
Due to brokers	18,873	-	-
Accrued interest payable	-	41,682	-
Pass through payable to the County of Santa Clara	-	15,719	-
Unearned revenues	-	2,340	-
Securities lending collateral, due to borrowers	241,875	-	-
Other liabilities	7,607	2,320	1,698
Total current liabilities	<u>268,355</u>	<u>62,061</u>	<u>1,698</u>
Long-term liabilities:			
Due within one year	-	258,149	-
Due in more than one year	-	2,119,105	-
Total noncurrent liabilities	<u>-</u>	<u>2,377,254</u>	<u>-</u>
Total liabilities	<u>268,355</u>	<u>2,439,315</u>	<u>1,698</u>
NET ASSETS (DEFICITS)			
Held in trust for:			
Employees' pension benefits	4,227,713	-	
Employees' postemployment healthcare benefits	200,776	-	
Redevelopment dissolution and other purposes	-	(2,063,278)	
Total net assets (deficits)	<u>\$ 4,428,489</u>	<u>(2,063,278)</u>	

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

City of San José
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012
(\$000's)

	Pension Trust Funds	Private Purpose Trust Funds
ADDITIONS		
Redevelopment property tax revenues	\$ -	82,237
Investment income:		
Interest	73,268	155
Dividends	44,609	-
Net rental income	6,610	322
Net change in fair value of plan investments	(218,025)	-
Investment expenses	(17,986)	-
Total investment income (loss)	<u>(111,524)</u>	<u>477</u>
Securities lending income:		
Securities lending income	3,109	-
Securities lending rebates and expenses	(774)	-
Total securities lending income	<u>2,335</u>	<u>-</u>
Contributions:		
Employer	255,130	-
Employees	56,369	-
Total contributions	<u>311,499</u>	<u>-</u>
Other	<u>-</u>	<u>578</u>
Total additions	<u>202,310</u>	<u>83,292</u>
DEDUCTIONS		
General and administrative	7,217	967
Project expenses	-	816
Pass through amounts to the County of Santa Clara	-	8,177
Loss on fair value of property held for resale	-	27,417
Depreciation	-	2,040
Interest on debt	-	45,401
Health insurance premiums	61,556	-
Refunds of contributions	4,121	-
Retirement and other benefits:		
Death benefits	16,081	-
Retirement benefits	268,315	-
Total deductions	<u>357,290</u>	<u>84,818</u>
Extraordinary loss from dissolution of the Redevelopment Agency	<u>-</u>	<u>(2,061,851)</u>
Change in net assets	(154,980)	(2,063,377)
Net assets held in trust for pension, postemployment healthcare benefits and other purposes:		
Beginning of year	<u>4,583,469</u>	<u>99</u>
End of year	<u>\$ 4,428,489</u>	<u>(2,063,278)</u>

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

City of San José
Notes to Basic Financial Statements
June 30, 2012

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City of San José
Notes to Basic Financial Statements
June 30, 2012

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 criterion for including a potential component unit within the reporting entity is the governing body’s financial accountability. A primary government is financially accountable if it appoints a voting majority of a component unit’s governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. 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” 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/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.

- **Redevelopment Agency of the City of San José** – The Redevelopment Agency of the City of José (“Agency”) was established in 1956 by the City Council as a public entity legally separate from the City. In January 1975, the City Council declared itself the Agency Board, replacing a separate board. Until June 28, 2011, the Agency had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property in a “Redevelopment Area.” Redevelopment projects are developed in cooperation with private developers. Public redevelopment projects are also developed under cooperation agreements between the Agency and the City or other public entity that will own the project.

On June 28, 2011, Assembly Bill X1 26 (“AB X1 26”) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26, and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. At the City’s meeting on January 24, 2012, the City Council affirmed its decision to serve as the Successor Agency to the Redevelopment Agency of the City of San José (“SARA”), effective February 1, 2012, and as such is a component unit of the City. Also, upon dissolution, the City Council elected to retain the housing assets, functions and powers previously performed by the former Agency.

- **Successor Agency to the Redevelopment Agency of the City of San José** – The SARA was created to serve as a custodian for the assets and to wind down the affairs of the former Agency. The SARA is a separate public entity from the City, subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: two City representatives appointed by the Mayor; two County of Santa Clara (County) representatives; the County Superintendent of Education; the Chancellor of California Community Colleges; and the largest special district taxing entity in the Merged Project.

City of San José
Notes to Basic Financial Statements
June 30, 2012

In general, the SARA's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the SARA will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former 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).

- **Parking Authority of the City of San José** – The Parking Authority of the City of San José (the “Parking Authority”) was created by the City Council to provide funding through debt issuance for parking facilities constructed on City-owned land. Certain members of the City Council are also members of the Parking Authority's Board of Directors. On May 8, 2012, the City Council suspended the Parking Authority as there was no foreseeable need to finance the construction of additional public parking in the San José Downtown area through the Parking Authority.
- **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 subsequently entered into an 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.
- **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 former 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 former 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.

Separate financial reports for the fiscal year 2012, 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”)
- Redevelopment Agency of the City of San José (for the period July 1, 2011 through January 31, 2012)

City of San José
Notes to Basic Financial Statements
June 30, 2012

- Successor Agency to the Redevelopment Agency of the City of San José (for the period February 1, 2012 through June 30, 2012)
- Norman Y. Mineta San José International Airport (the “Airport”)
- San José – Santa Clara Clean Water Financing Authority
- San José Diridon Development Authority

B. Financial Statement Presentation

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

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

Fund Financial Statements. The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund category, such as governmental, proprietary and fiduciary, are presented. The emphasis of fund financial statements are on the major governmental and enterprise funds of the City and are reported separately in the accompanying financial statements. All remaining governmental funds are aggregated and reported as non-major 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 **Redevelopment Agency Fund** is a capital projects fund that accounts for the activities of the former Agency for the seven months ended January 31, 2012.

The **Housing Activities Fund** is a special revenue fund that accounts for 20% redevelopment property tax revenue until February 1, 2012 and all of the City’s affordable housing activities funded by federal and state grants. 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

City of San José
Notes to Basic Financial Statements
June 30, 2012

moderate income housing and related expenditures. Upon dissolution of the former Agency and the City Council's election to retain the housing activities previously funded by the former Agency, the City created a housing successor fund (Affordable Housing Investment Fund) and transferred the assets and affordable housing activities.

The **Affordable Housing Investment 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 former Agency. On October 16, 2012, the Affordable Housing Investment Fund was renamed to Low and Moderate Income Housing Asset Fund to comply with the requirement of Assembly Bill 1484.

The **Special Assessment Districts Fund** is a capital projects 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 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 and the regional water reclamation program.

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 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 on automotive maintenance facility used by other City departments; and employee benefits including medical, vision, dental, and unemployment insurance costs on a cost-reimbursement basis.

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

The **Private Purpose Trust Funds** account for the custodial responsibilities that are assigned to SARA with the passage of AB X1 26, and for the resources legally held in trust towards support of the EMQ Families First Agency (a.k.a. Eastfield Ming Quong).

The **Agency Funds** account for assets held by the City in a custodial capacity on behalf of the San José Arena.

C. Measurement Focus and Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus and the accrual basis of

City of San José
Notes to Basic Financial Statements
June 30, 2012

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 tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

In governmental funds, revenues from taxes, franchise fees, investment income, certain 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 non-operating 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, Wastewater Treatment System Fund contributions from other participating agencies for their allocation of the Plant's operating and maintenance expense 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 non-operating 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 assets 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

D. Use of Estimates

A number of estimates and assumptions relating to the reporting of revenues, expenditures/expenses, assets and liabilities, 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.

City of San José
Notes to Basic Financial Statements
June 30, 2012

E. New Pronouncements

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

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (“SCAs”), which are a type of public-private or public-public partnership. This statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Application of this statement is effective for the City’s fiscal year ending June 30, 2013.

In November 2010, GASB issued Statement No.61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. Application of this statement is effective for the City’s fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (“FASB”) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (“AICPA”) Committee on Accounting Procedure

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.” This statement will improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this statement is effective for the City’s fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Application of this statement is effective for the City’s fiscal year ending June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Application of this statement is effective for the City’s fiscal year ending June 30, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012-an amendment*

City of San José
Notes to Basic Financial Statements
June 30, 2012

of GASB Statements No. 10 and No. 62, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In June 2012, the GASB issued two new standards, GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27* to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the interest rate on a tax-exempt 20-year AA/Aa or higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in audited financial reports. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement 67 is effective for financial statements for the City's fiscal year ending June 30, 2014. Application of Statement 68 is effective for the City's fiscal year ending June 30, 2015.

F. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

Restricted and unrestricted pooled cash and investments held in the City Treasury and other

City of San José
Notes to Basic Financial Statements
June 30, 2012

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 assets or balance sheet and to recognize the corresponding change in fair value of investments in the year in which the change occurred.

Pooled Cash and Investments held in City Treasury. The City reports its investments held in City Treasury at fair value. The fair value is based on quoted market information obtained from fiscal agents or other sources. Income from some investments is assigned to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the fiscal year ended June 30, 2012, the total investment income from these investments assigned and transferred to the General Fund was approximately \$228,000.

Retirement Systems. The Retirement Systems' investment policies authorize various types of investments. These investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently audited financial statements and other fund information. The fair value of separate real estate properties is based on annual independent appraisals. In addition, per the Retirement Systems' Real Estate Investment Guidelines, mortgage loans at fair value on the separate real estate properties are not allowed to exceed 50% of the property's fair value. 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.

City of San José
Notes to Basic Financial Statements
June 30, 2012

5. Special Assessment Districts

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

6. Advances and Deposits

Amounts deposited in connection with eminent domain proceedings and special assessment surpluses are reported as advances and deposits. In the governmental fund statements, non-current portions of these are offset equally by either a deferred credit or a fund balance in the nonspendable, restricted or committed account to indicate they do not constitute expendable financial resources available for appropriation.

7. Other Assets

Other assets primarily consist of real properties acquired outright and/or through foreclosure in connection with the housing rehabilitation program and a leveraged asset associated with New Market Tax Credit Financing Program. At June 30, 2012, the City reported other assets in the amount of \$41,233,000. Of which, \$20,771,000 is for the housing rehabilitation program, \$19,610,000 for the New Market Tax Credit Financing Program, and \$852,000 for economic development programs. These assets are recorded at the lower of cost or estimated net realizable value.

8. Bond Issuance Costs, Original Issue Discounts and Premiums and Deferred Amounts on Refundings

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts on refundings. Bond issuance costs are deferred and are amortized over the term of the related debt. Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, gains or losses occurring from advance refundings are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

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

9. Restricted Assets

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

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10. Capital Assets

Capital assets include land, buildings, improvements, vehicles and equipment, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives in excess of one year. Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements, the proprietary funds' statement of net assets, and the private-purpose trust fund. 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 or the estimated useful life of the asset and is included in depreciation and amortization.

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

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

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

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

Vacation, sick leave, compensatory time, and related benefits are accrued as determined by the agreement 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 the annual accrual rate, not to 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, may accumulate vacation hours up to 400 hours for employees on a 40-hour workweek and 576 hours for employees on a 56-hour workweek.

Generally, employees in the FCERS who retire with at least 15 years of service or 20 years for police officers and firefighters in the 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. Certain bargaining unit employees in the FCERS are no longer eligible for a sick leave payout effective January 1, 2012.

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12. Interfund Transactions

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

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

13. Self-Insurance

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

14. Net Assets/Fund Equity

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category represents net assets 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, 2012, the government-wide statement of net assets reported restricted assets of \$939,509,000 in governmental activities and \$128,361,000 in business-type activities. Of these amounts \$380,952,000 and \$67,400,000, respectively are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

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15. 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 government funds consist of the following categories:

- *Nonspendable Fund Balance* – includes amounts that are not in a spendable form, such as inventories, prepaid items, and long-term loans and notes receivables. It also includes amounts that are legally or contractually required to be maintained intact or required to be retained in perpetuity, such as the principal of an endowment fund.
- *Restricted Fund Balance* – includes amounts reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* – includes amounts that have been limited to specific purposes as defined in the City Charter or through adoption of an ordinance by the City Council, the highest level of decision making authority of the City. These commitments may be changed or lifted, but only by the same formal action that was used to impose the constraint originally. City Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.
- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes through City Council budgetary actions. Intent is expressed by (a) the City Council or (b) a body or official to which the City Council has delegated the authority to assign amounts to be used for specific purpose.
- *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.

16. Extraordinary Items

Extraordinary items are both 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) and 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates).

The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual and infrequent. Accordingly, the transfer of the former Agency's liabilities in excess of its assets as of February 1, 2012 from the City's governmental activities to the SARA fiduciary fund was recorded as an extraordinary gain in the City's government-wide financial statements and as an extraordinary gain or loss in the governmental and proprietary funds. The receipt of these liabilities in excess of assets was reported in the SARA fiduciary fund financial statements as an extraordinary loss. In addition to the transfer of the former Agency's assets and liabilities, the transfer of cash out of the Housing Activities

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Fund's Low and Moderate Income Housing Program to pay enforceable obligations of SARA in the amount of \$6,863,000 was also recorded as an extraordinary loss.

AB X1 26 specifically invalidates existing agreements between the former Agency and the City, except for 1) those entered into at the time of issuance of debt, for the purpose of securing repayment of such debt; and 2) loans or advances from the Low and Moderate Income Housing Fund. Therefore, on February 1, 2012, AB X1 26 invalidated the following City loans previously reported as long-term receivables from the former Agency: (1) City of San José Parking Fund Loan (\$13,528,000); (2) City of San José Parkland Fees (\$8,112,000); (3) City of San José Autumn Street Property (\$630,000); and (4) the portion of the City of San José Supplemental Education Revenue Augmentation Fund Loans ("SERAF Loans") and its related accumulated interest and fees that were funded from sources other than the Low and Moderate Income Housing Fund (\$10,078,000); and (5) invalidation of accrued interest with SERAF Loans in excess of the LAIF rates pursuant to AB X1 26 as amended with AB 1484 in the amount of (\$2,940,000).

The components of the extraordinary gains and losses recorded in the financial statements are as follows (dollars in thousands):

Governmental activities:

Former Agency's transfers of net assets at January 31, 2012:	
Transfers out of former Agency Fund assets	\$ (164,020)
Transfers out of former Agency Fund liabilities	234,498
Extraordinary gain reported in the former Agency Fund	70,478
Transfers out of the former Agency's capital assets	(180,407)
Transfers out of the former Agency's other long-term assets	(60,947)
Transfers out of the former Agency's long-term debt, net deferred amounts	2,224,731
Transfers out of the former Agency's interest payable and other long-term liabilities	50,147
Extraordinary gain from transfers of the former Agency liabilities in excess of assets	2,104,002
Transfers out of Housing Activities Fund's cash to pay SARA's enforceable obligations	(6,863)
Invalidation of loans and interest between the former Agency and the City:	
Loans funded and/or assumed by the General Fund	(18,820)
Accrued interest on SERAF Loans in excess of the LAIF rate	(2,940)
Extraordinary loss from invalidation of loans and interest	(21,760)
Extraordinary gain from dissolution of the former Agency - governmental activities	2,075,379

Business-type activities:

Invalidation of loans and interest between the former Agency and the City:	
Loans funded from the Parking System Fund	(13,528)
Extraordinary loss from dissolution of the former Agency - business-type activities	(13,528)
Extraordinary gain from dissolution of the former Agency - primary government	\$ 2,061,851

17. Property Taxes

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

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The County assesses property values, levies, bills, and collects the related property taxes as follows:

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

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

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

The City’s net assessed valuation for the fiscal year ended June 30, 2012, was approximately \$120.2 billion, an increase of approximately 0.8% from the previous year. The City’s tax rate was approximately \$0.188 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).

18. Wastewater Treatment System

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

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

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city’s assessed valuation to the sum of both cities’ assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the fiscal year ended June 30, 2012, the City’s portion of the capital and operating costs was approximately 82.8% and, based on operations through the fiscal year ended June 30, 2012, the City’s interest in the net assets of the Plant was approximately 82.9%.

II. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance and Net Assets

A deficit fund balance of \$172,000 was reported in the non-major capital projects Fiber Optics Development Fund. It will be eliminated with future transfers from the General Fund.

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The Public Works Programs Support Internal Service Fund also reported deficit net assets of \$969,000. The deficit is expected to be eliminated in future years through rate increases for its services provided to the City departments.

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 has 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 former 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, 2012, SARA has a deficit of \$2,063,382,000, which will be eliminated with future redevelopment property tax revenues distributed from the Redevelopment Property Tax Trust Fund administered by the County's Auditor-Controller.

B. Deficit Unrestricted Net Assets – Governmental Activities

At June 30, 2012, the City reports a deficit unrestricted net assets in its Statement of Net Assets – governmental activities in the amount of \$197,298,000. This deficit is primarily due to the City's accrual of certain long-term liabilities, such as compensated absences and estimated claims, that are recognized as expenses under the accrual basis of accounting as the liabilities are incurred; however, these expenses are not budgeted (funded) until the liabilities are anticipated to come due; and the City's recognition of other postemployment benefit (OPEB) obligations for OPEB costs in which the actuarial annual required contributions are greater than the amount funded into the OPEB plans to date. Pursuant to the City's latest agreements with its bargaining units, the funding to fully fund the OPEB's annual required contributions is being phased in over a five year period with varying ending dates (see Note IV.A.).

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2012, total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

	Governmental Activities	Business-type Activities	Fiduciary Funds			Carrying Value
			Pension Trust	Private-Purpose Trust	Agency	
Equity in pooled cash and investments	\$ 568,627	\$ 389,120	\$ -	\$ 104	\$ 1,696	\$ 959,547
Other cash and investments	-	-	-	6,965	-	6,965
Restricted investments:						
Equity in pooled cash and investments	40,054	118,575	-	-	-	158,629
Cash and investments with fiscal agents	253,193	231,517	-	153,999	-	638,709
Other cash and investments	5,710	-	-	-	-	5,710
Investments of retirement plans	-	-	4,671,747	-	-	4,671,747
Total deposits and investments	<u>\$ 867,584</u>	<u>\$ 739,212</u>	<u>\$ 4,671,747</u>	<u>\$ 161,068</u>	<u>\$ 1,696</u>	<u>\$ 6,441,307</u>
Deposits / (Outstanding items)						\$ (21,530)
Investments						6,462,837
Total deposits and investments						<u>\$ 6,441,307</u>

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 statement of net assets as "Equity in pooled cash and investments held in City Treasury."

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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, the longer the time of maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Additionally, the fair values of the investments may be highly sensitive to interest rate fluctuations. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing the cash flows from the maturities so that a portion is maturing or coming close to maturing evenly over time, as necessary to provide the cash flow and liquidity needs for operations.

The City has the ability to hold investments until their respective maturity dates; however, the Investment Policy does not prohibit the sale of securities prior to maturity. The average maturity of the City's pooled cash and investments as of June 30, 2012, was approximately 387 days. However, any portfolio restructuring requires prior conceptual approval in writing from the Director of Finance. Section 17.2 of the Investment Policy further defines the parameters with respect to restructuring the portfolio.

Credit Quality Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's Investment Policy has mitigated credit risk by limiting investments to the safest type of securities, by prequalifying financial institutions, by diversifying the portfolio and by 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.

As of June 30, 2012, the City's pooled and fiscal agent investments in LAIF was approximately

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\$333,172,000. The weighted average maturity of LAIF was 268 days at June 30, 2012. The total amount recorded by all public agencies in LAIF at June 30, 2012 was approximately \$21.9 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of approximately \$60.5 billion and of that amount, 96.53% was invested in non-derivative financial products and 3.47% in structured notes and asset backed securities.

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

The City Council adopted an investment policy (the "Policy") on April 2, 1985, as last amended on August 30, 2011, 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, 2012:

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
Bankers' Acceptances	180 days	20% *	5% *
Insured Time Deposits	3 years *	\$10 million *	5% *
Uninsured Time Deposits	18 months *	\$10 million *	5% *
Commercial Paper	270 days	20% *	5% *
Negotiable Certificates of Deposit	180 days *	20% *	5% *
Repurchase Agreements	92 days *	50% *	10% *
Reverse Repurchase Agreements	30 days *	Lesser of \$25 million or 20% *	None
Corporate Notes	3 years *	20% *	5% *
Local Agency California Investment Fund	None	State Treasurer Limit	None
Money Market Mutual Funds	None	20%	10%
Municipal Bonds - Category 1 (City)	5 years	10% *	5% *
Municipal Bonds - Category 2 (State of CA)	5 years	5% *	5% *
Municipal Bonds - Category 3 (CA Issuers)	5 years	5% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	5% *	5% *
Investment Agreements	None	None	None
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)	5 years	10%*	None
Asset Based 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 Farm Credit Banks, the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.
- Purchases of Bankers' Acceptances ("BAs") are limited to issues by domestic U.S.

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or foreign banks, which must be rated by Fitch Ratings (“Fitch”) as follows: an issuer rating of “B” or better for domestic U.S. banks, “C” or better for California banks or “A/B” or better for foreign banks. Additionally, foreign BAs must be in U.S. dollar denominations. BAs eligible for investment must be rated “P1, A1, F1” or better from two of the three nationally recognized rating services; Moody’s Investors’ Service (“Moody’s”), Standard & Poor’s (“S&P”), or Fitch, respectively.

- Deposits up to the Federal Deposit Insurance Corporation (“FDIC”) limit 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. Uninsured time deposits are limited to issuances from banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Additionally, concerning uninsured time deposits, depositories must have an issuer rating of “B” or better by Fitch and be collateralized in a 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 rating of “A/B” or better by Fitch and may not exceed the net worth of the issuing institution.
- 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 notes eligible for investment must be rated “A3, A- or A-“ or better by two of the three nationally recognized rating services; Moody’s, S&P or Fitch, respectively.
- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is \$50,000,000.
- Investments in money market mutual funds are limited to those funds registered with the Securities and Exchange Commission (“SEC”) and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and

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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 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, respectively. 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.
- 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.

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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, 2012. The credit ratings listed are for Moody's and S&P, respectively. Certain investments, such as obligations, which are backed by the full faith and credit of the United States Government, are exempt from credit rating disclosures (dollars in thousands):

Type of Investment	Credit Rating	Maturity				Carrying Value
		Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	
Pooled investments in the City Treasury:						
Federal Farm Credit Banks	Aaa / AA+	-	10,009	14,655	115,558	140,222
Federal Home Loan Banks	Aaa / AA+	-	20,003	55,092	119,691	194,786
Federal Home Loan Banks - Callable	Aaa / AA+	-	-	-	5,000	5,000
Federal Home Loan Banks - Discount	P-1 / A-1+	-	20,993	-	-	20,993
Federal Home Loan Mortgage Corporation	Aaa / AA+	-	25,033	10,038	80,403	115,474
Federal Home Loan Mortgage Corporation - Callable	Aaa / AA+	-	-	-	75,303	75,303
Federal Home Loan Mortgage Corporation - Discount	P-1 / A-1+	-	96,342	-	-	96,342
Federal National Mortgage Association	Aaa / AA+	-	20,022	5,016	75,600	100,638
Federal National Mortgage Association - Callable	Aaa / AA+	-	-	-	75,313	75,313
Federal National Mortgage Association - Discount	P-1 / A-1+	33,747	38,997	-	-	72,744
Commercial paper - Discounted	P-1 / A-1	90,221	31,990	-	-	122,211
Negotiable certificate of deposit	P-1 / A-1	50,002	-	-	-	50,002
Money market mutual funds	Aaa-mf	26,300	-	-	-	26,300
California local agency investment fund	Not Rated	-	-	50,000	-	50,000
Total pooled investments in the City Treasury		200,270	263,389	134,800	546,867	1,145,328
Investments with fiscal agents:						
Federal Farm Credit Banks	Aaa / AA+	-	-	-	37,856	37,856
Federal Home Loan Banks	Aaa / AA+	-	785	-	-	785
Federal Home Loan Banks - Discount	P-1 / A-1+	-	28,016	-	-	28,016
Federal Home Loan Mortgage Corporation - Discount	P-1 / A-1+	-	2,696	10,986	-	13,682
Commercial paper	P-1 / A-1+	-	1,909	-	-	1,909
Medium-term notes	Aaa / AA+	-	-	818	-	818
Money market mutual funds	Aaa-mf	118,560	-	-	-	118,560
California local agency investment fund	Not Rated	-	-	283,172	-	283,172
Total investments with fiscal agents		118,560	33,406	294,976	37,856	484,798
Total Citywide investments (excluding Retirement Systems)		\$ 318,830	\$ 296,795	\$ 429,776	\$ 584,723	\$ 1,630,126
Trust Funds:						
Total investments in Retirement Systems (See page 64)						4,671,747
Total investments in SARA (See page 116)						160,964
Total investments						\$ 6,462,837

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. The investments held by the City were not subject to custodial credit risk at June 30, 2012.

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 other than the investment types discussed 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 they

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are normally diversified themselves.

As of June 30, 2012, 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	12.24%
Federal Home Loan Banks	19.28%
Federal Home Loan Mortgage Corporation	25.07%
Federal National Mortgage Association	21.71%

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, 2012:

Special Assessment Districts:	
Federal Home Loan Mortgage Corporation	5.72%
San José Financing Authority Debt Service:	
Federal Home Loan Bank	48.24%
Airport:	
Federal Farm Credit Bank	16.83%
Wastewater Treatment System:	
Federal Home Loan Mortgage Corporation	94.67%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2012, the investments in the City's investment pool were not subject to foreign currency risk.

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2. Retirement Systems

Investment Policies – The City’s Municipal Code delegates authority to the Boards of Administration of FCERS and PFDRP (the “Retirement Boards”) to invest moneys of the respective plans as provided in the Municipal Code. The Retirement Boards have adopted detailed investment guidelines consistent with the limitations set forth in the Municipal Code. In fiscal year 2010, each Retirement Board approved new asset allocations to target higher expected returns at similar risk levels by changing the asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments. In December 2011, the Retirement Board of FCERS aligned its asset allocation to the expected returns to the liabilities as determined in the June 30, 2011 valuations by increasing the level of asset allocation to absolute return strategies and real assets and reducing the allocation to equity and fixed income. The Retirement Systems’ investment asset allocations are as follows:

	<u>Type of Investment</u>	<u>Policy Limits and Descriptions</u>
PFDRP	Equity - Target of 40%	Minimum of 30% and maximum of 50% of the fair value of the aggregate portfolio. U.S. Large Cap - Target 18% U.S. Small Cap - Target 5% Non U.S. Developed Markets - Target 12% Non U.S. Emerging Markets - Target 5%
	Fixed Income - Target of 25%	Minimum of 15% and maximum of 35% of the fair value of the aggregate portfolio. Core Fixed Income - Target 5% U.S. Treasury Inflation Protected Securities (TIPS) - Target 10% Long Duration Fixed Income - Target 5% Opportunistic Credit - Target 5%
	Alternative Assets - Target of 35%	Minimum of 10% and maximum of 60% of the fair value of the aggregate portfolio. Under allocated asset classes have been temporarily invested in other asset classes. Private Equity - Target 5% Real Estate - Target 10% Inflation-Linked Assets - Target 10% Absolute Return - Target 5% Opportunistic - Target 5%
FCERS	Global Equity - Target 45%	
	Fixed Income - Target 10%	
	Absolute Return strategies - Target 25%	
	Real Assets - Target 20%	

As of June 30, 2012, PFDRP’s separate real estate properties include: office buildings in O’Fallon, MO, and San José, CA. In fiscal year 2012, PFDRP sold its apartment complexes in Houston, TX and Colorado Springs, CO; office buildings in Denver, CO, near Chicago, IL, and in Anchorage, AK; and warehouses near Minneapolis, MN. As of June 30, 2012, the office building in O’Fallon, MO had a mortgage loan payable of approximately \$9,014,000, which does not exceed 50% of the assets as allowed in PFDRP’s Real Estate Investment Guidelines.

On June 26, 2012, FCERS sold its warehouse located in Northern California.

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At June 30, 2012, the Retirement Systems held the following investments (dollars in thousands):

	<u>PFDRP</u>	<u>FCERS</u>	<u>Total</u>
Securities and other:			
Fixed income:			
Domestic fixed income	\$ 613,111	\$ 165,906	\$ 779,017
International fixed income	15,652	2,180	17,832
Collective short-term investments	83,959	249,347	333,306
Corporate convertible bonds	73,068	51,234	124,302
Pooled fixed income bond funds	18,660	35,625	54,285
Total fixed income	<u>804,450</u>	<u>504,292</u>	<u>1,308,742</u>
Global equity	516,505	353,211	869,716
Domestic equity	618,384	-	618,384
Pooled international equity	-	488,819	488,819
Private equity	125,463	95,478	220,941
International currency contracts, net	489	452	941
Opportunistic	194,009	83,876	277,885
Real assets	280,386	167,419	447,805
Real estate	105,253	93,865	199,118
Securities lending cash collateral investment pool	239,396	-	239,396
Total investments	<u>\$ 2,884,335</u>	<u>\$ 1,787,412</u>	<u>\$ 4,671,747</u>

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.

As of June 30, 2012, PFDRP's investments include \$12,215,000 of bank loan securities and corporate bonds that were floating rate securities tied to the 1 and 3 month London Interbank Offered Rate (LIBOR).

As of June 30, 2012, FCERS's investments include \$12,215,000 of bank loan securities that were floating rate securities tied to the 1 and 3 month LIBOR. FCERS also had exposure to interest rate risk on its fully collateralized infrastructure swaps. The FCERS invested in infrastructure swaps with a notional amount of \$74,041,000 at June 30, 2012, in which it receives the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 50 to 55 basis points. The FCERS also invested in commodities swaps with a notional amount of \$226,788,000 at June 30, 2012, in which it receives a total return of the United States three month treasury bill rate plus 10 to 12 basis points.

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The following tables provide the segmented time distribution for fixed income investments based on expected maturity as of June 30, 2012, concerning the fair value of investments and interest rate risk (dollars in thousands):

	PFDRP						Total Fair Value	Total Cost
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years		
Domestic fixed income:								
Asset backed securities	\$ 2,025	\$ -	\$ -	\$ 2,020	\$ 1,249	\$ 4,650	\$ 9,944	\$ 11,781
Bank loans	-	1,142	1,094	10,280	-	-	12,516	10,987
Collateralized mortgage obligations	-	-	-	-	12,534	13,522	26,056	24,019
Corporate bonds	-	2,789	4,305	31,476	26,037	111,685	176,292	155,145
FHLMC	-	-	-	-	4,688	11,159	15,847	15,585
FNMA	-	-	-	-	1,092	21,344	22,436	22,116
GNMA	-	-	-	-	-	3,301	3,301	3,086
State and local obligations	-	-	-	-	739	10,535	11,274	9,639
U.S. TIPS	-	-	-	130,289	137,528	-	267,817	249,484
U.S. Treasury securities	5,799	-	-	31,878	2,605	27,346	67,628	65,306
Total domestic fixed income	7,824	3,931	5,399	205,943	186,472	203,542	613,111	567,148
International corporate bonds	40	-	917	4,290	4,645	5,760	15,652	15,422
Pooled fixed income bond funds	-	-	-	18,660	-	-	18,660	18,295
Corporate convertible bonds	-	-	13,437	38,725	9,809	11,097	73,068	72,789
Collective short-term investments	12,791	-	-	-	-	71,168	83,959	83,976
Total fixed income	\$ 20,655	\$ 3,931	\$ 19,753	\$ 267,618	\$ 200,926	\$ 291,567	\$ 804,450	\$ 757,630

	FCERS						Total Fair Value	Total Cost
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years		
Domestic fixed income:								
Asset backed securities	\$ 2,025	\$ -	\$ -	\$ 2,020	\$ -	\$ -	\$ 4,045	\$ 6,042
Bank loans	-	1,142	-	11,375	-	-	12,517	11,036
Corporate bonds	-	636	-	15,073	5,367	3,799	24,875	20,602
U.S. TIPS	-	-	-	82,931	41,538	-	124,469	120,522
Total domestic fixed income	2,025	1,778	-	111,399	46,905	3,799	165,906	158,202
International fixed income	-	-	-	2,176	4	-	2,180	1,987
Collective short-term investments	1,917	-	260	-	-	247,170	249,347	249,701
Corporate convertible bonds	-	-	4,369	32,015	3,601	11,249	51,234	50,560
Pooled fixed income bond funds	-	-	-	-	2,672	32,953	35,625	29,216
Total fixed income	\$ 3,942	\$ 1,778	\$ 4,629	\$ 145,590	\$ 53,182	\$ 295,171	\$ 504,292	\$ 489,666

Custodial Credit Risk – The Retirement Systems do not have a policy regarding custodial credit risk. As of June 30, 2012 all of the Retirement Systems’ investments, excluding invested securities lending collateral, are held in the Retirement Systems’ names, and/or are not exposed to custodial credit risk. Securities lending collateral are invested in the lending agent’s investment fund (see discussion on securities lending below).

Credit Quality Risk – PFDRP’s investment policy dictates that all domestic and international bonds and notes in which PFDRP’s assets are invested, and which mature one year or more from the date of original issues, are required to carry a rating of “BBB” or better by two of the following three rating services: Moody’s, S&P, or Fitch. In the event that ratings are provided by only two agencies and the third is non-rated, the more conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, the security shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Investment managers may, with prior written authorization from PFDRP, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB. If bonds are downgraded below the minimum credit quality allowable in the PFDRP’s investment policy at the time of purchase, the investment manager is permitted to hold up to 2% of the PFDRP’s portfolio managed by the individual manager, using the lowest of Moody’s, S&P, and Fitch’s rating in the event of a split-rated security.

FCERS’s Investment Policy dictates that assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed income investment grade shall be defined as being rated Baa/BBB or better by Moody’s or S&P. “Yankee” bonds issued by foreign countries and denominated in U.S. dollars are allowed so long as they are rated Baa/BBB or better by

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Moody's or S&P. If a security is not rated by Moody's or S&P, the equivalent rating determined by the investment manager's research department will be used. Should a current holding fall below this standard, the manager shall notify FCERS of the downgrade and confer with FCERS staff as to whether the security will continue to be held or disposed. Up to 10% investment in BB or B securities will be permitted with written authorization of the FCERS's Board. The investment managers employed to manage fixed-income securities will have discretion in the day-to-day management of the funds under their control.

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.

The following table provides information as of June 30, 2012 concerning credit risk of fixed income investments (dollars in thousands):

S&P quality Rating	PFDRP		FCERS	
	Fair Value	Fair value as a % of fixed income investments	Fair Value	Fair value as a % of fixed income investments
AAA	\$ 15,541	3.3%	\$ 2,696	0.7%
AA	74,524	16.0%	-	0.0%
A	90,989	19.6%	8,844	2.3%
BBB	79,742	17.1%	15,559	4.1%
BB	19,300	4.1%	15,186	4.0%
B	10,109	2.2%	10,083	2.6%
CCC & below	1,726	0.4%	1,718	0.5%
Not rated	173,773	37.3%	325,736	85.8%
Total investments exposed to credit risk	<u>\$ 465,704</u>	<u>100.0%</u>	<u>\$ 379,822</u>	<u>100.0%</u>

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.

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The following tables provide information as of June 30, 2012, concerning the fair value of investments and foreign currency risk (dollars in thousands):

PFDRP						
Currency Name	Cash	Private Equity	Equity	Fixed Income	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	\$ 144	\$ -	\$ 26,277	\$ -	\$ 79	\$ 26,500
Brazilian Real	186	-	8,896	35	-	9,117
British Pound Sterling	594	-	95,834	-	94	96,522
Canadian Dollar	82	-	41,626	-	24	41,732
Chilean Peso	41	-	1,985	-	-	2,026
Colombian Peso	47	-	789	-	-	836
Danish Krone	3	-	3,057	-	-	3,060
Euro Currency	2,764	-	103,118	7,489	352	113,723
Hong Kong Dollar	230	-	22,282	125	-	22,637
Indonesian Rupiah	36	-	2,341	-	-	2,377
Israeli Shekel	1	-	300	-	-	301
Japanese Yen	1,102	-	87,316	7,806	(128)	96,096
Malaysian Ringgit	17	-	1,363	-	-	1,380
Mexican Peso	5	-	541	-	-	546
New Taiwan Dollar	-	-	-	-	16	16
Norwegian Krone	80	-	3,789	-	61	3,930
Philippine Peso	-	-	480	-	-	480
Polish Zloty	-	-	703	-	-	703
Singapore Dollar	126	-	8,704	2,651	-	11,481
South African Rand	8	-	4,644	-	-	4,652
South Korean Won	154	-	16,798	-	-	16,952
Swedish Krona	125	-	7,989	1,556	(9)	9,661
Swiss Franc	166	-	23,077	-	-	23,243
Thailand Baht	21	-	1,619	-	-	1,640
Turkish Lira	21	-	2,438	-	-	2,459
Total	\$ 5,953	\$ -	\$ 465,966	\$ 19,662	\$ 489	\$ 492,070

FCERS						
Currency Name	Cash	Private Equity	Equity	Fixed Income	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	\$ 19	\$ -	\$ 10,014	\$ -	\$ 39	\$ 10,072
British Pound Sterling	685	-	43,257	-	82	44,024
Canadian Dollar	(26)	-	5,757	-	31	5,762
Danish Krone	245	-	3,203	-	-	3,448
Euro Currency	640	9,252	36,405	5,016	285	51,598
Hong Kong Dollar	93	-	4,526	125	-	4,744
Israeli Shekel	2	-	384	-	-	386
Japanese Yen	405	-	38,855	5,536	(31)	44,765
New Taiwan Dollar	-	-	-	-	11	11
Norwegian Krone	91	-	4,371	-	43	4,505
Singapore Dollar	30	-	3,389	1,835	-	5,254
Swedish Krona	114	-	4,594	1,100	(8)	5,800
Swiss Franc	236	-	15,536	-	-	15,772
Turkish Lira	1	-	-	-	-	1
Total	\$ 2,535	\$ 9,252	\$ 170,291	\$ 13,612	\$ 452	\$ 196,142

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Concentration of Credit Risk – PFDRP’s investment policy does not limit the amount that can be invested in a single issuer. However, it limits the aggregate amount that can be invested in each class of investments, limits the portion of the total PFDRP assets that a manager can hold in a single security with the exception of government backed securities and real estate equity to 5%, and limits PFDRP assets placed with an investment manager to represent no more than 10% of that manager’s total assets. FCERS’s investment policy limits investment managers to no more than 10% of FCERS’s assets under their management to be invested in securities of any single issuer with the exception of U.S. Government and its agencies.

Derivatives – The Retirement Systems’ investment policies allow for investments in derivative instruments that comply with the Retirement Systems’ basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the Retirement Systems specifically prohibit investment managers from using derivative or synthetic securities that expose the Retirement Systems to potentially high price volatility or are leveraged, or whose marketability may become severely limited. 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. Investments that do not have an established market are reported at estimated fair value based 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 derivative investments that are not exchange traded, such as swaps and rights is determined by the Retirement Systems’ custodians based on the base market value of similar instruments. 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, 2012. 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 of derivative instruments outstanding as of June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (amounts in thousands):

PFDRP					
Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2012		Fair Value at June 30, 2012		Notional Amount
	Classification	Amount	Classification	Amount	
International currency forwards	Investment income	\$ 668	International currency contracts, net	\$ 489	\$ 62,324
Futures long/short (domestic and foreign)	Investment income	1,318	Fixed income (domestic and foreign)	-	30,300
Index futures long/short (domestic and foreign)	Investment income	2,361	Equity income (domestic and foreign)	-	768
Rights	Investment loss	(4)	Global Equity	5	8
Warrants	Investment income	7	Global Equity	36	18
Total derivative instruments		<u>\$ 4,350</u>		<u>\$ 530</u>	

FCERS					
Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2012		Fair Value at June 30, 2012		Notional Amount
	Classification	Amount	Classification	Amount	
Total return swaps	Investment loss	\$ (7,849)	Real assets	\$ 13,552	\$ 300,829
Foreign currency forwards	Investment loss	(421)	Foreign currency contracts, net	445	46,207
Future options bought/written	Investment loss	(4,951)	Fixed income - collective short-term investments	-	38,650
Rights / Warrants	Investment income	99	Global equity	39	22
Total derivative instruments		<u>\$ (13,122)</u>		<u>\$ 14,036</u>	

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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, 2012:

Counterparty Credit Risk – The Retirement Systems are exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded.

As of June 30, 2012, PFDRP held rights and warrants with a fair value of approximately \$5,000 and \$36,000 with notional value of \$8,000 and \$18,000 held by unrated counterparties. PFDRP's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2012, total commitments in forward currency contracts to purchase and sell international currencies were \$62,324,000 and \$62,324,000 respectively, with fair values of \$62,574,000 and \$62,085,000, respectively, held by counterparties with an S&P rating of at least AA-.

FCERS entered into infrastructure and commodity swaps with notional amounts of \$74,041,000 and \$226,788,000, respectively, held by counterparties with S&P ratings of A. FCERS's 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, 2012, total commitments in forward currency contracts to purchase and sell international currencies were \$46,207,000 and \$46,207,000 respectively, with fair values of \$46,424,000 and \$45,979,000, respectively, held by counterparties with an S&P rating of at least A and above.

Interest Rate Risk –FCERS had exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices, with unrealized gains and losses collateralized to minimize counterparty risk. As of June 30, 2012, PFDRP did not hold commodity swaps. As of June 30, 2012, FCERS invested in infrastructure and commodity swaps with notional amounts of \$74,041,000 and \$226,788,000, respectively. FCERS receives the total return S&P Global Infrastructure Index, net of the 3-LIBOR plus 50 to 55 basis points. FCERS also receives the total return United States three month Treasury bill rate plus 10 to 12 basis points for the commodities swaps. FCERS's infrastructure swaps were executed in December 2011 and April 2012 and mature in December 2012 and April 2013 with a quarterly rate reset frequency. The commodity swaps were executed in June 2012 and matured August 2012 with a monthly rate reset frequency. FCERS does not have a policy regarding interest rate risk, however, the Retirement Systems do settle on a transaction plus one day basis (T+1), therefore limiting Retirement Systems' exposure to counterparty risk.

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Retirement Systems' investment policies permit individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Retirement Systems' investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Retirement Systems utilize these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2012, the Retirement Systems' net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Retirement Systems' commitments relating to forward currency contracts are settled on a net basis.

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The following tables provide information as of June 30, 2012, concerning the fair value of forward currency contracts and foreign currency risk (dollars in thousands):

Currency Name	Pending Foreign Currency Exchanges			Rights
	PFDRP	FCERS	Total	FCERS
Australian Dollar	\$ 79	\$ 39	\$ 118	\$ -
British Pound Sterling	94	82	176	-
Canadian Dollar	24	32	56	-
Euro Currency	352	279	631	39
Japanese Yen	(128)	(31)	(159)	-
New Taiwan Dollar	16	11	27	-
Norwegian Krone	61	41	102	-
Swedish Krona	(9)	(8)	(17)	-
Total	\$ 489	\$ 445	\$ 934	\$ 39

Securities Lending. The Municipal Code and the investment policies, adopted by the Retirement Boards permit the use of a securities lending program with its principal custodian banks (“Custodians”). The Retirement Systems do not have a threshold for securities lending activities. The investment policy of FCERS requires that loan maturities cannot exceed one year, and no more than 15% of the portfolio can be lent longer than six months. The custodial agreements with the Custodians authorize them to lend securities in the Retirement Systems’ investment portfolio under such terms and conditions, as the Custodians deem advisable and to permit the lent securities to be transferred into the name of the borrowers. The Retirement Systems receive a fee from the borrower for the use of the lent securities. As of June 30, 2012, the Retirement Systems’ had no exposure to borrower credit risk related to the securities lending transactions as the Custodians were responsible for the replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities were not available on the open market, the Custodian was required to credit the Retirement Systems’ account with the market value of such unreturned lent securities if the lent securities were not returned by the borrower. Securities lending collateral represents investments in an investment pool purchased with cash collateral, as well as securities collateral that may not be pledged or sold without a default by the borrower. All securities lending agreements can be terminated on demand within a period specified in each agreement by either the Retirement Systems or borrowers.

Securities lending transactions collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the fiduciary statement of net assets. The Retirement Systems do not match the maturities of investments made with cash collateral with the securities on loan.

PFDRP authorized State Street Corporation (“State Street”) to invest and reinvest cash collateral in State Street’s Quality D Short-term Investment fund, which, effective December 3, 2010, consists of a liquidity pool and a liquidating account known as the duration pool. The duration pool was established and allocated the asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each Quality D Fund investor owns a specified percentage interest in the duration pool, which is redeemable only in-kind, not cash. The Quality D duration pool will not make additional investments. The liquidity pool investment policy guidelines provide that the State Street Investment Manager shall maintain the dollar-weighted average maturity of the fund in a manner that the Investment Manager believes is appropriate to the objective of the fund; provided (a) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (b) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the fund not to exceed 75 calendar days and (c) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of the Quality D Fund not to exceed 180 days.

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At the time of purchase, all securities with maturities of 13 months or less shall be rated at least A1, P1 or F1 by at least any two nationally recognized statistical rating organizations (“NRSROs”), or be determined by the Investment Manager to be of comparable quality. Securities with maturities in excess of 13 months shall be rated at least A-, A3 or A- by at least any two of S&P, Moody’s, or Fitch, or be determined by the Investment Manager to be of comparable quality. The fund may invest up to 10% of its assets at time of purchase in commingled vehicles that conform with the State Street’s Investment Policy Guidelines. As of June 30, 2012, the cash collateral pool for the duration and liquidity pool totaled \$1.4 billion and \$15.1 billion, respectively. The weighted average maturities for the duration and liquidity pool were 40.32 and 35.93 days, respectively. The cash collateral duration pool included asset backed securities (99.54%) and other securities (0.46%). The liquidity pool included asset backed securities (17.84%), certificates of deposit (34.33%), bank notes (2.49%), commercial paper (19.70%), repurchase agreements (22.62%) and other securities (3.02%). As of June 30, 2012, the underlying securities loaned by PFDRP as a whole amounted to approximately \$257,596,000. The cash collateral and the non-cash collateral totaled \$241,875,000 and \$18,572,000, respectively, at carrying cost. The net asset value (NAV) of the cash collateral pool at June 30, 2012 was at \$1.01 or \$211,526,000 and \$0.9177 or \$27,870,000 for the liquidity and duration pools, respectively on a mark to market basis. The NAV of less than \$1.00 for the duration pool is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of \$0.9177 of the duration cash collateral pool results in an unrealized loss of approximately \$2,499,000 for PFDRP. PFDRP’s investment in the liquidity and duration cash collateral investment pools are presented in the statement of net plan assets at their respective NAV or \$239,396,000. The unrealized loss of \$2,479,000 for the duration pool is reflected in the securities lending income earnings line of the statement of changes in fiduciary net assets. PFDRP is exposed to market risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

The lent securities as of June 30, 2012 consisted of U.S. Treasury securities, domestic corporate bonds, domestic equity securities, international corporate bonds, and international equity securities. In return, PFDRP receives collateral in the form of cash or securities equal to at least 102% for domestic and 105% for international of the market value of transferred securities plus accrued interest for reinvestment of the collateral.

FCERS authorized The Northern Trust Company (“Northern Trust”) to invest and reinvest cash collateral in Northern Trust’s pooled investment vehicle, which must have a weighted average life of 60 days or less. Securities with maturities of 13 months or more must have a rating of A or better. Securities with maturities of less than 13 months must be rated at least P-3. In August 2011, the FCERS exited the Northern Trust securities lending program.

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The following table provides information on PFDRP's securities lent and collateral received as of June 30, 2012 (dollars in thousands):

Type of Investment Lent	
For Cash Collateral:	
U.S. treasury notes and bonds	\$ 58,421
Domestic corporate bonds	45,050
Domestic equity securities	95,501
International equity securities	<u>40,541</u>
Total Lent for Cash Collateral	<u>239,513</u>
For Non-Cash Collateral:	
U.S. treasury notes and bonds	17,278
Domestic equity securities	<u>805</u>
Total Lent for Non-Cash Collateral	<u>18,083</u>
Total Securities Lent	<u><u>\$ 257,596</u></u>
 Type of Collateral Received	
Cash Collateral *	<u>\$ 239,396</u>
Non-Cash Collateral:	
For lent U.S. treasury notes and bonds	17,751
For lent domestic equity securities	<u>821</u>
Total Non-Cash Collateral	<u>18,572</u>
Total Collateral Received	<u><u>\$ 257,968</u></u>

* Amount represents the mark-to-market value of the cash collateral pool at a 100.00% for the liquidity portfolio and 91.77% for the duration portfolio for fiscal year 2012.

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B. Receivables, Net of Allowances

At June 30, 2012, 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 –	General	Housing	Affordable	Special	Total	Internal	Governmental
Governmental Activities:	Fund	Activities	Housing	Assessment	Nonmajor	Service	Activities
			Investment	Districts	Funds	Funds	
			Fund				
Taxes	\$ 32,713	\$ -	\$ -	\$ -	\$ 5,229	\$ -	\$ 37,942
Accrued interest	208	58	1,386	12	1,730	20	3,414
Grants	2,504	2,451	-	-	9,200	-	14,155
Special assessments	-	-	-	52,885	-	-	52,885
Other	28,391	165	50	353	23,961	249	53,169
Less: allowance for uncollectibles	(13,276)	(3)	-	-	(4,216)	(42)	(17,537)
Total receivables, net	<u>\$ 50,540</u>	<u>\$ 2,671</u>	<u>\$ 1,436</u>	<u>\$ 53,250</u>	<u>\$ 35,904</u>	<u>\$ 227</u>	<u>\$ 144,028</u>
	Norman Y. Mineta						
	San José	Wastewater	Municipal		Total		
	International	Treatment	Water	Parking	Business-Type		
	Airport	System	System	System	Activities		
Business-Type Activities:							
Accounts	\$ 9,954	\$ 1,484	\$ 3,466	\$ 210	\$ 15,114		
Accrued interest	298	325	21	16	660		
Grants	2,303	682	-	-	2,985		
Less: allowance for uncollectibles	(336)	(510)	(826)	(10)	(1,682)		
Total receivables, net	<u>\$ 12,219</u>	<u>\$ 1,981</u>	<u>\$ 2,661</u>	<u>\$ 216</u>	<u>\$ 17,077</u>		

Special assessment receivables in the amount of \$52,885,000 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, 2012 is as follows (dollars in thousands):

Type of Loan	General	Housing	Affordable	Nonmajor	Total
	Fund	Activities	Housing	Funds	Governmental
			Investment		Activities
			Fund		
Housing Program Developer, rehabilitation, second mortgage and relocation loans	\$ -	\$ -	\$ 554,062	\$ -	\$ 554,062
Loans funded by federal grants	-	60,346	-	7,922	68,268
Economic development, real estate developer and other loans	2,241	50,013	-	165	52,419
Less: allowance for uncollectibles	-	(49,238)	(300,585)	(3,481)	(353,304)
Total loans, net	<u>\$ 2,241</u>	<u>\$ 61,121</u>	<u>\$ 253,477</u>	<u>\$ 4,606</u>	<u>\$ 321,445</u>

Prior to effective date of the Redevelopment Dissolution Law, California Community Redevelopment Law required that at least 20% of the incremental tax revenues generated from certain redevelopment project areas be used to increase, improve, and preserve the affordable housing stock for families and individuals with very low, low, and moderate incomes. In response to this former requirement, the City established its 20% Housing Program to offer financial assistance to qualified developers, families, and individuals by providing loans at "below market" rates. Upon dissolution of the former Agency, the City assumed the housing activity function of the former Agency. All loans receivable relating to the Low and Moderate Income Housing Program have been transferred from the Housing Activities Fund to the Affordable Housing Investment Fund, which was established as of February 1, 2012 (subsequently renamed the Low and Moderate Income Housing Asset Fund in October 2012 in compliance with AB 1484). As of June 30, 2012, loans receivable relating to the Low and Moderate Income Housing Program totaled approximately \$253,477,000, net of allowance for uncollectible accounts.

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The City will continue to use these funds 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:

<u>Loan Type</u>	<u>Interest Rate</u>	<u>Due</u>
New Construction and Permanent	0 - 4%	up to 55 years
Multi-unit rental rehabilitation	3%	5 or more years
Take-out (first time homebuyer)	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 take-out loans, which are all secured by second deeds of trust. Interest and principal are typically due in installments, except for take-out loans, which do not require payments until their maturity dates.

The City has also invested in multi-family rental housing projects serving 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 Affordable Housing Investment Fund loans receivable as of June 30, 2012.

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, 2012. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans

City of San José
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receivable. As of June 30, 2012, amounts committed to extend credit under normal lending agreements totaled approximately \$12,189,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2012 (dollars in thousands):

	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 528,605	\$ 7,219	\$ 6,062	\$ (66,036)	\$ 463,726
Construction in progress	69,813	37,590	2,741	(34,898)	69,764
Total capital assets, not being depreciated	<u>598,418</u>	<u>44,809</u>	<u>8,803</u>	<u>(100,934)</u>	<u>533,490</u>
Capital assets, being depreciated:					
Buildings	1,526,499	1,332	19	(100,538)	1,427,274
Improvements, other than buildings	206,943	121	-	-	207,064
Infrastructure	11,352,807	6,639	-	5,962	11,365,408
Vehicles and equipment	106,978	5,945	7,266	(1,145)	104,512
Furnitures and fixtures	26,507	-	-	-	26,507
Property under capital leases	13,379	-	-	-	13,379
Total capital assets, being depreciated	<u>13,233,113</u>	<u>14,037</u>	<u>7,285</u>	<u>(95,721)</u>	<u>13,144,144</u>
Less accumulated depreciation for:					
Buildings	365,254	40,086	19	(15,175)	390,146
Improvements, other than buildings	12,543	5,541	-	(123)	17,961
Infrastructure	6,245,353	306,544	-	-	6,551,897
Vehicles and equipment	89,070	7,725	7,235	(950)	88,610
Furnitures and fixtures	15,887	2,655	-	-	18,542
Property under capital leases	12,691	193	-	-	12,884
Total accumulated depreciation	<u>6,740,798</u>	<u>362,744</u>	<u>7,254</u>	<u>(16,248)</u>	<u>7,080,040</u>
Total capital assets, being depreciated, net	<u>6,492,315</u>	<u>(348,707)</u>	<u>31</u>	<u>(79,473)</u>	<u>6,064,104</u>
Governmental activities capital assets, net	<u>\$ 7,090,733</u>	<u>\$ (303,898)</u>	<u>\$ 8,834</u>	<u>\$ (180,407)</u>	<u>\$ 6,597,594</u>
Business-type Activities:					
Capital assets, not being depreciated:					
Land	\$ 134,926	\$ -	\$ -	\$ -	\$ 134,926
Intangible assets	12,882	-	-	-	12,882
Construction in progress	68,368	25,830	-	(24,039)	70,159
Total capital assets, not being depreciated	<u>216,176</u>	<u>25,830</u>	<u>-</u>	<u>(24,039)</u>	<u>217,967</u>
Capital assets, being depreciated:					
Buildings	1,611,195	890	19	7,949	1,620,015
Improvements, other than buildings	1,052,637	4,551	-	13,293	1,070,481
Vehicles and equipment	213,970	1,694	2,205	2,797	216,256
Property under capital leases	13,406	-	-	-	13,406
Total capital assets, being depreciated	<u>2,891,208</u>	<u>7,135</u>	<u>2,224</u>	<u>24,039</u>	<u>2,920,158</u>
Less accumulated depreciation for:					
Buildings	323,442	42,934	18	-	366,358
Improvements, other than buildings	438,079	28,154	-	-	466,233
Vehicles and equipment	127,416	9,800	2,193	-	135,023
Property under capital leases	11,517	430	-	-	11,947
Total accumulated depreciation	<u>900,454</u>	<u>81,318</u>	<u>2,211</u>	<u>-</u>	<u>979,561</u>
Total capital assets, being depreciated, net	<u>1,990,754</u>	<u>(74,183)</u>	<u>13</u>	<u>24,039</u>	<u>1,940,597</u>
Business-type activities capital assets, net	<u>\$ 2,206,930</u>	<u>\$ (48,353)</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 2,158,564</u>

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Upon dissolution of the former Agency pursuant to AB X1 26 (See Note I.F.16.), capital assets in the amount of \$180,407,000 previously recorded in the former Agency's records were transferred to SARA on February 1, 2012.

2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the fiscal year ended June 30, 2012 is as follows (dollars in thousands):

Governmental activities:	
General government	\$ 10,527
Public safety	8,732
Capital maintenance	310,258
Community services	29,675
Capital assets held by City's internal service funds	3,552
Total depreciation expense - governmental activities	<u>\$ 362,744</u>
Business-type activities:	
Norman Y. Mineta San José International Airport	\$ 51,657
Wastewater Treatment System	24,738
Municipal Water System	2,438
Parking System	2,485
Total depreciation expense - business-type activities	<u>\$ 81,318</u>

3. Capitalized Interest

Interest costs that related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested tax-exempt debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. There was no capitalized interest cost for the year ended June 30, 2012.

4. Construction Commitments

Commitments outstanding as of June 30, 2012, related to governmental and business-type activities construction in progress totaled approximately \$3,787,000 and \$18,221,000, 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 2017. 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

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the fiscal year ended June 30, 2012 amounted to approximately \$1,992,000 and \$473,000, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2012, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
2013	\$ 1,781	\$ 201	\$ 1,982
2014	1,130	116	1,246
2015	356	20	376
2016	214	20	234
2017	93	20	113
Totals	<u>\$ 3,574</u>	<u>\$ 377</u>	<u>\$ 3,951</u>

Business-Type Activities

Airport Gas-Powered Buses. In December 2007, the City entered into an operating lease and maintenance agreement for fourteen compressed natural gas powered buses for the Airport. The term of the agreement is from August 1, 2008 to July 31, 2015. In September 2009, the agreement was restated to add ten buses for the period of June 30, 2010 to May 31, 2017. In May 2012, the restated lease was amended to allow the early termination of the lease term pertaining to the first 14 buses with City's payment of \$4,407,000. To relieve its lease commitment, the City simultaneously entered into an agreement to relinquish the use of the 14 buses to a third party for a total price of \$3,400,000. Rental expense for the Airport buses for the year ended June 30, 2012 was approximately \$1,720,000.

Future Minimum Payments. The future minimum payments anticipated under these commitments for the 10 remaining Gas-Powered buses, as of June 30, 2012, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Operating Leases
2013	\$ 947
2014	950
2015	952
2016	955
2017	877
Total	<u>\$ 4,681</u>

2. Operating Leases as Lessor

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, which are described as follows:

Governmental Activities

In October 1991, the City entered into a 15-year agreement (the "initial term") with the San José

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Arena Management Corporation (the “Manager”), an unrelated entity, regarding the management, operations, and maintenance of the San José Arena, and use of the San José Arena by the San José Sharks, a franchise of the National Hockey League. The agreement was subsequently amended on December 19, 2000 extending the agreement for an additional 10 years (the “extended term”). The initial term commenced on October 24, 1991 and terminated on July 31, 2008. The extended term commenced on August 1, 2008 and terminates on July 31, 2018. As part of the amended agreement, the Manager is required to pay the City annual minimum rental and hockey rental payments of \$1,642,000 and \$1,460,000, respectively, as defined by the agreement. Amounts in addition to the annual minimum rental payments include reimbursements for repair and maintenance expenditures and other fees, which fluctuate based on the level of annual activities. In the fiscal year ended June 30, 2012, the City received approximately \$5,836,000 from the Manager. As of June 30, 2012, leased assets had a total historic cost of approximately \$118,114,000 and accumulated depreciation of approximately \$50,548,000.

Business-Type Activities

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, will remain unchanged.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The airline lease agreement also includes a revenue sharing provision to evenly divide net unobligated Airport revenues between the Airport and the airlines currently operating at the Airport after each fiscal year. In any fiscal year in which there are net unobligated Airport revenues and all requirements of the City’s Airport financing documents have been satisfied, the remaining net unobligated Airport revenues are to be evenly divided between the City and the airlines. If net revenues exceed the projected levels outlined in the Airport Forecast identified in the new airline lease agreement, then the airlines share of the difference will be deposited into the Rate Stabilization Fund up to a cap of \$9,000,000. Once the Rate Stabilization Fund has been fully funded or in the event that the actual net revenues do not exceed the projected net revenues, the airlines share of net revenues shall be applied as a credit to the airline terminal revenue requirement for the following fiscal year, thus reducing terminal rental rates for the following fiscal year. The first \$1,000,000 of the City’s share of any net revenues shall be retained by the Airport in a discretionary fund to be used for any lawful Airport purpose. The remaining balance of the City’s share shall be applied to the capital costs of the Airport’s Master Plan Program. For the fiscal year ended June 30, 2012, the Airport’s revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by approximately \$30,643,000. The surplus received during the fiscal year ended June 30, 2012 will be distributed in accordance with the revenue sharing provisions of the airline lease agreement, and/or used in the budget balancing actions for fiscal year 2014.

Other Leases. The Airport 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. The terms of these operating leases range from one month to 26 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 \$78,227,000 for the fiscal year ended June 30, 2012.

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The future minimum rentals to be received from the operating leases, as of June 30, 2012, are as follows (dollars in thousands):

Fiscal Year	
Ending	
June 30,	Amount
2013	\$ 88,458
2014	90,844
2015	87,893
2016	88,684
2017	89,605
2018-2022	135,013
2023-2027	113,770
2028-2032	112,338
2033-2037	111,297
2038-2041	71,016
Total	<u>\$ 988,918</u>

These future minimum rentals are based upon annual rates and charges agreed to by the airlines and other tenants. As of June 30, 2012, leased assets had historic costs of approximately \$1,031,260,000 and accumulated depreciation of approximately \$101,478,000.

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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, 2012 (dollars in thousands, unless otherwise noted):

Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (\$ millions)	Balance June 30, 2012
Governmental Activities:						
City of San José:						
General Obligation Bonds:						
Series 2001 (Libraries and Parks)	Community Facilities	\$ 71,000	06/06/2001	09/01/2031	5.00-5.125%	\$ 2.37 \$ 47,300
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	4.00-5.00%	3.87 81,260
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.00-5.00%	3.96 91,015
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	3.00-4.50%	1.54-1.55 37,060
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.51-3.52 87,850
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-5.00%	3.00 78,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10-1.11 29,785
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-5.00%	0.30 8,400
						460,670
HUD Section 108 Note (FMC)	Economic Development	25,810	02/10/2005	08/01/2024	Variable	1.13-2.22 20,803
City of San José Financing Authority:						
Lease Revenue Bonds:						
Series 1993B (Community Facilities)	Community Facilities	18,045	04/13/1993	11/15/2012	6.00%	0.25-0.29 763
Series 1997B (Fire, Childcare, Library Land)	Community Facilities	9,805	07/29/1997	08/01/2012	4.85-4.875%	0.37-0.41 365
Series 2002B (Civic Center Project)	Civic Center	292,425	11/14/2002	06/01/2037	3.75-4.25%	0.21-33.45 290,775
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	3.40-4.70%	1.00-1.61 15,505
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.00-5.00%	0.00-17.44 57,440
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.125-4.75%	0.91-2.22 31,475
Series 2008A (Civic Center)	Refunding	60,310	08/14/2008	06/01/2039	Variable	0.00-21.89 56,920
Series 2008B-1 (Civic Center Garage)	Refunding	17,640	07/10/2008	06/01/2039	Variable	0.36-0.945 16,910
Series 2008B-2 (Civic Center Garage)	Refunding	17,640	07/10/2008	06/01/2039	Variable	0.36-0.945 16,905
Series 2008C (Hayes Mansion)	Refunding	10,915	06/26/2008	06/01/2027	Variable	0.00-4.57 10,915
Series 2008D (Taxable) (Hayes Mansion)	Refunding	47,390	06/26/2008	06/01/2025	Variable	2.10-4.20 41,300
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/02/2025	Variable	0.59-1.26 11,870
Series 2008E-2 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/02/2025	Variable	0.595-1.26 11,860
Series 2008F (Taxable) (Land Acquisition)	Refunding	67,195	06/13/2008	06/01/2034	Variable	1.605-4.81 65,590
Series 2011A (Convention Center)	Convention Center	30,985	04/12/2011	05/01/2042	3.00-5.75%	0.43-2.165 30,985
Series 2001F (Convention Center)	Refunding	186,150	07/01/2001	09/01/2022	4.25-5.00%	8.79-14.73 129,020
Revenue Bonds:						
Series 2001A (4th & San Fernando Parking Facility)	Parking Facility	48,675	04/10/2001	09/01/2026	4.125-5.25%	1.61-3.21 35,105
						823,703
Special Assessment Bonds with Limited Governmental Commitment:						
Special Assessment Bonds:						
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.10-5.875%	1.07-2.05 18,455
Series 24R (2002 Consolidated Refunding)	Consolidated Refunding	13,940	07/03/2002	09/02/2015	3.90-4.38%	0.82-1.07 3,995
Special Tax Bonds:						
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.40-5.70%	0.17-0.30 2,500
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	4.80-6.00%	0.46-0.87 7,845
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	5.10-6.65%	0.27-0.95 11,340
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	4.20-5.25%	0.52-0.94 8,750
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	3.00-6.50%	0.4-7.71 107,425
						160,310
Total Governmental Activities - Bonds and Notes Payable						\$ 1,465,486
Business-type Activities:						
Norman Y. Mineta San José International Airport:						
Revenue Bonds:						
Series 2001A	Runway Construction	\$ 158,455	08/14/2001	03/01/2031	5.00%	\$8.28-\$10.06 \$ 45,710
Series 2002A	Refunding	53,600	01/09/2003	03/01/2018	5.375%	4.46-9.29 49,140
Series 2004C (AMT)	Airport Facilities	75,730	06/24/2004	03/01/2026	4.625-5.25%	1.00-10.59 71,730
Series 2004D	Airport Facilities	34,270	06/24/2004	03/01/2028	5.00%	0.00-12.56 34,270
Series 2007A (AMT)	Airport Facilities	545,755	09/13/2007	03/01/2047	5.00-6.00%	0.00-73.50 545,755
Series 2007B	Airport Facilities	179,260	09/13/2007	03/01/2037	4.25-5.00%	0.00-28.80 179,260
Series 2011A-1 (AMT)	Refunding	150,405	07/08/2011	03/01/1934	2.00-6.25%	0.00-21.12 146,370
Series 2011A-2	Refunding	86,380	07/08/2011	03/01/1934	2.00-5.25%	0.00-12.22 84,075
Series 2011B	Refunding	271,820	12/14/2011	03/01/1941	1.00-6.75%	0.00-27.33 264,085
						1,420,395
Wastewater Treatment System						
Clean Water Financing Authority						
Revenue Bonds:						
Series 2005A	Refunding	54,020	10/05/2005	11/15/2016	3.50-5.00%	4.95-5.80 26,890
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	3.00-4.626%	0.00-5.41 21,420
						48,310
State of California - Revolving Fund Loan	Wastewater Facilities	73,566	06/24/1997	05/01/2019	Various	1.77-3.91 26,746
Total Business-type Activities - Bonds and Loan Payable						\$ 1,495,451
Grand Total						\$ 2,960,937

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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.

3. Legal Debt Limit and Margin

The City's legal debt limit (as defined by Section 1216 of the City Charter) and debt margin as of June 30, 2012, are approximately \$18,665,770,000 and \$18,205,100,000, respectively.

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, the rebate amount calculated has been recorded as a liability reportable to the IRS. The rebate liability amount is recorded as a liability in the Governmental Activities column of the government-wide statements in the amount of \$48,000.

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, 2012, the City has recorded approximately \$52,885,000 of deferred revenue 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 estimated deferred revenue of \$52,885,000 as of June 30, 2012 noted above does not include special taxes associated with the 2011 bonds because these special taxes are calculated based on occupancy and a percentage of room rent and therefore the amount is undeterminable. Please refer to Note III.F.8. for further discussions on the 2011 bonds.

City of San José
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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 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 January 1, 2047. As of June 30, 2012, the outstanding conduit multi-family housing revenue bonds issued by the City aggregated to approximately \$534,401,000.

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

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

Included in long-term debt is \$232,270,000 of variable-rate demand bonds 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 Financing Authority has entered into credit facilities that support the variable-rate demand bonds. Under the reimbursement agreements related to these credit facilities, the trustee is authorized to draw an amount sufficient to pay the purchase price of bonds that have been tendered and have not otherwise been remarketed. The scheduled redemption of these bonds is incorporated in the Annual Requirements to Maturity schedules (see Note III.F.9.).

The credit facilities that support the Financing Authority's variable-rate bonds as of June 30, 2012 are as follows (dollars in thousands):

	Balance June 30, 2012	Credit Facility Description	
		Provider	Expiration Date
City of San José Financing Authority:			
Lease Revenue Bonds:			
Series 2008A (Civic Center)	\$ 56,920	Union Bank	10/21/2013
Series 2008B (Civic Center Garage)	33,815	Bank of America, N.A./Union Bank	10/21/2013
Series 2008C (Hayes Mansion)	10,915	U.S. Bank	10/21/2013
Series 2008D (Taxable) (Hayes Mansion)	41,300	U.S. Bank	10/21/2013
Series 2008E (Taxable) (Ice Centre)	23,730	Bank of America, N.A./U.S. Bank	10/21/2013
Series 2008F (Taxable) (Land Acquisition)	65,590	Bank of America, N.A.	05/02/2014
Total variable rate lease revenue bonds	<u>\$ 232,270</u>		

The Financing Authority's variable-rate demand lease revenue bonds are payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. The Financing Authority's remarketing agents are required to use their best efforts to remarket the bonds and, to the extent that bonds are not remarketed, the Financing Authority's trustees are authorized to draw on the credit facilities in the amounts required to pay the purchase price of bonds tendered.

The Financing Authority's repayment of unreimbursed draws made on the credit facilities bear interest at varying rates with the principal amortization amounts and periods ranging from 3 to 5 years. The interest rate and principal amortization schedule of an unreimbursed draw are determined by the take-out provisions of the applicable reimbursement agreement, which will remain in effect until all principal of an unreimbursed draw is amortized. For example, if a draw occurs on June 30, 2012, then the take-out provision will remain in effect until June 30, 2015 or June 30, 2017, depending on the agreement. If the unreimbursed draws represent a significant portion of the outstanding debt, the principal will generally be amortized over multiple years because, under State law, lease payments may not exceed the fair rental value for the leased

City of San José
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property. Per the terms of the reimbursement agreements, the providers of the credit facilities have the right to require an appraisal of the applicable leased property to increase the amount of the rent payable.

The Financing Authority is required to pay the credit facility providers an annual commitment fee ranging from 1.10% to 1.25% for each credit facility based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility. As of June 30, 2012, the letters of credit supporting Series 2008 ABCDE had an expiration date of October 21, 2013 and the Series 2008F had an expiration date of May 2, 2014. There are no unreimbursed draws made on the credit facilities supporting Series 2008 ABCDEF bonds at June 30, 2012.

8. Summary of Changes in Long-term Obligations

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2012 are as follows (dollars in thousands):

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	\$ 480,320	\$ -	\$ (19,650)	\$ 460,670	\$ 19,645
HUD Section 108 loan	21,877	-	(1,074)	20,803	1,125
San Jose Financing Authority					
Lease revenue bonds	668,228	-	(9,160)	659,068	10,374
Accreted interest on capital appreciation bonds	1,005	45	(540)	510	510
Lease revenue bonds with reimbursement agreement*	-	129,020	-	129,020	9,150
Revenue bonds with pledge agreement*	-	35,105	-	35,105	1,670
Special Assessment bonds with limited governmental commitment					
	163,904	-	(3,594)	160,310	3,675
Redevelopment Agency					
Merged Area tax allocation bonds	1,711,000	-	(1,711,000)	-	-
Housing Set-Aside tax allocation bonds	338,440	-	(338,440)	-	-
Merged Area revenue bonds	96,870	-	(96,870)	-	-
Pledge and reimbursement agreements	174,515	-	(174,515)	-	-
HUD Section 108 notes payable	31,420	-	(31,420)	-	-
California Statewide Communities Development Authority - ERAF loan					
	17,330	-	(17,330)	-	-
Total long-term debt payable	<u>3,704,909</u>	<u>164,170</u>	<u>(2,403,593)</u>	<u>1,465,486</u>	<u>46,149</u>
Less deferred amounts:					
For refunding gain (loss)	(42,558)	-	43,896	1,338	58
For issuance premiums	50,637	-	(43,462)	7,175	309
For issuance discounts	(6,766)	-	1,638	(5,128)	(315)
Total deferred amounts	<u>1,313</u>	<u>-</u>	<u>2,072</u>	<u>3,385</u>	<u>52</u>
Total long-term debt payable and deferred amounts	<u>3,706,222</u>	<u>164,170</u>	<u>(2,401,521)</u>	<u>1,468,871</u>	<u>46,201</u>
Other Long-term obligations:					
Hayes Mansion construction loan	1,200	-	-	1,200	-
Arbitrage liability	310	-	(262)	48	-
Accrued vacation, sick leave and compensatory time	66,001	35,739	(44,084)	57,656	23,000
Accrued landfill postclosure costs	7,905	-	(465)	7,440	465
Estimated liability for self-insurance	142,419	16,424	(21,123)	137,720	-
Net other postemployment benefits (OPEB) obligation	224,110	68,134	-	292,244	-
Pollution remediation obligation	1,995	-	(912)	1,083	-
Pass through obligation to County	23,562	-	(23,562)	-	-
Total other long-term obligations	<u>467,502</u>	<u>120,297</u>	<u>(90,408)</u>	<u>497,391</u>	<u>23,465</u>
Governmental activities long-term obligations	<u>\$ 4,173,724</u>	<u>\$ 284,467</u>	<u>\$ (2,491,929)</u>	<u>\$ 1,966,262</u>	<u>\$ 69,666</u>

* Debt previously reported by the former Agency was re-established as San Jose Financing Authority debt with associated long-term agreements, receivable from the SARA (see page 84 for discussion).

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As discussed in Note I.F.16-Extraordinary Items, the former Agency transferred its long-term debt and other obligations to SARA. Please refer to Note IV.C.3 for a summary of the bonds issued by the former Agency and detailed discussion on these bonds.

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, 2011, 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, 2012 is approximately \$723,713,000, with the final payment due on September 1, 2039.

The City did not issue any GO bonds in fiscal year 2012; however, it plans to issue the final series of GO bonds in fiscal year 2013. A total of \$9,230,000 of the authorization remains un-issued for the library and public safety programs. The proceeds of those bonds would be used to fund a portion of the library and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.

Lease Revenue/Revenue Bonds are issued primarily to finance various capital improvements to be leased to the City and are secured by lease rental revenue from "lessee" departments in the General Fund, Nonmajor Governmental Funds, and SARA. The lease rental revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Total principal, interest, and accreted value remaining on these bonds as of June 30, 2012 is approximately \$1,249,922,000, with the final payment due on May 1, 2042.

The amount remaining on these bonds includes payments for the 2001A and 2001F bonds, which are payable through a pledge agreement (2001A) and a reimbursement agreement (2001F) by the former Agency, which were assumed by the SARA. Prior to the dissolution of the former Agency, the City eliminated the interfund balances between the Agency and the Financing Authority for financial reporting purposes pursuant to GASB Statement No. 14. Upon the Agency's dissolution, the City re-established the receivable balance from SARA and the related bonds payable, which totaled \$162,455,000 and \$164,125,000, respectively, at June 30, 2012. A description of these bonds is as follows:

- **Revenue Bonds with Pledge Agreement.** In March 2001, the Financing Authority issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the 4th Street and San Fernando Parking Facility Project. The former 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 Exhibit A of the Agency Pledge Agreement by and between the former Agency and the Financing

City of San José
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Authority. However, the City records debt payments pursuant to the annual debt service schedule, which results in a timing difference in the amount of \$1,670,000 balances outstanding as of June 30, 2012. At June 30, 2012, the Financing Authority's bonds payable is \$35,105,000, whereas the corresponding receivable from SARA is \$33,435,000.

- **Lease Revenue Bonds with Reimbursement Agreement.** In connection with the issuance of the 2001F Convention Center Refunding Bonds, the former 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 \$129,020,000 as of June 30, 2012.

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, 2012 is approximately \$319,882,000, with the final payment due on May 1, 2042.

Special Hotel Tax Revenue Bonds, Series 2011 was issued by the City on April 12, 2011 to finance the costs of the Convention Center Expansion and Renovation Project (the "Project"). The Special Hotel Tax Bonds are secured by a first lien on the Convention Center Facilities District No. 2008-1 special tax revenues and any Available Transient Occupancy Tax (Available TOT) 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. In summary, the 2011 Bonds are generally payable from three sources of funds: (i) revenues generated by the levy of the Base Special Tax; (ii) Revenues generated by the levy of the Additional Special Tax; and (iii) Available Transient Occupancy Tax to the extent appropriated by the City Council for this purpose. A full description of the sources of repayment can be found in the Official Statement of the 2011 Bonds.

Other Long-Term Obligation payments are primarily made from general revenues recorded in the General Fund.

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Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2012 are as follows (dollars in thousands):

	July 1, 2011	Additional Obligations and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San Jose International Airport:					
Revenue bonds	\$ 1,025,870	\$ 508,605	\$(114,080)	\$ 1,420,395	\$ 13,180
Deferred amounts:					
For refunding	(1,585)	(2,205)	694	(3,096)	(510)
For issuance premiums	4,727	2,594	(592)	6,729	642
For issuance discounts	(5,708)	(6,798)	933	(11,573)	(16)
Clean Water Financing Authority:					
Revenue bonds	53,255	-	(4,945)	48,310	5,125
Deferred amounts:					
For refunding	(1,378)	-	297	(1,081)	(247)
For issuance premiums	1,768	-	(236)	1,532	236
State of California - Revolving Fund Loan	30,651	-	(3,905)	26,746	3,977
Accrued vacation, sick leave and compensatory time	6,380	2,692	(3,918)	5,154	4,000
Estimated liability for self-insurance	6,609	-	(1,613)	4,996	1,986
Net other postemployment benefits (OPEB) obligation	19,505	8,476	-	27,981	-
Pollution remediation obligation	714	108	(108)	714	714
Business-type long-term obligations	<u>\$ 1,140,808</u>	<u>\$ 513,472</u>	<u>\$(127,473)</u>	<u>\$ 1,526,807</u>	<u>\$ 29,087</u>

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 the current fiscal year totaled approximately \$120,566,000, which is composed of \$61,649,000 of net general airport revenues and \$58,917,000 of other available funds. Bond debt service payable from general airport revenues in the current fiscal year totaled approximately \$59,389,000, which is net of \$21,336,000 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, 2012 is approximately \$2.9 billion, with the final payment due on March 1, 2047.

Ambac Indemnity Corporation (Ambac), a subsidiary of Ambac Financial, has issued a reserve fund surety bond of \$4,250,000 that expires on March 1, 2018 and is on deposit in the General Account of the Bond Reserve Fund, securing the Series 1998A, 2001A, 2002A, and 2002B Airport Revenue Bonds. The reserve requirement in the General Account is also satisfied, in part, by a \$6,600,000 surety bond from National Public Finance Guaranty Corporation ("NPF"), as successor to the MBIA Insurance Corporation. The ratings of Ambac and NPF were reduced or withdrawn subsequent to the deposit of the respective surety bonds to the General Account. The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of deposit.

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The Ambac surety bond expires on March 1, 2018 and the NCFG surety bond expires on March 1, 2016. According to the Master Trust Agreement for the Airport Revenue Bonds, in the event that such surety bonds 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. See note below regarding Ambac's filing for bankruptcy protection.

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 systems revenues as security for its obligations under the improvement agreement to make base payments and additional payments with respect to the outside revenue bonds. The net system revenues available to pay debt service in the current fiscal year totaled approximately \$46,537,000. Bond debt service payable from net system revenues in the current fiscal year totaled approximately \$11,419,000. The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service. The City's allocable percentage of annual debt service is currently 100%. Total principal and interest remaining on the bonds as of June 30, 2012 is approximately \$57,004,000, with the final payment due on November 15, 2020.

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9. Annual Requirements to Maturity

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2012 are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Governmental Activities						
	City of San Jose General Obligation Bonds and HUD Loan [1]		City of San Jose Financing Authority Bonds [1,2,3,4]			Special Assessment Bonds with Limited Governmental Commitment	
	Principal	Interest	Principal	Accreted Interest	Interest	Principal	Interest
2013	\$ 20,770	\$ 21,522	\$ 21,194	\$ 510	\$ 29,851	\$ 3,675	\$ 9,405
2014	20,826	20,627	22,585	-	28,605	4,215	9,227
2015	20,887	19,749	24,240	-	27,795	5,630	9,026
2016	20,968	18,861	26,270	-	26,937	5,615	8,751
2017	21,035	17,944	28,695	-	25,982	5,040	8,480
2018 - 2022	106,591	76,150	172,010	-	112,534	29,570	37,970
2023 - 2027	104,556	52,586	153,700	-	82,239	24,390	29,849
2028 - 2032	98,255	28,526	124,674	-	59,253	22,205	23,752
2033 - 2037	61,485	7,827	175,755	-	29,626	25,850	16,180
2038 - 2042	6,100	243	74,070	-	3,397	34,120	6,932
Total	<u>\$ 481,473</u>	<u>\$ 264,035</u>	<u>\$ 823,193</u>	<u>\$ 510</u>	<u>\$ 426,219</u>	<u>\$ 160,310</u>	<u>\$ 159,572</u>
	Business-Type Activities						
	Airport Revenue Bonds [4]		Wastewater Treatment Revenue Bonds and Loans				
	Principal	Interest	Principal	Interest			
2013	\$ 13,180	\$ 76,846	\$ 9,102	\$ 2,310			
2014	21,720	76,269	9,369	2,048			
2015	23,180	75,259	9,643	1,736			
2016	24,550	74,138	9,992	1,414			
2017	25,960	72,996	10,130	1,122			
2018 - 2022	138,595	344,706	26,820	1,906			
2023 - 2027	185,290	304,795	-	-			
2028 - 2032	269,435	247,288	-	-			
2033 - 2037	547,430	143,989	-	-			
2038 - 2042	128,130	35,472	-	-			
2043 - 2047	42,925	8,027	-	-			
Total	<u>\$ 1,420,395</u>	<u>\$ 1,459,785</u>	<u>\$ 75,056</u>	<u>\$ 10,536</u>			

- [1] Projected interest payments for the variable rate series of bonds are based on the following rates in effect on June 30, 2012:
 Financing Authority Lease Revenue Bonds: Series 2008A (0.12%), Series 2008B-1 (0.22%), Series 2008B-2 (0.13%), Series 2008C (0.14%), Series 2008D (0.18%), Series 2008E-1 (0.20%), Series 2008E-2 (0.18%), Series 2008F (0.20%). City of San José HUD Section 108 Notes (0.66685%). Each series may be set at different interest rate calculation modes, including daily, weekly, monthly, and long rates."
- [2] Amount shown is accreted value payable in each period. As of June 30, 2012, \$510,000 of value had accreted on the outstanding capital appreciation bonds, which combined with the \$659,068,000 principal amount of outstanding lease revenue bonds totals \$659,578,000 of outstanding lease revenue debt.
- [3] Projected debt service payments for the City of San José Financing Authority Series 2001A Revenue Bonds and Series 2001F Lease Revenue Bonds are included in the City of San José Financing Authority Bonds category.
- [4] Does not include notional amortization of outstanding commercial paper notes

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

10. Impact of the Ambac Financial Group Inc. Bankruptcy Filing

On November 9, 2010, Ambac Financial Group Inc. (Ambac Financial) filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac Financial is a holding company whose affiliates provide financial guarantees and financial services to its customers.

Ambac Assurance Corporation (Ambac Assurance), a subsidiary of Ambac Financial, has issued a reserve fund surety bond that is on deposit in the General Account of the Bond Reserve Fund, securing the Series 2001A and 2002A Airport Revenue Bonds and the Series 2011A-1 and the Series 2011A-2 Airport Revenue Bonds. According to the Master Trust Agreement for these bonds,

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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 has 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.

It is still uncertain at this time whether the Ambac Financial bankruptcy will cause the reserve fund surety bonds to lapse or expire as no event has occurred during the fiscal year. If such an event does occur, it is uncertain whether and when the Airport or the Financing Authority would be required to take one of the actions described above in order to maintain compliance with the respective bond indenture.

11. New Debt Issuances and Short-Term Debt Activities

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 secured by a direct-pay letter of credit ("LOC") provided by State Street Bank and Trust Company ("State Street") and the California State Teachers' Retirement System ("CalSTRS") (together, the "Banks"). The current Letter of Credit Agreement between the Financing Authority and the Banks expires on January 27, 2013. Per the terms of the Letter of Credit Agreement, the Banks are severally but not jointly responsible for payments on the draws made on the LOC. The respective obligations of the Banks are: State Street Bank at 75% and the CalSTRS at 25%. State Street serves as the agent for the Banks.

The current Letter of Credit and Reimbursement Agreement specifies an annual commitment fee equal to 1.25% per annum of the daily average Stated Amount and Unutilized Commitment of the Letter of Credit in effect from time to time for the period from January 27, 2010 to and including the Letter of Credit Expiration Date; provided, however, that in the event that the long-term unsecured general obligation debt ratings of the City are downgraded by two or more rating agencies, the annual commitment fee shall increase by 15 basis points (0.15%) per annum for each rating category (including each "+" or "-" or numerical designation) below the "Aa1" category by Moody's or the "AA+" category by Fitch or S&P through the "A2" category by Moody's or the "A" category by Fitch or S&P and by 20 basis points (0.20%) per annum for every rating category (including each "+" or "-" or numerical designation) below the "A2" category by Moody's or the "A" category by Fitch or S&P (and if such ratings are withdrawn or suspended, for purposes of this provision, such ratings shall be deemed to be downgraded below the "Baa2" category by Moody's or the "BBB" category by Fitch or S&P).

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

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of days the Principal Advance remains outstanding ranging from the rate of (i) the Alternative Base plus 0.75% per annum for the period from the date of the Principal Advance to and including the date thirty days thereafter to (ii) the Alternative Base Rate plus 2.25% per annum for the period from the date ninety-one days after the Principal Advance and thereafter.

Interest on any Default Advances (draws that are not reimbursed by the City following the Letter of Credit Expiration Date or if an Event of Default has occurred as defined under the Letter of Credit and Reimbursement Agreement) are payable at the Default Rate from the date of such Default Advance until payment in full, payable in arrears, upon demand, and the unpaid amount of each Default Advance is due immediately upon demand by the Banks, but if no demand is made, then on each Quarterly Date in an amount equal to the then fair rental value with respect to the Components subject to the Sublease for such quarterly period; provided, however, that the unpaid amount of each Default Advance shall be paid by the Financing Authority in each year only to the extent of the then fair rental value with respect to the Components subject to the Sublease for such Base Rental Period. The Default Rate means, on any particular date, a rate of interest per annum equal to the Alternative Base Rate in effect on such date, plus 3.25% per annum. The Alternative Base Rate means, for any day, the higher of (i) the Reference Rate (prime rate), in effect on such date plus 3%, (ii) the Fed Funds Rate, plus 3%, or (iii) the LIBOR Index Rate plus 3%; provided, that at no time shall the Alternative Base Rate be less than the Floor Rate (7% per annum) nor higher than the Maximum Rate (10% per annum).

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 Third Amendments to the Site Lease and to the Sublease, both dated March 1, 2011, which substituted leased assets) are: the Tech Museum, the Animal Care Center, Fire Station No. 1, and the South San José Police Substation.

As of June 30, 2012, \$26,255,000 of tax-exempt commercial paper notes was outstanding at an interest rate of 0.20% and \$19,093,000 of taxable commercial paper notes was outstanding at an interest rate of 0.50%. The changes in commercial paper notes during the fiscal year ended June 30, 2012 are as follows (dollars in thousands):

July 1, 2011	Additions	Deletions	June 30, 2012
\$46,645	\$136	\$1,433	\$45,348

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. This commercial paper program was initially established as a mechanism for financing public improvements of the City including the offsite parking garage for the new Civic Center and non-construction costs for technology, furniture, and equipment and relocation services for the new Civic Center.

On June 21, 2005, the City Council and the Financing Authority each adopted a resolution authorizing the issuance of taxable lease revenue commercial paper notes, under the same \$98,000,000 not to exceed limitation as the tax-exempt notes. This subsequent authorization

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permits the Financing Authority to issue taxable commercial paper notes to pay for expenses otherwise authorized under the commercial paper program, but ineligible to be paid from tax-exempt commercial paper proceeds. The City Council and the Financing Authority approved an expansion of the capacity of the lease revenue commercial paper program from \$98,000,000 to \$116,000,000 on November 15, 2005.

2011 Tax and Revenue Anticipation Note

On July 1, 2011, the City issued a short-term note for cash flow borrowing purposes to facilitate the prefunding of the employer retirement contributions. The Initial Note Portion of \$100,000,000 was purchased by JPMorgan Chase Bank, N.A. on the closing date of the financing, July 1, 2011. At the City's discretion, additional borrowings were permitted to occur under the terms of the 2011 Note and the Note Purchase Agreement; specifically, at any time up to the Commitment Termination Date of June 30, 2012 and up to the Unutilized Commitment amount of \$25,000,000. Security for repayment of the 2011 Note is a pledge of the City's 2012 secured property tax revenues (excluding property taxes levied for general obligation bonds) and sales tax revenues received during fiscal year 2012 plus all other legally available General Fund revenues of the City, if required. The City repaid the \$100,000,000 2011 Note on February 2, 2012.

Business-Type Activities

Airport Commercial Paper Notes Payable

The Airport Commercial Paper Notes program was established in November 1999, pursuant to City Council Resolution 69200, to provide interim financing for Airport capital needs in anticipation of issuance of Airport revenue bonds that would replace the short-term notes with permanent long-term financing. Airport commercial paper notes are debt obligations backed by Net General Airport Revenues and are subordinate to Airport senior lien debt, also backed by these revenues.

Under the Airport's Commercial Paper Notes program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The Commercial Paper Notes program is also secured by Letters of Credit ("LOC") summarized below with each provider securing designated series of outstanding commercial paper notes (dollars in thousands):

Provider	Credit Facility Description	
	LOC Capacity ¹	Expiration Date
Bank of America, N.A.	\$ 50,000	01/11/2013
JPMorgan Chase Bank, N.A.	50,000	01/11/2013
Wells Fargo, N.A.	75,000	01/13/2014
Total	<u>\$ 175,000</u>	

1. Reflects principal component of the LOC commitment.

The terms of each bank's credit facility are specified in the respective LOC and Reimbursement Agreement (the "Reimbursement Agreement"). In general, the bank agrees to advance funds to the Issuing and Paying Agent in an amount sufficient to pay the principal and interest due on maturing commercial paper notes in an amount not to exceed the stated amount of the related LOC. In the event that the commercial paper dealer is unable to find investors to purchase commercial paper notes to repay the advance from the bank, the City must pay interest to the bank based on a formula specified in the Reimbursement Agreement. Additionally, each bank has a separate Fee Letter to specify the commitment fee payable by the City and the other fees and charges imposed by the bank related to the issuance of its LOC. The initial facility rates were established based on the underlying credit rating on the Airport's bonds. As of June 30, 2012, the

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facility fee rates are 1.65% for BANA, 1.60% for JPMorgan, and 1.40% for Wells Fargo Bank. These facility fee rates can increase at any time when a rating is withdrawn, suspended or otherwise unavailable and upon occurrence of an event of default or rating downgrade. In July 2012, Fitch Ratings downgraded its rating with respect to the outstanding Airport Revenue Bonds from “A-“ with negative outlook to “BBB+” with stable outlook. As a result, the facility rate charged by Wells Fargo Bank increased to 1.65% effective July 20, 2012.

The outstanding balance for the Airport commercial paper notes as of June 30, 2012 is summarized in the table below (dollars in thousands):

LOC Provider	Outstanding as of June 30, 2012	Interest Rate
JPMorgan Chase Bank, N.A.	\$ 21,317	0.47%
Wells Fargo, N.A.	<u>26,620</u>	0.19%
Total	<u>\$ 47,937</u>	

The change in Airport commercial paper notes payable during fiscal year 2012 is as follows (dollars in thousands):

June 30, 2011	Additions	Deletions	June 30, 2012
<u>\$410,079</u>	<u>\$0</u>	<u>\$362,142</u>	<u>\$47,937</u>

2011 Airport Revenue Bonds

In July 2011, the City issued Airport Revenue Bonds Series 2011A-1 and Series 2011A-2 in the amounts of \$150,405,000 and \$86,380,000, respectively. The Series 2011 A-1 Bonds were issued to (i) refund certain variable rate subordinated commercial paper notes originally issued to refund the Airport Revenue Bond Series 2004A and Series 2004B, (ii) to refund all of the outstanding Airport Revenue Refunding Bonds, Series 1998A, (iii) to make a cash deposit to the General Account of the Bond Reserve Fund, and (iv) to pay a portion of the costs of issuing Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 6.25% and will mature in March 2034.

A portion of the Series 2011A-1 proceeds and the remaining balances in the 1998A principal and interest accounts totaling approximately \$6,700,000 were used to pay the redemption price of the refunded Series 1998A Bonds. The refunding achieved approximately \$363,000 in aggregate debt service savings or \$303,000 on a present value basis.

The Series 2011A-2 Bonds were issued to refund \$85,625,000 aggregate principal amount of the outstanding Series 2001A, and to pay a portion of the costs of issuing the Series 2011A Bonds. The bonds were issued with interest rates ranging from 2.00% to 5.25% and will mature in March 2034. The refunding achieved approximately \$7,861,000 in aggregate debt service savings or \$5,425,000 on a present value basis.

In December 2011, the City issued Airport Revenue Bonds Series 2011B in the amount of \$271,820,000. The Series 2011B Bonds were issued to (i) refund certain subordinated commercial paper notes that were originally issued to finance and/or refinance the costs of designing and constructing certain improvements to the Airport, (ii) pay a portion of interest to accrue on the Series 2011B Bonds through March 1, 2014, (iii) make a cash deposit to the 2011B account of the bond reserve fund, and (iv) fund an increase of the rolling coverage amount, and pay the costs of issuing the 2011B Bonds. The bonds were issued with interest rates ranging from 1.00% to 6.75% and have a final maturity date of March 1, 2041.

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12. Landfill Post-closure Costs

The City has five closed landfills for which post-closure 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 \$7,440,000 related to the closed landfills is recorded in the government-wide financial statements as of June 30, 2012. 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 2012, 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, 2011 to October 1, 2012 is provided below:

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

During fiscal year 2012, for the policy period of October 1, 2011 to October 1, 2012, the City maintained an airport liability policy covering the Airport including operation of vehicles on premises, which provides a limit of \$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. During the past three years, there have been no any instances that the amount of claim settlements exceeded the insurance coverage. A separate automobile policy provided coverage for the off-premise operations of Airport vehicles including shuttle bus fleets. Coverage included \$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 \$25,000 comprehensive and collision deductible. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. As part of general support services, the City charges the Airport for the cost of general liability coverage.

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, new 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 as well as unallocated loss adjustment expenses, which represent the costs to administer all claims to final settlement, which may be years into the future and have been discounted to their present value.

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using a rate of 3.5% 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, 2012. The City Attorney and, with respect to workers' compensation claims, the City's Risk Manager 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, 2010	\$ 139,234
Claims and changes in estimates during 2011	31,273
Claims payments	<u>(21,479)</u>
Liability as of June 30, 2011	149,028
Claims and changes in estimates during 2012	13,923
Claims payments	<u>(20,235)</u>
Liability as of June 30, 2012	<u>\$ 142,716</u>

Owner Controlled Insurance Programs - On March 31, 2004, the City bound certain liability insurance coverage for the major components of the North Concourse Project through an owner-controlled insurance program ("OCIP") with Chartis, formerly American International Group ("AIG"), AIU Holdings, Inc. and AIU LLC ("AIU"). An OCIP is a single insurance program that provides insurance coverage for construction jobsite risk of the project owner, general contractors and all subcontractors associated with construction at the designated project site. The North Concourse Project has been completed and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project are in process. All remaining work associated with the opening of the facility is covered by the Terminal Area Improvement Project ("TAIP") OCIP, as described below, or is addressed in the contracts for work not covered by the TAIP OCIP by requiring the contractors performing such work to provide insurance coverage naming the City as an additional insured.

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 statement of net assets. The claims loss reserve funds the deductible of up to \$250,000 per occurrence to a maximum loss exposure to the City of \$3,900,000. As of June 30, 2012, the balance of the North Concourse reserve fund is \$1,028,000. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

On March 15, 2007, the City purchased additional liability insurance through another OCIP for major components of the Airport's TAIP OCIP through Chartis. The coverage for this program as of June 30, 2012 is as follows:

<u>Coverages</u>	<u>Terminal Area Improvement Projects</u>	
	<u>Limits</u>	<u>Deductible Per Occurrence</u>
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

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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 57 months, commencing on March 15, 2007 through December 31, 2010. The term of the TAIP OCIP was subsequently extended to June 30, 2011. 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 a reduction in funding to 74% of the claims loss reserve and interest generated remains in the fund. As of June 30, 2009, the full amount of \$6,500,000 was deposited with Chartis and the balance at June 30, 2012 is \$4,303,000. This deposit is recorded as advances and deposits in the accompanying statement of net assets.

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*, prospectively and as such, 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.2. The City initiated a five-year phase-in to fully pre-fund the annual required contribution for retiree healthcare benefits pursuant to memoranda of agreement with the majority of its employee units beginning in fiscal year 2010 through fiscal year 2014, and with the members of the San José Firefighters Union (International Association of Firefighters, Local 230) beginning in fiscal year 2012 through fiscal year 2016. The phase-in plan will continue to result in an incremental increase in retiree healthcare contributions for both the City and its employees over the term of the respective memoranda of agreement. Phasing-in to fully pre-fund retiree healthcare benefits does not mean that the existing obligation is paid off immediately. It is projected that it will take approximately 30 years to pay off the existing unfunded retiree healthcare liability. At June 30, 2012, the City recorded net OPEB obligations totaling \$320,225,000 in the government-wide financial statements, of which \$292,244,000 is in governmental activities and \$27,981,000 is in business-type activities.

15. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including five active leaking petroleum storage tank sites: Fire Stations #5 and #16, Las Plumas Warehouse, Family Shelter, and the Airport, as discussed in Note IV.C.1. Although the City has significant experience in estimating these types of cleanups, the calculation of the expected outlays related to this pollution remediation is based on estimates provided by both City engineers and consultants hired by the City. The amount of the estimated pollution remediation liability assumes that there will be no major increases in the cost of providing these cleanup services. As of June 30, 2012, the government-wide statement of net assets reported a net pollution remediation obligation in the amount of \$1,083,000 in governmental activities, and \$714,000 in business-type activities.

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G. Interfund Transactions

The composition of interfund balances as of June 30, 2012, with explanations of transactions, is as follows (dollars in thousands):

1. Due from/Due to other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,438 (1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	10,194 (2)
	San José Financing Authority	103 (2)
Wastewater Treatment System	Nonmajor Governmental Funds	201 (3)
	Municipal Water System	176 (4)
		<u>\$ 12,112</u>

- (1) \$1,151 represents accrual of gas tax transfer and \$287 represents accrual of construction and conveyance tax transfer.
(2) Represents short-term borrowing for working capital.
(3) Represents short-term portion of loan for Fiber Optics Conduit project.
(4) Represents short-term portion of loan for the North Coyote Valley Water Project.

2. Advances to/Advances from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	San José Financing Authority	\$ 3,297 (1)
San José Financing Authority	Affordable Housing Investment Fund	14,091 (2)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	2,500 (3)
	General Fund	13,156 (4)
Wastewater Treatment System	General Fund	5,044 (4)
		<u>\$ 38,088</u>

- (1) Represents a loan to support the Rancho Del Pueblo golf course.
(2) Represents proceeds of the commercial paper notes loaned to the Affordable Housing Investment Fund to replace the 20% redevelopment property tax revenues set aside to make the SERAF loan to the former Agency.
(3) Represents a loan for the Roberto Antonio Balermino Park Project.
(4) Represents SERAF loan amounts assumed by the General Fund per the term of the SERAF loan agreement and payable in 2014-2015.

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3. Advances Receivable from SARA

At June 30, 2012, the City has advances receivable from the SARA as follows (in thousands):

<u>Receivable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Affordable Housing Investment Fund	SERAF principal	\$ 64,816
	SERAF interest	555
		<u>\$ 65,371</u>

In July 2009, the State Legislature passed AB X4 26, which required redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment into the county held Supplemental Educational Revenue Augmentation Fund (“SERAF”) to be distributed to meet the State’s Proposition 98 obligations to schools. The former 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 former Agency and the City entered into a loan agreement where the City agreed to loan the former Agency through two separate payments (May 2010 and May 2011) with a combined amount of \$74,816,000 to make the SERAF payment. Sources of the loan were from the City’s Low and Moderate Income Housing Fund (\$64,816,000), which was specifically authorized by the legislation, and idle moneys from City special funds (\$10,000,000).

As discussed in Note I.F.16, pursuant to AB X1 26, the City retained the \$64,816,000 SERAF Loan made from the Low and Moderate Income Housing Fund in fiscal year 2009-10 and 2010-11 and the interest accrued at the LAIF rate associated with this loan in the amount of \$555,000 at June 30, 2012. Under the loan agreement, SARA has the option to make interest payments on an ongoing basis, or to pay accrued interest upon final payment of the SERAF Loan in fiscal year 2015-16.

Management believes, in consultation with legal counsel, that the SERAF Loan made from the Low and Moderate Income Housing Fund and the interest accrued are valid enforceable obligations payable by SARA under the requirements of the AB X1 26. A portion of this receivable is questioned in the County Auditor-Controller’s report as discussed in Note IV.D.3. However, since the County Auditor Controller has no legal authority under AB X1 26 to enforce this determination, the City has not made adjustments to the financial statements to reflect this view. It is reasonably possible that a determination may be made at a later date by an appropriate State or judicial authority that would resolve this issue unfavorably to the City. The City has not made adjustments to the financial statements due to this uncertainty.

4. Due to SARA

The former Agency entered into Annual Cooperation Agreements to assist in funding various projects constructed on its behalf by the City and to reimburse the City for the actual salaries and fringe benefits of City employees who work under the supervision of the former Agency’s Executive Director or designee, as well as other City staff in providing support services to the former Agency. As of June 30, 2012, the City has a payable amount of \$124,000 to recognize the total reimbursements due to SARA. The City’s Housing Activities Fund is also due \$726,000 to the SARA for reimbursement of prepaid housing administrative expenditures at June 30, 2012.

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5. Long-term Advances from SARA

The former Agency advanced a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The former Agency is entitled to 24.5% of the total loan repayment or \$280,280. The advance will be repaid to SARA in part in FY 2012-13 and future payments will be made to SARA as the loan is collected by the City's Housing Department.

6. Transfers in/Transfers out

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

Between governmental and business-type activities:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
Airport	General Fund	\$ 115 (1)
Wastewater Treatment System	General Fund	256 (2)
	Nonmajor Governmental Funds	1,724 (3)
Municipal Water System	General Fund	242 (4)
	Nonmajor Governmental Funds	117 (5)
	San José Financing Authority	149 (6)
Parking System	General Fund	506 (7)
	Nonmajor Governmental Funds	248 (8)
		<u>\$ 3,357</u>

- (1) Transfer to General Fund for Human Resources/Payroll System upgrade.
- (2) Transfer to General Fund for Human Resources/Payroll System upgrade.
- (3) Transfers of \$1,671 for City Hall debt service payments and \$53 for the household hazardous waste facility.
- (4) Transfer of \$17 to General Fund for Human Resources/Payroll System upgrade and \$225 for administrative services.
- (5) Transfer for City Hall debt service payments.
- (6) Transfer for debt service payments.
- (7) Transfer of \$9 to General Fund for Human Resources/Payroll System upgrade and \$497 miscellaneous non-downtown receipts.
- (8) Transfer of \$168 for City Hall debt service payments and \$80 for the Downtown Property and Business Improvement District.

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Between governmental activities:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General Fund	San José Financing Authority	\$ 2,295 (1)
	Nonmajor Governmental Funds	24,827 (2)
	Internal Service Funds	111 (3)
Redevelopment Agency	General Fund	357 (4)
	Housing Activities	17,532 (5)
	San José Financing Authority	1,681 (6)
	Nonmajor Governmental Funds	150 (7)
Housing Activities	Affordable Housing Investment Fund	346,047 (8)
	General Fund	26 (9)
	Nonmajor Governmental Funds	727 (10)
	San José Financing Authority	136 (11)
	Redevelopment Agency	23,350 (11)
Nonmajor Governmental Funds	General Fund	10,352 (12)
	Nonmajor Governmental Funds	12,335 (13)
	San José Financing Authority	30,239 (14)
	Redevelopment Agency	1,806 (15)
San José Financing Authority	Nonmajor Governmental Funds	42 (16)
	Special Assessment Districts	16 (17)
Special Assessment Districts	General Fund	143 (18)
Internal Service Funds	General Fund	608 (19)
	Nonmajor Governmental Funds	212 (20)
		<u>\$ 472,992</u>

- (1) Debt service payments of \$1,490 for the 2007A bond series and \$805 to replenish the Financing Authority.
- (2) Transfers for various debt service payments, loan repayments, operations and subsidies.
- (3) Transfers of \$9 to increase flexible spending account and \$102 for vehicle and fleet replacement.
- (4) Transfer for San José Arena pass-through payment.
- (5) Transfer of 20% former Agency property tax increment revenue required under the former California Community Redevelopment Law prior to the dissolution of the former Agency.
- (6) Pledged obligation payment for 4th Street and San Fernando parking facility.
- (7) Transfers for Hellyer-Piercy Assessment District improvements pursuant to the terms of the improvement districts.
- (8) Transfers for the establishment of the Affordable Housing Investment Fund, as Housing Successor of the former Agency.
- (9) Transfer to General Fund for Human Resources/Payroll System Upgrade.
- (10) Transfer for City Hall debt service payment.
- (11) Transfers for various debt service payments.
- (12) Various transfers for project savings, operations, interest earnings, and capital projects.
- (13) Various transfers for debt service, operations, capital projects, and project savings.
- (14) Various transfers for debt service payments.
- (15) Transfer for HUD 108 loan payments.
- (16) Transfer of library project completion surplus.
- (17) Return of issuance cost related to the Special Hotel Tax Revenue Bonds.
- (18) Transfer to General Fund for administrative services.
- (19) Transfers of \$15 for the Human Resources/Payroll System Upgrade, \$5 interest earnings, \$88 for Plan and Specific Programs, \$200 over-collected funds and \$300 for operations.
- (20) Transfers of \$202 for debt service payments and \$10 to the Civic Center Construction Fund.

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H. Governmental Fund Balances

As of June 30, 2012, total fund balances for the City's major and nonmajor governmental funds are as follows (dollars in thousands):

	General Fund	Housing Activities	Affordable Housing Investment Fund	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Advances and deposits	\$ 13	\$ -	\$ -	\$ 5	\$ -	\$ 41	\$ 59
Other assets	-	-	-	-	-	20,462	20,462
Subtotal	13	-	-	5	-	20,503	20,521
Restricted for:							
General government	300	-	-	-	-	-	300
Public safety	-	-	-	-	-	4,143	4,143
Community services	92	44,731	355,143	-	-	90,132	490,098
Capital Maintenance	-	-	-	125,491	-	239,416	364,907
Debt service	-	-	-	-	24,955	37,153	62,108
Subtotal	392	44,731	355,143	125,491	24,955	370,844	921,556
Committed to:							
General government	29,856	-	-	-	-	-	29,856
Public safety	7,046	-	-	-	-	-	7,046
Community services	15,952	-	-	-	-	13,692	29,644
Sanitation	29	-	-	-	-	11,710	11,739
Capital Maintenance	9,881	-	-	-	-	3,526	13,407
Capital outlay	250	-	-	-	-	-	250
Subtotal	63,014	-	-	-	-	28,928	91,942
Assigned to:							
General government	19,133	-	-	-	-	-	19,133
Public safety	35,182	-	-	-	-	-	35,182
Community services	9,288	-	-	-	-	13,288	22,576
Sanitation	76	-	-	-	-	-	76
Capital Maintenance	6,557	-	-	-	-	19,385	25,942
Subtotal	70,236	-	-	-	-	32,673	102,909
Unassigned							
	49,373	-	-	-	-	(172)	49,201
Total fund balances	\$ 183,028	\$ 44,731	\$ 355,143	\$ 125,496	\$ 24,955	\$ 452,776	\$ 1,186,129

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

The **Contingency Reserve Fund** was created to meet unexpected circumstances such as a General Fund revenue shortfall. The policy established a minimum of three percent of the operating budget as the reserve balance. As of June 30, 2012, the contingency amount accounts for \$30,000,000 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, 2012, the cash reserve amount accounts for \$5,000 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, 2012, the emergency reserve amount accounts for \$3,000,000 of the unassigned fund balance.

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IV. Other Information

A. Defined Benefit Retirement Plans

A. 1. City Sponsored Defined Benefit Pension Plans

1. Plan Description

The City sponsors and administers two single employer defined benefit retirement systems, the Police and Fire Department Retirement Plan (“PFDRP”) and the Federated City Employees’ Retirement System (“FCERS”), and collectively, “the Retirement Systems”, which 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 separately issued annual reports of PFDRP and FCERS, together with the City’s Municipal Code provide more detailed information about the Retirement Systems. Those reports may be obtained from the City of San José Department of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112.

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 limited required cost-of-living increases. The Defined Benefit Pension Plans are administered by the Director of Retirement, an employee of the City, under the direction of the City Manager and the Boards of Administration for the Retirement Systems. The contribution and benefit provisions and all other requirements are established by the City Charter and the City’s Municipal Code.

The current membership in the Defined Benefit Pension Plans as of June 30, 2012, is as follows:

	PFDRP	FCERS
Defined Benefit Pension Plans:		
Retirees and beneficiaries currently receiving benefits	1,910	3,688
Terminated vested members not yet receiving benefits	166	969
Active members	1,718	3,076
Total	3,794	7,733

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. Funding Policy

Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For pension plans, the assumptions include future employment trends, mortality rates, level of salary increases, and investment rate 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. Retirement Systems’ Boards policy is to obtain actuarial evaluations every year beginning June 30, 2010. The most recent valuations were completed as of June 30, 2011 and included in the valuations was the Retirement Systems Boards’ adopted funding policy of establishing the annual required contribution to be 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 for the fiscal year.

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The City fully funded the fiscal year 2011-2012 annual required contribution amount on July 1, 2011 as reported in the June 30, 2011 actuarial valuations.

The contributions to the Defined Benefit Pension Plans from the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due.

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 fiscal year 2012 was calculated to be actuarially equivalent to the bi-weekly payments that would otherwise have been the City's required contributions to the pension plans. The Boards of Administration for the PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City on July 1, 2011.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for fiscal year 2012 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2010, except for the period June 24, 2012 through June 30, 2012, which were based on the June 30, 2011 valuation. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2012 are as follows (dollars in thousands):

	PFDRP			FCERS		
	City ⁽¹⁾	Participants	Total	City ⁽¹⁾	Participants	Total
Actuarial Rate:						
Defined Benefit Pension Plan:						
7/01/11 - 6/23/12 (police members)	49.29%	10.46%				
7/01/11 - 6/23/12 (fire members)	51.05%	10.76%				
7/01/11 - 6/23/12				28.34%	4.68%	
6/24/12 - 6/30/12 (police members)	56.57% ⁽²⁾	11.13%				
6/24/12 - 6/30/12 (fire members)	58.43% ⁽²⁾	11.21%				
6/24/12 - 6/30/12				44.45% ⁽²⁾	5.74%	
Annual Pension Contribution						
Defined Benefit Pension Plan	\$ 121,009	\$ 19,345	\$ 140,354	\$ 87,082	\$ 10,555	\$ 97,637

(1) The actual contribution rates paid by the City for the fiscal year ended June 30, 2012 differed due to the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll for the fiscal year.

(2) The resolutions adopted by the Retirement Plans' Boards setting the contribution rates for fiscal year 2012-2013 provide that the City's Budget Office may adjust the employer's contribution rates in order to achieve a minimum dollar contribution for fiscal year 2012-2013.

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3. Annual Pension Cost and Net Pension Obligation

The following is three-year trend information for the City's Defined Benefit Pension Plans (dollars in thousands):

	Fiscal year ended	Annual Pension Cost (APC) ⁽¹⁾	Percent APC Contributed	Net Pension Obligation
PFDRP	6/30/10	\$ 52,315	100%	\$ -
	6/30/11	77,918	100%	-
	6/30/12	121,009	100%	-
FCERS	6/30/10	54,566	100%	-
	6/30/11	59,180	100%	-
	6/30/12	87,082	100%	-

⁽¹⁾ These amounts represent the annual pension cost factoring in the City's elected lump-sum prepayment.

4. Funded Status and Funding Progress

PFDRP's Funded Status and Funding Progress. As summarized in the table below, as of June 30, 2011, the most recent actuarial valuation date, PFDRP was 84% funded for pension benefits (an increase from 80% in the June 30, 2010 valuation) representing the difference between the actuarial value of assets and the actuarial accrued liabilities ("AAL") resulted in an unfunded actuarial accrued liability ("UAAL") of \$510,286,000. The UAAL does not reflect the impact of approximately \$58,000,000 of accumulated deferred investment loss resulting from unfavorable investment returns from fiscal years 2008 and 2009. PFDRP's actuarial valuation uses a five-year smoothing method for investment returns. This means that, for actuarial valuation purposes, the annual gains or losses, as calculated at year-end, are smoothed (amortized) with the net gains and losses resulting from the prior four years. As of the June 30, 2011 actuarial valuation date, PFDRP's AAL decreased by approximately \$34,449,000 due to favorable demographic experience and changes in actuarial assumptions as recommended by the PFDRP's Board's actuary in the June 30, 2011 experience study. PFDRP's UAAL decreased from approximately \$653,751,000 as of June 30, 2010 to \$510,286,000 as of June 30, 2011.

The net change to the UAAL was primarily the result of:

- (a) 14% reduction in the number of active members;
- (b) 24% reduction in expected payroll;
- (c) increase in amortization period for changes in methods and assumptions from closed 16-year periods to closed 20-year period beginning with the valuation date in which they are effective;
- (d) 11.5% reduction in average pay;
- (e) reduction in the discount rate from 7.75%, net of expenses, to 7.50%, net of investment expenses⁽¹⁾; and
- (f) reduction in wage growth assumption from 4.25% to 0% for two years and 3.5% thereafter.

⁽¹⁾ The June 30, 2011 valuation includes the Board approved the actuary's recommendation to include administrative expenses and supplemental retiree benefits reserve (SRBR) costs as additions to normal cost (valued at \$3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR). SRBR is a reserve required by the Municipal Code to be set aside from investment earnings to provide supplemental benefits to retirees.

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The annual required contribution determined for PFDRP in the June 30, 2010 valuation for fiscal year ended June 30, 2012 was the greater of \$121,009,000 (if paid at the beginning of the fiscal year) or 51.05% for fire member and 49.29% for police members of actual payroll for the fiscal year. PFDRP's payroll for fiscal year 2012 of \$184,746,000 was less than the actuarial payroll of \$251,058,000 resulting in an annual contribution of \$121,009,000 as of July 1, 2011, including year end contributions receivable and prior year contribution adjustments.

FCERS's Funded Status and Funding Progress. As summarized in the table below, as of the June 30, 2011 actuarial valuation date, FCERS was 65% funded on an actuarial basis for pension benefits. FCERS's UAAL of \$981,567,000 does not reflect the impact of approximately \$28,000,000 of accumulated deferred investment losses resulting primarily from unfavorable investment returns in fiscal years 2008 and 2009. FCERS' actuarial valuation uses a five-year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years.

As of June 30, 2011, FCERS's most recent actuarial valuation, the funded status of FCERS decreased from 69% to 65%. The decrease in pension funding status was primarily due to actuarial assumption changes as recommended by the FCERS Board's actuary and adopted by the Board for the June 30, 2011 valuation.

FCERS's June 30, 2011 actuarial valuation includes the following actuarial assumption changes:

- (a) a decrease in the investment return assumption from 7.95%, net of expenses, to 7.50%, net of investment expenses only⁽¹⁾;
- (b) a decrease in the payroll wage inflation assumption from 3.90% to 3.25%; and
- (c) a decrease of 14% in the number of active members and decrease of 24% in the expected payroll.

⁽¹⁾ The June 30, 2011 valuation includes the Board approved actuary's recommendation to include administrative expenses and supplemental retiree benefits reserve (SRBR) costs as additions to normal cost (valued at 0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR). SRBR is a reserve required by the Municipal Code to be set aside from investment earnings to provide supplemental benefits to retirees.

Defined Benefit Pension Plans' Funded Status and Funding Progress Summary

	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>UAAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
PFDRP	6/30/11	\$ 2,685,721	\$ 3,196,007	\$ 510,286	84%	\$ 190,726	268%
FCERS	6/30/11	1,788,660	2,770,227	981,567	65%	228,936	429%

The Schedule of Funding Progress, presented as Required Supplementary Information ("RSI") following the Notes to Basic Financial Statements, presents multiyear trend 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.

In fiscal year 2010-2011, the Retirement Systems' Boards approved an establishment of a "floor funding method" for payment of annual required contributions ("ARC") 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 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

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payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year 2012-2013 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for fiscal year 2012-2013.

The annual required contribution determined for FCERS in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of \$86,888,000 (if paid at the beginning of the fiscal year) or 28.34% of actual payroll for the fiscal year. The actual payroll of FCERS for the fiscal year of \$224,742,000 was less than the actuarial payroll of \$318,544,000 resulting in an annual contribution of \$87,082,000, including year-end contributions receivable and prior year contribution adjustments of \$194,000.

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5. Actuarial Methods and Assumptions

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

PFDRP		
<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation date	June 30, 2011	June 30, 2010
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of pay, closed, layered; equivalent single amortization period 13.6 years	Level percentage of payroll (assuming a 4.25% total payroll increase), closed, layered; equivalent single amortization period of 15 years
Remaining amortization period	(1) Outstanding balance of the unfunded accrued liability calculated through the June 30, 2003 valuation amortized over next 6 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 6 years; (3) Actuarial gains and losses and plan changes are amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation; and (4) Actuarial methods and assumption changes are amortized over 20 years from the date of each such event, beginning with the June 30, 2011 valuation.	(1) Outstanding balance of the unfunded accrued liability calculated through the June 30, 2003 valuation amortized over next 7 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 7 years; and (3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation.
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
Investment rate of return	7.5% per annum (net of investment expenses)	7.75% per annum (net of administrative, SRBR and investment expenses)
Post-retirement mortality	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years) RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 2 years.	(a) Service: RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 4 years) RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (b) Disability: RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 1 year.
Active service, withdrawal, death, disability service retirements	Based upon the June 30, 2011 Actuarial Experience Analysis.	Based upon the June 30, 2009 Actuarial Experience Analysis.
Salary increases	0.00% for FY 2013 and 2014, and 3.5% thereafter. Merit component added based on an individual years of service ranging from 8.00% to 2.25%.	9.75% for the first 5 years of service, 6.75% for 6-7 years of service, and 6% for 8+ years of service. The total salary increase of 4.25% is for combined inflation and real across-the-board salary increase.

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

FCERS		
<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation date	June 30, 2011	June 30, 2010
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for unfunded actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	20-year layered, closed, level percentage of payroll with the June 30, 2009 UAAL amortized over a closed 30-year period.	20-year layered, closed, level percentage of payroll with the June 30, 2009 UAAL amortized over a closed 30-year period.
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Investment rate of return	7.50% per annum	7.95% per annum
Postretirement mortality	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees.	The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.
Active service, withdrawal, death, disability service retirement	Tables based upon current experience	Tables based upon current experience
Salary increases	The base annual rate of salary increase is 3.25% inflation rate plus a rate increase for merit/longevity for years 0 to 15+ years of service ranging from 4.50% to 0.25% at the 14th year of service.	The base annual rate of salary increase is 3.90% 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.
Projected total payroll increases	3.25%	3.90%

A. 2 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 Plan and the Federated City Employees' Postemployment Healthcare Plan, which together cover eligible full-time and certain part-time employees of the City. The Postemployment Healthcare Plans 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 Department 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 Postemployment Healthcare Plans are administered by the Director of Retirement,

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an employee of the City, under the direction of the City Manager and Boards of Administration for the Retirement Systems. The contribution and benefit provisions and all other requirements are established by the City's Municipal Code and Memoranda of Agreements (MOAs).

The current membership in the Postemployment Healthcare Plans as of June 30, 2012, is as follows:

	PFDRP	FCERS
Postemployment Healthcare Plans:		
Retirees and beneficiaries currently receiving benefits	1,852	3,062
Terminated vested members not yet receiving benefits	5	111
Active members	1,718	3,076
Total	3,575	6,249

2. OPEB Funding Policy

As stated above in the Defined Benefit Pension Plan section of this note, Retirement Systems' Boards policy is to obtain actuarial evaluations every year beginning June 30, 2010. Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For Postemployment Healthcare Plans, the assumptions include those about future employment trends, mortality rates, level of salary increases, healthcare cost trend, and investment rates of return. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

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

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for fiscal year 2012 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City on July 1, 2011, respectively.

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Contributions to PFDRP for periods prior to June 26, 2011 for Fire members and June 28, 2009 for police members of PFDRP were based on the Board's 10-year cash flow funding policy. Effective June 28, 2009, the police members of PFDRP entered into a MOA with the City to increase the contribution rates for retiree health and dental in order to phase-in to fully funding the GASB Statement No. 43 ARC over the next 5 years; fiscal year 2012 was the third year of the phase-in. The MOA between the City and police members of the PFDRP further provided that the PFDRP member contribution rate shall not have an incremental increase of more than 1.25% and 1.35% of pensionable pay in each year for the police members and City, respectively. Additionally, the MOA with PFDRP members provided that if the retiree healthcare contributions exceed 10% of police member and 11% of City contributions, respectively, (excluding the implicit rate subsidy) the parties shall meet and confer on how to address the contributions above 10% and 11%. Effective June 26, 2011, the Fire members of PFDRP entered into a MOA with the City to fully fund the ARC over a five year period subject to the same limitations specified in the MOA with police members. Fiscal year 2012 was the first year of the phase-in for fire members.

The MOA between the City and the bargaining units representing the members of FCERS provided

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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 FCERS members or the City; the fiscal year ended June 30, 2012 was the third year of the five-year phase-in. Notwithstanding these limitations on incremental increases, the agreements with members of FCERS further provide that by the end of the five-year phase-in the City and the members shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

The contributions are not currently sufficient to provide adequate assets to pay benefits in accordance with the requirements of GASB Statement No. 43. The contribution rates for the Postemployment Healthcare Plans for the City and the participating employees for fiscal year 2012 were based on actuarial valuations dated June 30, 2010, except for the period June 24, 2012 through June 30, 2012, which were based on the June 30, 2011 valuation. The contribution rates in effect and the amounts contributed to the PFDRP and the FCERS for the fiscal year ended June 30, 2012 are as follows (dollars in thousands):

	PFDRP			FCERS		
	City ⁽¹⁾	Participants	Total	City ⁽¹⁾	Participants	Total
Actuarial Rate:						
Postemployment Healthcare Plan:						
7/01/11 - 6/23/12 (police members)	7.61%	7.01%				
7/01/11 - 6/23/12 (fire members)	5.27%	4.86%				
7/01/11 - 6/23/12				7.16%	6.52%	
6/24/12 - 6/30/12 (police members)	8.96% ⁽²⁾	8.26%				
6/24/12 - 6/30/12 (fire members)	6.62% ⁽²⁾	6.11%				
6/24/12 - 6/30/12				7.91% ⁽²⁾	7.26%	
Annual OPEB Contribution						
Postemployment Healthcare Plan:	\$ 21,205	\$ 11,474	\$ 32,679	\$ 25,834	\$ 14,995	\$ 40,829

(1) The actual contribution rates paid by the City for the fiscal year ended June 30, 2012 differed due to the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll for the fiscal year.

(2) The resolutions adopted by the Retirement Plans' Boards setting the contribution rates for fiscal year 2012-2013 provide that the City's Budget Office may adjust the employer's contribution rates in order to achieve a minimum dollar contribution for fiscal year 2012-2013.

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, 2012, were as follows (dollars in thousands):

	PFDRP	FCERS
Annual required contribution	\$ 63,824	\$ 66,991
Interest on net OPEB obligation	8,753	5,235
Adjustment to annual required contribution	(7,220)	(4,822)
Annual OPEB cost	65,357	67,404
Contributions made	(21,205)	(25,834)
Implicit rate subsidy	(4,730)	(4,382)
Increase in net OPEB obligation	39,422	37,188
Net OPEB obligation – beginning of year	154,105	89,510
Net OPEB obligation – end of year	\$ 193,527	\$ 126,698

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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	6/30/10	\$ 38,536	\$ 15,994	42%	\$ 107,054
	6/30/11	64,108	17,057	27%	154,105
	6/30/12	65,357	25,935	40%	193,527
FCERS	6/30/10	39,414	21,585	55%	62,589
	6/30/11	48,529	21,608	45%	89,510
	6/30/12	67,404	30,216	45%	126,698

4. OPEB Funded Status and Funding Progress

As summarized in the table below, as of June 30, 2011, the most recent actuarial valuation date, PFDRP and FCERS was 6% and 12% funded, respectively on an actuarial basis for OPEB, respectively. Changes to the UAAL were primarily the result of changes in the actuarial assumptions including the expected rate of return on plan investments, payroll growth assumption, and healthcare trend assumption changes to reflect current experience and the actuary's expectation for the future. The specific funding status for each OPEB plan is summarized in the table below, as of the June 30, 2011 valuation date (dollars in thousands):

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
PFDRP	6/30/2011	\$ 60,709	\$ 1,003,795	\$ 943,086	6%	\$ 190,726	494%
FCERS	6/30/2011	135,454	1,145,359	1,009,905	12%	228,936	441%

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.

In fiscal year 2010-2011, the Retirement Systems' Boards approved an establishment of a "floor funding method" for payment of the annual required contributions ("ARC") for postemployment healthcare benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ARC as the greater of the annual dollar contribution amount established in the valuation, or the ARC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year 2012-2013 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for fiscal year 2012-2013.

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 contributions rates for the fiscal year ended June 30, 2012 were based on the actuarial valuation performed as of June 30, 2010, except for the period June 24, 2012 through June 30, 2012, which were based on the June 30, 2011 valuation.

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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, 2011	June 30, 2010
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	30 years, level percentage of pay	30 years, level percentage of pay
Remaining amortization period	30 years as of June 30, 2011, open	30 years as of June 30, 2010, 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*	5.7%	6.3%
Inflation rate	3.5%	3.5%
Projected payroll increases	0.00% for FY 2013 and 2014, and 3.50% thereafter. Merit component added based on individual year's of service ranging from 8.00% to 2.25%	4.25% (includes across-the-board salary increase of 0.75%).
Healthcare cost trend rate:		
Medical	Future medical inflation assumed to be at 9.17% per annum graded down to 4.5% over a 15 year period for medical-pre age 65 and 6.83% per annum graded down to 4.5% over a 15 year period for medical-post age 65.	Projected premiums for FY2010-2011 and 9.75% beginning FY2011-2012, decreasing by 0.50% for each year for 10 years until it reaches an ultimate rate of 5%.
Dental	4.50% graded down to 4% over a three year period.	5%

* Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the portion of the ARC contributed by the City for the fiscal year.

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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		
<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation date	June 30, 2011	June 30, 2010
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
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
Discount rate (net)*	6.10%	6.71%
Inflation rate	3.25%	3.90%
Salary increases	The base annual rate of salary increase is 3.25% inflation rate plus a rate increase for merit/longevity for 0 to 14+ years of service ranging from 4.5% to 0.25% at the 15th year of service	The base annual rate of salary increase is 3.90% 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
Projected payroll increases	3.25%	3.90%
Healthcare cost trend rate: Medical	The valuation assumes that future medical inflation will be at a rate of 9.17% per annum graded down to 4.5% per annum over a 15 year period for medical-pre age 65 and 6.83% to 4.5% per annum graded down over a 15 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 9.5% per annum graded down to 4.5% per annum over a 15 year period for medical-pre age 65 and 7.0% to 4.5% per annum graded down over a 15 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.5% graded down to 4% over a three year period.	Dental inflation is assumed to be 5% graded down to 4% over a four year period.

* 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.

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A. 3 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 City's CalPERS plan is under the CalPERS Miscellaneous 2% at 55 Risk Pool. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service. Benefit provisions and other requirements are established by State statute and by City resolution. On January 24, 2012, the City Council voted to terminate its contract with CalPERS. The City subsequently delivered a resolution of its intention to terminate its contract with CalPERS and is currently awaiting a termination valuation report from CalPERS for determining the potential liability for any deficit in funding relating to current participants earned benefits. CalPERS issues a separate comprehensive annual financial report, copies of which may be obtained from the CalPERS Executive Offices, Lincoln Plaza East, 400 Q Street, Sacramento, California 95814.

Funding Policy. The City is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the Fund's Board of Administration. The required employer contribution rate for the year ended June 30, 2012 was 15.526%. The contractual employee cost sharing is 7.0% plus a fee of \$0.93 per bi-weekly pay period pay period for the 1959 Survivor Benefit program, cost-of-living adjustments are 2.0% per year, and benefits are based on a final average compensation period of 36 months. The total contribution requirements for local agencies are established and may be amended by CalPERS. The City's contributions to CalPERS for the years ended June 30, 2012, 2011, and 2010 were \$117,000, \$108,000, and \$127,000, respectively, equal to the required contributions for each year.

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B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments. As of June 30, 2012, the Airport was obligated for purchase commitments of approximately \$9,600,000, primarily for the remainder of the costs for Terminal Area Improvement Program (TAIP) projects. Additionally, the Airport has projected that it will expend or encumber approximately \$105,100,000 on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from PFCs, federal grants, bond proceeds and other Airport revenues.

Fuel Storage Facility. In 1985, the Airport and a fuel supplier with a fuel storage facility adjacent to the City who owned a fuel tank farm facility, discovered a fuel leak whereby petroleum products had been released into the soil and ground water from either or both of the City owned facility and/or the other fuel supplier facility. The Airport and a fuel supplier with a fuel storage facility adjacent to the City owned facility agreed to share the costs of a study to develop an acceptable cleanup program for the contaminated site. The cleanup program submitted to the Santa Clara Valley Water District, the responsible regulatory authority, was approved and the cleanup program commenced during the fiscal year ended June 30, 1991. Under an operating agreement, the Airport implemented a groundwater extraction system to control the migration of the contamination and begin efforts to remediate the contamination. The agreement expired but the fuel supplier continued the work.

In November 2009, the City entered into an agreement with the fuel supplier for coordinated corrective actions at the existing fuel tank farms at a cost to the City not to exceed \$1,000,000 and authorizing the Director of Aviation to approve additional expenditures in excess of \$1,000,000 subject to appropriation of funds by City Council. The agreement provides for a 50-50 cost sharing responsibility for actual future costs until successful closure of the site. The agreement also required the City to pay its 50% share of the past costs that the fuel supplier has incurred during the period after expiration of the prior agreement and before the new agreement was in place. During the year ended June 30, 2012, the Airport paid its share of the remediation costs totaling \$109,000.

The fuel supplier is responsible for administering the new agreement including retaining a corrective action contractor. The agreement is also structured to facilitate potential reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (the "Plume Fund"). Reimbursement from the Plume Fund is potentially available up to \$1,500,000 for each party. Due to the proximity of the closed City jet fuel farm to the adjacent fuel supplier jet fuel farm that was still active, and the apparently stable contaminant plume, the regulators approved a waiver to allow the City tanks to be left in place until such time as a completely new fuel farm could be built, thereby allowing the fuel supplier site to be closed, and investigation/remediation to be done on both sites at once. The new jet fuel farm was constructed off-Airport across Highway 101 and was placed in service in December 2009. The fuel supplier fuel farm was subsequently closed upon commencement of the new fuel farm.

The fuel supplier has recently demolished its fuel farm and removed its Underground Storage Tanks ("USTs") during fiscal year 2010. The City removed its USTs in September 2011. The fuel supplier is currently starting the site's interim remedial action approved by the County in February 2012. The approved plan is a fixed area remedial excavation to remove the secondary source materials beneath and adjacent to the former USTs.

With the adoption of GASB Statement No. 49, the Airport has accrued \$714,000 as of June 30, 2012 to cover the estimated remaining costs of its portion of the interim remediation system. Latest estimates of costs to further investigate and cleanup this site is between \$1,400,000 and \$2,000,000 depending upon the method of accomplishment and actual remediation requirements.

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Master Plan. The Airport Master Plan consists of a program of facility improvements designed to fully accommodate commercial aviation demand (passengers and cargo) projected for the future, with development phased as demand warrants and is determined to be financially feasible. The Master Plan was originally adopted by the City of San José in June 1997 and approved by the FAA in December 1999. In June 2006, the City Council approved revisions to the Airport Master Plan regarding implementation of the TAIP. Most of the program elements of Phase 1 were completed as of June 30, 2012. Ongoing projects include a common use lounge, Terminal A/A+ space refurbishment, building system upgrades, Terminal A baggage system ceiling protection, and completion of the northeast area (formerly the rental car fueling and wash site). The northeast area will provide for a fuel truck maintenance facility, shuttle bus staging and storage, a taxi staging building, and adjacent employee parking. Construction of the Phase 2 projects is contingent upon satisfying specified activity-based triggers. In June 2010, the City Council approved an additional amendment to the Master Plan that updated projected aviation demand and facility requirements, and 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) will be gradually converted to new general aviation leasehold facilities. A request for proposals for a second full service fixed based operator was issued and is anticipated that a lease will be approved by the City in fiscal year 2013. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

2. San José – Santa Clara Water Pollution Control Plant

For fiscal years 2013-2017, the Five Year capital improvement program includes approximately \$17,884,000 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 120,000,000 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. In April 2010, the City approved construction of the \$14,777,000 Phase 1C facilities including an additional nine miles of pipeline. As of June 30, 2012 an amount of \$120,201,000 has been expended or encumbered. These estimated costs are to be funded by the City and other tributary agencies through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

3. Retirement Systems – Unfunded Commitments

As of June 30, 2012, the PFDRP had unfunded commitments to contribute capital for private equity, direct lending, and real estate investments in the amount of \$115,934,000 and FCERS had

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unfunded commitments to contribute capital for private equity fund investments in the amount of \$105,377,000.

4. Federal Financial Assistance Programs

The City participates in a number of federally assisted grant programs, primarily with the HUD, the FAA, the Department of Transportation, the Department of Homeland Security, the Department of Labor, the Department of Energy, and the Department of Justice. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City's grant programs are audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the fiscal year ended June 30, 2012, 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.

5. 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, 2012, total governmental fund encumbrance balances for the City are as follows (dollars in thousands):

General Fund	\$	20,444
Housing Activities		1,484
Affordable Housing Investment Fund		10,705
Special Assessment Districts		72,779
Nonmajor governmental funds		35,610
Total governmental funds	\$	141,022

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

1. Cash and Investment Held by SARA

A summary of SARA's cash and investments at June 30, 2012 is as follows (dollars in thousands):

Type of Investment	Credit Rating	Maturity (in days)				Fair Value
		Under 30	31 - 180	181 - 365	366 to 3 years	
State of California						
Local Agency Investment Fund	Unrated	\$ -	\$ -	\$ 26,615	\$ -	\$ 26,615
U.S. Treasury Notes	Aaa	-	-	-	8,280	8,280
Money Market Mutual Funds	Aaa	92,310	3,438	-	-	95,748
Subtotal		\$ 92,310	\$ 3,438	\$ 26,615	\$ 8,280	130,643
Certificates of Deposit						8,251
Restricted deposit in transit to fiscal agent						16,630
Bank deposits						5,440
Total cash and investments						\$ 160,964

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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. SARA reclassifies capital assets originally received from the former Agency to property held for resale upon the State Department of Finance approval of a Long-Term Property Management Plan or when the conversion of property for cash is necessary to pay SARA's enforceable obligations when due.

During the five-month period ended June 30, 2012, SARA reclassified 4 properties with a book value of \$49,891,000 from capital assets to property held for resale and wrote down these properties in the amount of \$27,417,000 to their lower of cost or net realizable value.

SARA holds the following capital assets as of June 30, 2012 (dollars in thousands):

	February 1, 2012	Additions	Recategorized to Property Held for Resale	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 66,036	\$ -	\$ (31,432)	\$ 34,604
Construction in progress	977	-	-	977
Total capital assets, not being depreciated	<u>67,013</u>	<u>-</u>	<u>(31,432)</u>	<u>35,581</u>
Capital assets, being depreciated:				
Buildings	109,097	-	(20,510)	88,587
Building and other improvements	19,399	-	-	19,399
Equipment	1,145	-	-	1,145
Total capital assets, being depreciated	<u>129,641</u>	<u>-</u>	<u>(20,510)</u>	<u>109,131</u>
Less accumulated depreciation for:				
Buildings	12,892	1,426	(2,051)	12,267
Building and other improvements	2,405	539	-	2,944
Equipment	950	75	-	1,025
Total accumulated depreciation	<u>16,247</u>	<u>2,040</u>	<u>(2,051)</u>	<u>16,236</u>
Total capital assets, being depreciated, net	<u>113,394</u>	<u>(2,040)</u>	<u>(18,459)</u>	<u>92,895</u>
Private-Purpose Trust Fund capital assets, net	<u>\$ 180,407</u>	<u>\$ (2,040)</u>	<u>\$ (49,891)</u>	<u>\$ 128,476</u>

Parcels of the former Agency-owned land with an aggregate book value of \$19,300,000 were used to secure the Letters of Credit ("LOCs") obtained from JPMorgan Chase Bank (JPMorgan) supporting the former Agency's 1996 and 2003 Revenue Variable Bonds. In addition, as additional security for the LOCs, the City executed and recorded for the benefit of the JPMorgan a Deed of Trust against the City owned California Theatre. As security for payments due to the County under the Settlement Agreement executed in March 2011, the former Agency also (i) executed and recorded for the benefit of the County Deeds of Trust subordinate to JPMorgan on those same parcels of former Agency-owned land (except for the California Theatre), (ii) assigned to the County one-half (1/2) of the former Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties, with an aggregate book value of \$18,300,000.

In addition, the José Theatre and three other properties were used to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development.

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3. Summary of SARA's Long-Term Debt

The following is a summary of bonds and loans payable of the SARA as of June 30, 2012 (dollars in thousands, unless otherwise noted):

Type of Indebtedness	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (millions)	Balance June 30, 2012
Tax Allocation Bonds (TAB):							
1993 Merged Refunding	Advance refunding	\$ 692,075	12/01/1993	08/01/2015	6.00%	\$0-18,195	\$ 18,195
1997 Merged	Merged area project	106,000	03/27/1997	08/01/2028	5.38-5.63%	\$10-715	5,810
1999 Merged	Merged area project	240,000	01/06/1999	08/01/2019	4.75%	\$0-7,165	12,920
2002 Merged	Merged area project	350,000	01/24/2002	08/01/2015	4.00-4.50%	\$0-11,290	13,165
2003 Merged	Merged area project	135,000	12/22/2003	08/01/2033	4.00-5.00%	\$0- 34,100	127,545
2004 A Merged Refunding	Refunding TABs	281,985	05/27/2004	08/01/2019	4.23- 5.25%	\$8,775-31,900	193,215
2005 A/B Merged Refunding	Refunding TABs	220,080	07/26/2005	08/01/2028	4.00- 5.00%	\$0-26,210	198,115
2006 A/B Merged	Merged area project	81,300	11/14/2006	08/01/2035	4.50- 5.65%	\$0-21,000	80,300
2006 C/D Merged Refunding	Refunding TABs	701,185	12/15/2006	08/01/2032	3.75-5.00%	\$0-74,280	698,990
2007 A-T/B Merged	Merged area project	212,930	11/07/2007	08/01/2036	0-5.10%	\$0-23,970	205,685
2008 A/B Merged	Merged area project	117,295	11/13/2008	08/01/2035	0-7.00%	\$0-6,700	107,860
							<u>1,661,800</u>
Revenue Demand Bonds (Subordinate):							
1996 Merged Area Revenue, Series A/B	Merged area projects	59,000	06/27/1996	07/01/2026	Variable	\$2,000-4,000	46,000
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	08/27/2003	08/01/2032	Variable	\$1,300-3,900	47,655
							<u>93,655</u>
Housing Set-Aside Tax Allocation Bonds:							
1997 Housing, Series E	Low-moderate income housing	17,045	06/23/1997	08/01/2027	5.75-5.85%	\$340-3,670	17,045
2003 Housing, Series J/K	Low-moderate income housing	69,000	07/10/2003	08/01/2029	3.40- 5.25%	\$230-3,505	40,815
2005 Housing Series A/B	Low-moderate income housing	129,720	06/30/2005	08/01/2035	0-5.46%	\$0-8,300	120,300
2010 Housing Series A/B	Low-moderate income housing	67,405	04/15/2010	08/01/2035	0-5.5%	\$0-6,305	62,220
2010 Housing Series C (Subordinate)	Low-moderate income housing	93,000	04/29/2010	08/01/2035	Variable	\$2,425-5,210	88,600
							<u>328,980</u>
Other Long-term Debt:							
Pledge Agreement - Revenues Bonds	4th/San Fernando parking facility	48,675	04/10/2001	09/01/2026	4.13-5.25%	\$1,740-3,205	33,435
Reimbursement Agreement - Refundin							
Revenue Bonds 2001F	Convention Center project	190,730	07/01/2001	09/01/2022	4.25-5.00%	\$9,150-14,730	129,020
CSCDA 2005 ERAF Loan	Fund the State's ERAF Program	19,085	04/27/2005	08/01/2015	4.77-5.01%	\$2,140-2,355	6,735
CSCDA 2006 ERAF Loan	Fund the State's ERAF Program	14,920	05/03/2006	08/01/2016	5.53-5.67%	\$1,615-1,905	7,025
HUD Section 108 Loans	Merged area projects	5,200	02/11/1997	08/01/2016	Variable	\$355-465	2,035
HUD Section 108 Loans (CIM)	Merged area projects	13,000	02/08/2006	08/01/2025	Variable	\$600-1,135	11,830
HUD Section 108 Loans (Story & King)	Merged area projects	18,000	06/30/2006	08/01/2025	Variable	\$785-1,570	15,880
City of San José SERAF Loan	Fund the State's SERAF Payment	64,816	2010-2011	06/30/2015	Variable	\$12,873-52,499	65,371
Other Long-term Obligation:							
County Pass Through	Pass-through payment	23,562	06/30/2011	06/30/2017	Variable	\$4,713	23,562
							<u>294,893</u>
Grand Total							<u>\$ 2,379,328</u>

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

Variable-Rate Demand Bonds (Subordinate)

1996 Merged Area Revenue Bonds – In June 1996, the former Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B, for \$29,500,000 each, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996 Bonds are subordinate to the 1993 Merged Area Refunding Tax Allocation Bonds. The 1996 Bonds have a variable rate of interest and Series A bears interest at a weekly rate while Series B bears interest at a daily rate. The rate modes (daily, weekly, monthly) may be changed at the SARA's option.

The daily and weekly rates are the rates that result in the market value of the bonds being equal to 100% of the principal amount outstanding. The average interest rate for the daily and weekly rates for June 30, 2012, was 0.18% for the 1996 Series A and 0.22% for the 1996 Series B, respectively.

2003 Merged Area Revenue Bonds – In August 2003, the former Agency issued Merged Area Revenue Bonds Series A and Series B aggregating \$60,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003 Merged Area Revenue Bonds are ratably and equally secured by a pledge of the subordinated revenues and subordinate to the debt service payment of Senior Obligations of the former Agency.

City of San José
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June 30, 2012

The 2003 Merged Area Revenue Bonds have a variable rate of interest at a weekly rate, until converted to bear interest at another variable rate or fixed rate at the option of the SARA. The weekly rates are the rates that result in the market value of the bonds being equal to 100% of the outstanding principal and accrued interest. The rates for June 30, 2012 were 0.18% for the 2003 Series A and 0.22% for the 2003 Series B.

The former Agency 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 former Agency has entered into credit facilities that support the variable-rate demand bonds. Under the reimbursement agreements related to these credit facilities, the trustee is authorized to draw an amount sufficient to pay the purchase price of bonds that have been tendered and have not otherwise been remarketed.

The credit facilities that support the SARA's variable-rate bonds as of June 30, 2012 are as follows (dollars in thousands):

	Balance June 30, 2012	Credit Facility Description	
		Provider	Expiration Date*
Revenue Bonds:			
Series 1996A (Merged Area)	\$ 23,000	JPMorgan Chase Bank, N.A.	3/1/2013
Series 1996B (Merged Area)	23,000	JPMorgan Chase Bank, N.A.	3/1/2013
Series 2003A (Taxable) (Merged Area)	32,655	JPMorgan Chase Bank, N.A.	3/1/2013
Series 2003B (Merged Area)	15,000	JPMorgan Chase Bank, N.A.	3/1/2013
Total variable-rate revenue bonds	<u>\$ 93,655</u>		

* Expiration date of these credit facilities were extended by the JPMorgan Chase Bank.

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

The former Agency obtained four letters of credit (LOCs) as credit facilities from the credit facility provider, JPMorgan Chase Bank (JPMorgan), for the 1996 and 2003 Bonds. On August 7, 2012 JPMorgan agreed to extend the term of the LOCs to March 1, 2013.

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

The SARA is required to pay the credit facility provider an annual commitment fee for each credit facility ranging from 2.1% to 3.0%, based on the terms of the applicable reimbursement agreement and the outstanding principal amount of the bonds supported by the credit facility. In addition, in fiscal year 2010 the former Agency made the required deposit with JPMorgan Chase Bank, N.A., a liquidity reserve in the amount of \$5,000,000 as an added source of security of the bank. Parcels of the former Agency owned land and the City's California Theatre were also used to secure the Letters of Credit.

Housing Set-Aside Tax Allocation Bonds (comprised of Series 1997E, Series 2003 J & K, Series 2005 A & B, and Series 2010 A-1, A-2 & B, and the 2010 Subordinate Series 2010C, collectively the "Housing TABs") are issued to finance affordable housing projects and are secured by a pledge

City of San José
Notes to Basic Financial Statements
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of and lien upon the 20% redevelopment property tax revenue (i.e. former tax increment) set-aside for the low and moderate income housing subfund.

Housing Set-Aside Tax Allocation Bonds (Subordinate). On April 29, 2010, the former Agency issued \$93,000,000 in Taxable Subordinate Housing Set-Aside Tax Allocation Variable Rate Bonds, Series 2010C. The 2010C bonds were to (1) refinance the 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 are secured by 20% housing set-aside tax allocation revenues on a basis subordinate to the senior bonds. The 2010C bonds 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 tender date in three years and mandatory sinking fund redemption payments on August 1 of each year.

The Series 2010C were directly purchased by Wells Fargo Bank. Because the bonds were directly purchased, the bond indenture does not require a credit facility to support the debt service payments until the bank's tender date of April 29, 2013, or such other date agreed to in writing by the SARA and Wells Fargo Bank. On June 8, 2012, Moody's Investors Service downgraded the former Agency's Senior Obligations Rating to below "Baa1", which triggered a Special Termination Event under the Continuing Covenant Agreement of the Series 2010C Bonds. The SARA requested that Wells Fargo Bank forbear from exercising its rights, including without limitation, its rights to accelerate the obligations. For the period commencing on August 15, 2012 and ending on November 15, 2012, Wells Fargo Bank has agreed to forebear from exercising and its rights and remedies under the Bond Documents in respect to the existing default. At June 30, 2012, the balance of \$88,600,000 is classified as an obligation due within one year. Negotiations are presently under way to extend the forbearance agreement. The SARA cannot predict the outcome of the negotiations.

The Series 2010C bears an interest rate at 1-month LIBOR, two London Business Days before the 1st day of each month plus 250 basis points, with a final maturity date of August 1, 2035. The average weekly interest rate for the Series 2010C as of June 30, 2012 was 3.05%.

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A summary of the changes in long-term debt during the period from inception (February 1, 2012) through June 30, 2012 follows (in thousands):

	February 1, 2012	Additions	Reductions	June 30, 2012	Amount Due One Year
Tax allocation bonds:					
1993 Merged Refunding	\$ 18,195	\$ -	\$ -	\$ 18,195	\$ -
1997 Merged	5,810	-	-	5,810	320
1999 Merged	12,920	-	-	12,920	-
2002 Merged	13,165	-	-	13,165	-
2003 Merged	127,545	-	-	127,545	-
2004 A Merged Refunding	193,215	-	-	193,215	24,640
2005 A/B Merged Refunding	198,115	-	-	198,115	20,545
2006 A/B Merged	80,300	-	-	80,300	-
2006 C/D Merged Refunding	698,990	-	-	698,990	630
2007 A-T/B Merged	205,685	-	-	205,685	2,050
2008 A/B Merged	107,860	-	-	107,860	3,405
1997 Housing, Series E	17,045	-	-	17,045	340
2003 Housing, Series J/K	40,815	-	-	40,815	2,545
2005 Housing, Series, A/B	120,300	-	-	120,300	3,105
2010 Housing, Series A/B	62,220	-	-	62,220	1,430
2010 Housing, Series C	88,600	-	-	88,600	88,600
Subtotal tax allocation bonds	<u>1,990,780</u>	<u>-</u>	<u>-</u>	<u>1,990,780</u>	<u>147,610</u>
Other long-term debt:					
1996 Merged Area Revenue, Series A/B	46,000	-	-	46,000	46,000
2003 Merged Area Revenue, Series A/B	47,655	-	-	47,655	47,655
Pledge Agreement - 4th & San Fernando parking revenue bonds	33,435	-	-	33,435	1,740
Reimbursement Agreement - 2001 Convention Center refunding revenue bonds	129,020	-	-	129,020	9,150
CSCDA ERAF Loans	15,545	-	(1,785)	13,760	3,755
HUD Section 108 loans, variable	29,745	-	-	29,745	1,740
City of San José - SERAF Loans (principal)	64,816	-	-	64,816	-
City of San José - SERAF Loans (interest)	454	101	-	555	-
County Pass-through Obligation	23,562	-	-	23,562	-
Subtotal other long-term debt	<u>390,232</u>	<u>101</u>	<u>(1,785)</u>	<u>388,548</u>	<u>110,040</u>
Subtotal long-term debt before unamortized Issuance premium (discount)	2,381,012	101	(1,785)	2,379,328	257,650
Deferred amount on refunding	(40,314)	-	-	(40,314)	(3,524)
Total long-term debt payable	<u>2,378,601</u>	<u>101</u>	<u>(1,785)</u>	<u>2,376,917</u>	<u>258,054</u>
Environmental remediation	356	-	(19)	337	95
Total long-term obligations	<u>\$ 2,378,957</u>	<u>\$ 101</u>	<u>\$ (1,804)</u>	<u>\$ 2,377,254</u>	<u>\$ 258,149</u>

4. SARA's Conduit Debt

In August 1997, the former Agency served as the conduit issuer of \$10,595,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to a private developer for rental housing project on the former Agency-owned land in the Japantown Redevelopment Area. The former Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as a timely payment of principal and interest by the Government National Mortgage Association. The bonds were issued for the purpose of expanding the community's supply of low to moderate-income housing. Additionally, the loan is secured on a nonrecourse basis and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d) (4) of the National Housing Act. As of June 30, 2012, the outstanding balance was \$9,260,000.

5. City's Commitments to SARA

In the event that future redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City has committed other sources of funding to cover costs related to the following obligations: the City of San Jose Financing Authority Lease Revenue Bonds, Series

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June 30, 2012

2001F (Convention Center Refunding), City of San Jose Financing Authority Revenue Bonds, Series 2001A (4th Street & San Fernando Parking Facility Project), Housing and Urban Development (HUD) 108 loans, Education Revenue Augmentation Fund (ERAF) loan payments, and the SARA's annual administrative budget and City Support Service expenses.

6. Commitments and Contingencies Related to SARA

Tax Sharing Agreement with the County of Santa Clara

1983 and 2001 Settlement Agreement

In 1983, the former Agency and the County entered into a tax sharing agreement under which the former Agency would pay a portion of tax increment revenue generated in the Merged Area and part of the Rincon de los Esteros Project 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 former Agency approved an Amended and Restated Agreement (the "Amended Agreement"). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires the Agency to transfer funds to the County to pay for such projects in an amount of 20% of the proceeds of any bonds secured by 80% tax increment (excludes refinancing bonds) (the "Delegated Payment").

March 16, 2011 Settlement Agreement

In September 2009, the former Agency informed the County that due to the SERAF requirement and insufficient tax increment revenues, it did not have sufficient unrestricted funds to make the fiscal year 2009-2010 pass-through payment. The former Agency further informed the County that it had reserved restricted funds for the fiscal year 2008-2009 pass-through (\$21,300,000) pending negotiations regarding the payment. On August 20, 2010, the County submitted an invoice to the former Agency in the amount of \$45,200,000, which included the fiscal year 2008-2009 pass-through amount of \$21,300,000, the fiscal year 2009-2010 pass-through amount of \$19,200,000 and interest of \$4,700,000.

On March 9, 2011, the County filed a lawsuit in the Santa Clara Superior Court against the Agency, City, and San José Diridon Development Authority (the "San José parties") to recoup these payments. On March 16, 2011, a Settlement Agreement was reached and entered into between the County and the San José parties. The following terms and conditions have been completed:

1. The Agency paid the County \$21,500,000 in restricted tax exempt bond proceeds.
2. The Agency paid the County an additional \$5,000,000 in unrestricted funds.
3. The Agency acquired from the City title to the Old City Hall property and transferred it to the County for a credit of \$10,000,000 against the debt; the Agency transferred certain parcels it owned, valued at \$10,000,000 in exchange for the Old City Hall.

The following obligation remains outstanding with the County as of June 30, 2012:

1. The Agency will pay the County \$23,600,000 in 5 equal annual installments (\$4,720,000 per installment plus interest accrued as of the payment date) no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

During the year ended June 30, 2012, the former Agency and SARA did not have sufficient tax increment revenues to make the fiscal year 2011-2012 pass-through payment. The amount of

City of San José
Notes to Basic Financial Statements
June 30, 2012

pass-through payments due to the County at June 30, 2012 is \$15,719,000. The interest rate for any late pass-through payment for fiscal years 2011-2012 and beyond will be as follows: (a) the rate of return earned by the County Treasurer Investment Pool for the relevant time period ("County Pool Rate") for the first year the payments are overdue; (b) the County Pool Rate plus 3% additional interest rate penalty for the second year the payment is overdue; (c) the County Pool Rate plus 6% additional interest rate penalty for the third year the payment is overdue; and (d) the County Pool Rate plus 9% additional interest rate penalty for the fourth year and any additional years the payments are overdue, provided however that in no event shall the interest rate exceed 10% in any year.

Ambac Bankruptcy

On November 9, 2010, Ambac Financial Group Inc. (Ambac Financial) filed for bankruptcy protection under Chapter 11 Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Ambac Financial is a holding company whose affiliates provide financial guarantees and financial services to its customers. Ambac Assurance Corporation, a subsidiary of Ambac Financial, has issued a financial guaranty insurance policy for payment of principal and interest when due and a reserve fund surety bond for the former Agency's Series 1999 and 2005 B tax allocation bonds and the Series 2006 D tax allocation refunding bonds. According to the bond indenture for each of these bonds, in the event that such surety bond or insurance policy for any reason lapses or expires, the SARA must immediately (1) deliver a letter of credit, or (2) deliver to the trustee a surety bond or an insurance policy, or (3) make the required deposits to the bond reserve fund.

It is unclear, if such an event were to occur, whether the SARA would be required to take out one of the three actions documented above in order to maintain compliance with the bond indenture.

Dissolution Legislation "True up" Process

The provisions of AB 1484, which was a trailer bill to the FY 2012-2013 State budget, required that the County Auditor-Controller determine if the tax revenues received by the former Agency in January 2012 (before dissolution) were in excess of the amount spent by the former Agency and SARA on enforceable obligations as defined by the Redevelopment Dissolution Law during the period from January 1 through June 30, 2012. If there was an excess, SARA must remit the residual amounts to the County by July 12, 2012, for allocation to the taxing entities. This is referred to as the "true up" process. Due to the manner in which some of the former Agency's bond obligations were categorized on the Recognized Obligation Payment Schedule ("ROPS") during this period, the County Auditor-Controller's calculations indicated that there was a \$39,300,000 "overpayment" of tax revenues to the former Agency. On July 6, 2012, the Oversight Board of SARA approved corrections to the previously approved ROPS to clarify that there were no residual tax revenues to distribute to the taxing entities from the Redevelopment Property Tax Trust Fund ("Trust Fund") administered by the County's Auditor-Controller.

SARA has been working with the State Department of Finance ("DOF") to document why the perceived \$39,300,000 "overpayment" is incorrect. However, pending resolution with DOF and per the legislation, on July 9, 2012, the County Auditor-Controller submitted an invoice to SARA in the amount of \$39,300,000. SARA has not paid this invoice. The legislation provides that if SARA does not pay the amount owed, the State Board of Equalization will be directed to withhold the City's sales tax revenues until the amount due is paid. On August 27, 2012, SARA received a letter from DOF indicating that they do not intend to pursue civil penalties or a sales tax offset. Management believes, in consultation with legal counsel and the DOF, that the invoice for the "overpayment" is erroneous.

City of San José
Notes to Basic Financial Statements
June 30, 2012

D. Subsequent Events

1. Tax and Revenue Anticipation Notes

On July 2, 2012, the City entered into the Note Purchase Agreement with U.S. Bank under which U.S. Bank agreed to purchase the City's short-term notes up to a maximum amount of \$125,000,000 in accordance with the terms of the Note Purchase Agreement for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. Pursuant to the Note Purchase Agreement, the City issued and U.S. Bank purchased the City's notes in the amount of \$100,000,000 (the "Initial Note") at a fixed interest rate of 0.952%. Under the Note Purchase Agreement, at the City's discretion, the City may issue subsequent notes at any time up to the Commitment Termination Date of December 31, 2012 and up to the Unutilized Commitment amount of \$25,000,000 at a variable interest rate calculated pursuant to the terms of the Note Purchase Agreement. Security for repayment of the Initial Note and any subsequent notes (collectively, the "2012Notes") is a pledge of the City's 2012 secured property tax revenues (excluding property taxes levied for general obligation bonds) and sales tax revenues received during fiscal year 2013 plus all other legally available General Fund revenues of the City, if required. The final maturity of the Initial Note is February 14, 2013. The final maturity of any subsequent note is June 28, 2013.

2. New Retirement Benefit Tier

On June 5, 2012, the San José voters enacted the *Sustainable Retirement Benefits and Compensation Act (Pension Act)*. The Pension Act amended the City Charter to change benefits for current employees, establish different benefits for new employees, and place other limitations on benefits.

Section 1508-A of the Pension Act applicable to new employees was adopted on August 28, 2012 by City Council Ordinance No. 29120 to provide Tier 2 pension benefits for new FCERS members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year to 2.0% per year, an increase from 55 years to 65 years of age for retirement eligibility at full benefits, a consumer price index driven cost-of-living increase with a maximum of 1.5% instead of the existing annual fixed 3.0% increase, a decrease in maximum benefit to 65% of final average salary from 75%, no survivor benefits for death after retirement unless the member elects a reduced benefit, pensionable compensation to be based on base salary only, rather than base compensation plus premium pays; members to contribute 50% of the total Normal Cost, any accrued unfunded actuarial liability and administrative costs of the FCERS; year of service credit to require 2,080 hours of work rather than 1,730 hours of work and final average compensation based on the highest consecutive 3 years of compensation compared to highest 1 year. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the FCERS. Additionally, various bargaining units representing members of the FCERS have filed unfair labor practice charges with the California Public Employment Relations Board related to the Pension Act.

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

Findings of the Agreed-Upon Procedures Report

Pursuant to the California Health and Safety Code section 34182, the County Auditor-Controller was responsible to cause the performance of procedures to establish the former Agency's assets and liabilities, to document pass-through obligations, and to document the amount and terms of indebtedness incurred by the former Agency. The County issued its Agreed-Upon Procedures

City of San José
Notes to Basic Financial Statements
June 30, 2012

Report (“AUP”) on October 5, 2012 and submitted it to the State Controller’s Office (“SCO”) and the DOF. Other than as a reference for the DOF and the State Controller’s Office, the AUP has no consequence in the dissolution process. The report identified the following issues, which are disputed by the City and SARA:

SERAF Loan – The AUP questions a portion (\$54 million) of SARA’s total SERAF obligation funded by the former Agency’s Low and Moderate Income Housing Fund, stating that it should not be classified as an obligation to the City’s Low and Moderate Income Housing Fund. The City’s position is that cash was used to fund the SERAF loan, therefore the obligation for repayment of the \$54 million remains. As such, the City’s Affordable Housing Investment Fund has not removed these receivables nor has SARA removed these obligations from its financial statements at June 30, 2012. The DOF has raised concerns with the SERAF loan in its review of housing asset transfers based on previous discussion with the County Auditor-Controller. This is now the subject of a meet and confer meeting between the City, SARA and the DOF.

Unencumbered Housing Cash – In February 2012, a cash transfer of program income, which consists of loan repayments, development deposits and lease revenues, in the amount of \$10.2 million was made from the Low and Moderate Income Housing Fund held by the City to the City’s Affordable Housing Investment Fund. The City asserts that the \$10.2 million transfers of program income represents Housing Assets and therefore may be transferred to the City’s Affordable Housing Investment Fund as the Housing Successor. To date, the independent accountant approved by the County Auditor-Controller has not finalized its “due diligence review” required by Health and Safety Code Section 34179.5 used to determine the balance available for transfer to SARA from the Low and Moderate Income Housing Fund held by the City. As such, neither the City nor SARA has included this transfer back from the City to the SARA in the respective financial statements at June 30, 2012.

Property Transfers – The County Auditor-Controller also stated that numerous properties transferred to the San José Diridon Development Authority in the amount of \$29.1 million and the City in the amount of \$109.7 million in early 2011 are subject to being ordered transferred back to SARA by the SCO as required under Health and Safety Code Section 34167.5. To date, the SCO has not finalized its final review of asset transfers made by the former Agency. As such, neither the City nor SARA has included these transfers of property back from the City to SARA in the respective financial statements at June 30, 2012.

Due to uncertainties with the Redevelopment Dissolution Law, the ultimate outcome of these issues cannot presently be determined, accordingly, no provision for any liability that may result has been recorded in the financial statements.

4. Airport Debt Refunding

City of San José Airport Revenue Bonds, Series 2012A - On November 8, 2012, the City refunded the City of San José Airport Revenue Bonds, Series 2002A in the amount of \$49,140,000. The Series 2012A bonds were purchased as fixed rate direct placement with Bank of America Public Capital Corp with an interest rate of 1.53%. The refunding provides approximately \$1,000,000 of debt service savings through the final maturity in 2018.

Required Supplementary Information



City of San José
Required Supplementary Information (Unaudited)
June 30, 2012

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2012
(\$000's)

	Budgeted Amounts		Actual Amounts	Actual	Budgetary	Actual
	Original	Final	Budgetary Basis	Variance with Final Budget	Amounts Budgetary Basis	Differences
REVENUES						
Taxes and franchise fees:						
Property	\$ 201,454	200,275	1,437	201,712	-	201,712
Sales	140,906	155,390	(1,364)	154,026	-	154,026
Utility	108,560	111,520	(608)	110,912	-	110,912
State of California in-lieu	2,821	2,121	490	2,611	-	2,611
Franchise	43,025	41,800	(91)	41,709	-	41,709
Business tax	38,795	40,974	160	41,134	-	41,134
Other	7,202	8,300	684	8,984	-	8,984
Licenses, permits and fines	52,088	59,745	2,452	62,197	-	62,197
Intergovernmental	25,228	33,701	(9,037)	24,664	-	24,664
Charges for current services	30,549	33,671	1,734	35,405	-	35,405
Investment income	3,551	3,825	674	4,499	182	4,681 (1)
Other revenues	33,763	37,792	(3,679)	34,113	(274)	33,839 (3)
Total revenues	<u>687,942</u>	<u>729,114</u>	<u>(7,148)</u>	<u>721,966</u>	<u>(92)</u>	<u>721,874</u>
EXPENDITURES						
Current:						
General government	110,617	100,097	(17,972)	82,125	(10,228)	71,897 (2)
Public safety	462,193	459,941	(12,522)	447,419	(3,083)	444,336 (2)
Community services	110,502	121,341	(5,773)	115,568	(1,520)	114,048 (2)
Capital maintenance	49,816	55,839	(12,916)	42,923	(6,252)	36,671 (2)
Sanitation	1,199	1,189	(311)	878	(29)	849 (2)
Capital outlay	3,444	3,577	-	3,577	-	3,577
Debt service:						
Principal	1,074	1,246	(172)	1,074	-	1,074
Interest	526	526	-	526	10	536 (5)
Total expenditures	<u>739,371</u>	<u>743,756</u>	<u>(49,666)</u>	<u>694,090</u>	<u>(21,102)</u>	<u>672,988</u>
Excess (deficiency) of revenues over expenditures	<u>(51,429)</u>	<u>(14,642)</u>	<u>42,518</u>	<u>27,876</u>	<u>21,010</u>	<u>48,886</u>
OTHER FINANCING SOURCES (USES)						
Proceeds for sale of capital assets	1,800	1,500	(531)	969	-	969
Transfers in	14,716	11,614	991	12,605	-	12,605
Transfers out	(25,490)	(31,645)	(4,412)	(27,233)	-	(27,233)
Total other financing sources (uses)	<u>(8,974)</u>	<u>(18,531)</u>	<u>(3,952)</u>	<u>(13,659)</u>	<u>-</u>	<u>(13,659)</u>
Extraordinary loss from dissolution of Redevelopment Agency	-	-	-	-	(18,820)	(18,820) (4)
Net change in fund balances	(60,403)	(33,173)	38,566	14,217	2,190	16,407
Fund balances - beginning	136,530	136,530	-	136,530	30,091	166,621
Beginning encumbrance	-	-	-	20,933	(20,933)	-
Fund balances - ending	<u>\$ 76,127</u>	<u>103,357</u>	<u>38,566</u>	<u>171,680</u>	<u>11,348</u>	<u>183,028</u>

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budgets are prepared.
- (3) Loan repayments for which budgets are prepared.
- (4) Extraordinary loss on dissolution of Redevelopment Agency is not a budgeted transaction.
- (5) Interest expenditure associated with assumption of SERAF loan.

See accompanying Notes to Required Supplementary information.

(Continued)

City of San José
Required Supplementary Information (Unaudited)
June 30, 2012

Housing Activities
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2012
(\$000's)

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
REVENUES						
Intergovernmental	\$ 37,015	33,866	(10,272)	23,594	-	23,594
Investment income	6,449	2,040	(245)	1,795	96	1,891 (1)
Other revenues	12,827	11,116	(199)	10,917	(1,361)	9,556 (3)
Total revenues	<u>56,291</u>	<u>47,022</u>	<u>(10,716)</u>	<u>36,306</u>	<u>(1,265)</u>	<u>35,041</u>
EXPENDITURES						
Current:						
Community services	106,915	94,388	(46,160)	48,228	(9,830)	38,398 (2), (3)
Total expenditures	<u>106,915</u>	<u>94,388</u>	<u>(46,160)</u>	<u>48,228</u>	<u>(9,830)</u>	<u>38,398</u>
Excess (deficiency) of revenues over expenditures	<u>(50,624)</u>	<u>(47,366)</u>	<u>35,444</u>	<u>(11,922)</u>	<u>8,565</u>	<u>(3,357)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	48,315	31,400	(13,868)	17,532	-	17,532
Transfers out	(26,465)	(50,955)	7,781	(43,174)	(327,112)	(370,286) (4)
Total other financing sources (uses)	<u>21,850</u>	<u>(19,555)</u>	<u>(6,087)</u>	<u>(25,642)</u>	<u>(327,112)</u>	<u>(352,754)</u>
Extraordinary loss from dissolution of Redevelopment Agency	-	-	(6,863)	(6,863)	-	(6,863)
Net change in fund balances	(28,774)	(66,921)	22,494	(44,427)	(318,547)	(362,974)
Fund balance - beginning	(4,830)	(4,830)	-	(4,830)	412,535	407,705
Beginning encumbrance	-	-	-	34,102	(34,102)	-
Fund balances - ending	<u>\$ (33,604)</u>	<u>(71,751)</u>	<u>22,494</u>	<u>(15,155)</u>	<u>59,886</u>	<u>\$ 44,731</u>

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budgets are prepared.
- (3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.
- (4) Transfer for establishing the Affordable Housing Investment Fund was not budgeted.

See accompanying Notes to Required Supplementary information.

(Continued)

City of San José
Required Supplementary Information (Unaudited)
June 30, 2012

Affordable Housing Investment Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2012
(\$000's)

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
REVENUES						
Investment income	\$ -	5	7,269	7,274	127	\$ 7,401 (1)
Other revenues	-	13,054	1,525	14,579	(8,566)	6,013 (3)
Total revenues	-	13,059	8,794	21,853	(8,439)	13,414
EXPENDITURES						
Current:						
Community services	-	24,743	(9,422)	15,321	(11,003)	4,318 (2), (3)
Excess (deficiency) of revenues over expenditures	-	(11,684)	18,216	6,532	2,564	9,096
OTHER FINANCING SOURCES (USES)						
Transfers in	-	18,934	(726)	18,208	327,839	346,047 (4)
Net change in fund balances	-	7,250	17,490	24,740	330,403	355,143
Fund balance - beginning	-	-	-	-	-	-
Beginning encumbrance	-	-	-	-	-	-
Fund balances - ending	\$ -	7,250	17,490	24,740	330,403	\$ 355,143

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budgets are prepared.
- (3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.
- (4) Transfer in from the Housing Activities Fund for establishing the Affordable Housing Investment Fund was not budgeted.

See accompanying Notes to the Required Supplementary information.

(Continued)

City of San José
Required Supplementary Information (Unaudited)
June 30, 2012

Schedule of Funding Progress
(\$000's)

Police and Fire Department Retirement Plan - Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded (Overfunded) AAL	Funded Ratio	Annual Covered Payroll (3)	Unfunded AAL as a Percentage of Covered Payroll
6/30/09	\$ 2,569,569	\$ 2,963,482	\$ 393,913	87%	\$ 243,196	162%
6/30/10	2,576,705	3,230,456	653,751	80%	222,699	294%
6/30/11	2,685,721	3,196,007	510,286	84%	190,726	268%

Federated City Employees' Retirement System - Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (3)	Unfunded AAL as a Percentage of Covered Payroll
6/30/09	\$ 1,756,588	\$ 2,486,155	\$ 729,567	71%	\$ 308,697	236%
6/30/10	1,729,414	2,510,358	780,944	69%	275,869	283%
6/30/11	1,788,660	2,770,227	981,567	65%	228,936	429%

- (1) Excludes accounts payable, postemployment healthcare plan assets, supplemental retiree benefit reserve.
(2) Excludes postemployment healthcare liability.
(3) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for June 30, 2011 valuation. The amount presented for the June 30, 2009 and 2010 valuations represents actual annual covered payroll.

Police and Fire Department Retirement Plan - Postemployment Healthcare Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/09	\$ 55,618	\$ 761,604	\$ 705,986	7%	\$ 243,196	290%
6/30/10	58,586	946,308	887,722	6%	222,699	399%
6/30/11	60,709	1,003,795	943,086	6%	190,726	494%

Federated City Employees' Retirement System - Postemployment Healthcare Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/09	\$ 85,564	\$ 796,448	\$ 710,884	11%	\$ 308,697	230%
6/30/10	108,011	926,371	818,360	12%	275,869	297%
6/30/11	135,454	1,145,359	1,009,905	12%	228,936	441%

(Continued)

City of San José
Notes to Required Supplementary Information (Unaudited)
June 30, 2012

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 statements, but is an expenditure on a GAAP 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 statements.

(Continued)

City of San José
Notes to Required Supplementary Information (Unaudited)
June 30, 2012

- 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 statements.
- 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 statements, 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.
- Certain New Market Tax Credit Financing 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 City extends the leverage loan to outside agency "Chase Investment Fund", the City records an asset, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules.
- Extraordinary losses/gains resulted from dissolution of the former Agency are included in the City's GAAP basis financial statements. However, formal budgets are not prepared for this event, and as such are excluded from the budgetary basis financial schedules.

III. Budget Revisions

On October 16, 2012, the City Council approved certain fiscal year 2012 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedule of revenues, expenditures, and changes in fund balances - budget and actual reflect such budget revisions.

(Concluded)

Combining Nonmajor Governmental Funds

City of San José
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012
(\$000's)

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 276,090	-	43,366	319,456
Receivables (net of allowance for uncollectibles)	32,514	83	3,307	35,904
Due from outside agencies	19	24	-	43
Due from other funds	3,194	-	7,103	10,297
Loans receivable (net)	4,606	-	-	4,606
Advances and deposits	3	-	38	41
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	-	37,250	105	37,355
Cash and investments held with fiscal agent	-	-	63,414	63,414
Other cash and investments	5,710	-	-	5,710
Advances to other funds	15,656	-	-	15,656
Other assets	20,462	-	-	20,462
Total assets	<u>\$ 358,254</u>	<u>37,357</u>	<u>117,333</u>	<u>512,944</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 17,812	204	2,399	20,415
Accrued salaries, wages, and payroll taxes	1,858	-	142	2,000
Due to other funds	4,632	-	7,201	11,833
Deferred revenue	14,995	-	-	14,995
Advances, deposits, and reimbursable credits	5,504	-	-	5,504
Advances from other funds	2,500	-	-	2,500
Other liabilities	2,921	-	-	2,921
Total liabilities	<u>50,222</u>	<u>204</u>	<u>9,742</u>	<u>60,168</u>
Fund balances:				
Nonspendable	20,465	-	38	20,503
Restricted	245,288	37,153	88,403	370,844
Committed	28,928	-	-	28,928
Assigned	13,351	-	19,322	32,673
Unassigned	-	-	(172)	(172)
Total fund balances	<u>308,032</u>	<u>37,153</u>	<u>107,591</u>	<u>452,776</u>
Total liabilities and fund balances	<u>\$ 358,254</u>	<u>37,357</u>	<u>117,333</u>	<u>512,944</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012
(\$000's)

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes and special assessments	\$ 68,452	42,490	18,028	128,970
Intergovernmental	46,357	-	15,697	62,054
Charges for current services	184,409	-	7,708	192,117
Rent	20,617	-	-	20,617
Investment income	861	128	478	1,467
Other revenues	3,118	-	1,762	4,880
Total revenues	<u>323,814</u>	<u>42,618</u>	<u>43,673</u>	<u>410,105</u>
EXPENDITURES				
Current:				
General government	14,968	-	-	14,968
Public safety	1,454	-	-	1,454
Community services	57,955	-	-	57,955
Sanitation	133,059	-	-	133,059
Capital maintenance	81,176	-	26,242	107,418
Capital outlay	10,170	-	11,269	21,439
Debt service:				
Principal	-	19,650	-	19,650
Interest and fiscal charges	-	23,333	-	23,333
Total expenditures	<u>298,782</u>	<u>42,983</u>	<u>37,511</u>	<u>379,276</u>
Excess (deficiency) of revenues under (over) expenditures	<u>25,032</u>	<u>(365)</u>	<u>6,162</u>	<u>30,829</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	17,230	21,156	1,996	40,382
Transfers out	(27,463)	(19,791)	(7,478)	(54,732)
Total other financing sources (uses)	<u>(10,233)</u>	<u>1,365</u>	<u>(5,482)</u>	<u>(14,350)</u>
Net change in fund balances	14,799	1,000	680	16,479
Fund balances - beginning	293,233	36,153	106,911	436,297
Fund balances - ending	<u>\$ 308,032</u>	<u>37,153</u>	<u>107,591</u>	<u>452,776</u>

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Nonmajor Special Revenue Funds



City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012
(\$000's)

	Prusch Memorial Park (Funds 131, 151)	Gift Trust (Fund 139)	Workforce Investment Act (Funds 290-294, 299)	San José Arena Enhancement (Fund 301)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 336	3,533	-	3
Receivables (net of allowance for uncollectibles)	-	8	3,787	-
Due from outside agencies	-	-	-	-
Due from other funds	-	-	-	-
Loans receivable (net)	-	-	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other cash and investments	-	-	-	-
Advances to other funds	-	-	-	-
Other assets	-	-	-	-
Total assets	<u>\$ 336</u>	<u>3,541</u>	<u>3,787</u>	<u>3</u>
LIABILITIES				
Accounts payable	\$ -	42	1,503	-
Accrued salaries, wages and payroll taxes	5	1	127	-
Due to other funds	-	-	1,128	-
Deferred revenue	-	-	-	-
Advances, deposits and reimbursable credits	-	-	-	-
Advances from other funds	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	<u>5</u>	<u>43</u>	<u>2,758</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	-	1,029	-
Committed	331	-	-	-
Assigned	-	3,498	-	3
Total fund balances	<u>331</u>	<u>3,498</u>	<u>1,029</u>	<u>3</u>
Total liabilities and fund balances	<u>\$ 336</u>	<u>3,541</u>	<u>3,787</u>	<u>3</u>

Special Assessment Maintenance Districts (Funds 302, 351-369 371-374, 376)	Ng Shing Gung Capital Maintenance (Fund 303)	Subdivision Park Trust (Fund 375)	Construction and Property Conveyance Tax (Funds 377-398)	1943 Gas Tax Maintenance and Construction (Fund 409)	1964 Gas Tax Maintenance and Construction (Funds 410-411)
18,610	60	66,393	78,096	-	-
165	-	2,777	3,025	397	754
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	13,638	-	-	-
-	-	-	-	-	-
<u>18,775</u>	<u>60</u>	<u>82,808</u>	<u>81,121</u>	<u>397</u>	<u>754</u>
96	-	473	1,348	-	-
12	-	46	117	-	-
-	-	-	287	397	754
92	-	2,727	-	-	-
-	-	-	-	-	-
-	-	-	2,500	-	-
-	-	-	-	-	-
<u>200</u>	<u>-</u>	<u>3,246</u>	<u>4,252</u>	<u>397</u>	<u>754</u>
-	-	-	-	-	-
18,575	-	79,562	76,869	-	-
-	-	-	-	-	-
-	60	-	-	-	-
<u>18,575</u>	<u>60</u>	<u>79,562</u>	<u>76,869</u>	<u>-</u>	<u>-</u>
<u>18,775</u>	<u>60</u>	<u>82,808</u>	<u>81,121</u>	<u>397</u>	<u>754</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012
(\$000's)

	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 387	2,180	2,064	1,575
Receivables (net of allowance for uncollectibles)	1	2	293	2
Due from outside agencies	-	-	-	-
Due from other funds	-	-	-	-
Loans receivable (net)	-	-	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other cash and investments	-	-	-	-
Advances to other funds	-	-	-	-
Other assets	-	-	-	-
Total assets	<u>\$ 388</u>	<u>2,182</u>	<u>2,357</u>	<u>1,577</u>
LIABILITIES				
Accounts payable	\$ 9	170	-	-
Accrued salaries, wages and payroll taxes	-	-	3	-
Due to other funds	-	-	-	-
Deferred revenue	-	1,992	-	-
Advances, deposits and reimbursable credits	-	-	-	-
Advances from other funds	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	<u>9</u>	<u>2,162</u>	<u>3</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	379	20	2,354	1,577
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	<u>379</u>	<u>20</u>	<u>2,354</u>	<u>1,577</u>
Total liabilities and fund balances	<u>\$ 388</u>	<u>2,182</u>	<u>2,357</u>	<u>1,577</u>

Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432,438)	Integrated Waste Management (Fund 423)
7,164	2,541	1,261	1,080	8,196	22,191
6	3	1	1	967	12,381
4	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,018	-
-	-	-	-	-	19,610
<u>7,174</u>	<u>2,544</u>	<u>1,262</u>	<u>1,081</u>	<u>11,181</u>	<u>54,182</u>
84	-	-	1	340	10,703
81	-	-	-	848	183
-	-	-	-	-	-
-	-	-	-	18	7,332
-	-	-	-	860	4,644
-	-	-	-	-	-
-	-	-	-	-	-
<u>165</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>2,066</u>	<u>22,862</u>
-	-	-	-	-	19,610
7,009	2,544	-	-	-	-
-	-	1,262	1,080	-	11,710
-	-	-	-	9,115	-
<u>7,009</u>	<u>2,544</u>	<u>1,262</u>	<u>1,080</u>	<u>9,115</u>	<u>31,320</u>
<u>7,174</u>	<u>2,544</u>	<u>1,262</u>	<u>1,081</u>	<u>11,181</u>	<u>54,182</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012
(\$000's)

	Tobacco Settlement (Fund 426)	Building and Structures Construction Tax (Fund 429)	Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ -	13,283	655	148
Receivables (net of allowance for uncollectibles)	-	2,202	-	1,795
Due from outside agencies	-	-	-	-
Due from other funds	-	3,194	-	-
Loans receivable (net)	-	-	20	4,511
Advances and deposits	-	3	-	-
Restricted assets:				
Other cash and investments	-	-	-	5
Advances to other funds	-	-	-	-
Other assets	-	-	852	-
Total assets	\$ -	18,682	1,527	6,459
LIABILITIES				
Accounts payable	\$ -	356	-	514
Accrued salaries, wages and payroll taxes	-	124	-	45
Due to other funds	-	-	-	2,066
Deferred revenue	-	-	-	1,449
Advances, deposits and reimbursable credits	-	-	-	-
Advances from other funds	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	-	480	-	4,074
FUND BALANCES				
Nonspendable	-	3	852	-
Restricted	-	18,199	-	2,385
Committed	-	-	-	-
Assigned	-	-	675	-
Total fund balances	-	18,202	1,527	2,385
Total liabilities and fund balances	\$ -	18,682	1,527	6,459

Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)	Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Brown Memorial Justice (Funds 474, 477)	Municipal Golf Courses (Fund 518)
73	36,005	2,788	815	344	404
-	332	1,716	9	-	-
-	15	-	-	-	-
-	-	-	-	-	-
75	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>148</u>	<u>36,352</u>	<u>4,504</u>	<u>824</u>	<u>344</u>	<u>404</u>
-	1,489	60	17	-	27
1	226	17	-	2	-
-	-	-	-	-	-
-	-	-	-	340	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>1</u>	<u>1,715</u>	<u>77</u>	<u>17</u>	<u>342</u>	<u>27</u>
-	-	-	-	-	-
147	34,637	-	-	2	-
-	-	4,427	807	-	377
-	-	-	-	-	-
<u>147</u>	<u>34,637</u>	<u>4,427</u>	<u>807</u>	<u>2</u>	<u>377</u>
<u>148</u>	<u>36,352</u>	<u>4,504</u>	<u>824</u>	<u>344</u>	<u>404</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012
(\$000's)

	Convention and Cultural Facilities (Fund 536, 481)	Total
ASSETS		
Equity in pooled cash and investments held in City Treasury	\$ 5,905	276,090
Receivables (net of allowance for uncollectibles)	1,890	32,514
Due from outside agencies	-	19
Due from other funds	-	3,194
Loans receivable (net)	-	4,606
Advances and deposits	-	3
Restricted assets:		
Other cash and investments	5,705	5,710
Advances to other funds	-	15,656
Other assets	-	20,462
Total assets	\$ 13,500	358,254
LIABILITIES		
Accounts payable	\$ 580	17,812
Accrued salaries, wages and payroll taxes	20	1,858
Due to other funds	-	4,632
Deferred revenue	1,045	14,995
Advances, deposits and reimbursable credits	-	5,504
Advances from other funds	-	2,500
Other liabilities	2,921	2,921
Total liabilities	4,566	50,222
FUND BALANCES		
Nonspendable	-	20,465
Restricted	-	245,288
Committed	8,934	28,928
Assigned	-	13,351
Total fund balances	8,934	308,032
Total liabilities and fund balances	\$ 13,500	358,254

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City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Prusch Memorial Park (Funds 131, 151)	Gift Trust (Fund 139)	Workforce Investment Act (Funds 290-294, 299)	San José Arena Enhancement (Fund 301)
REVENUES				
Taxes and special assessments	-	-	-	-
Intergovernmental	-	-	13,875	-
Charges for current services	-	-	-	-
Rent	77	-	-	-
Investment income	1	21	-	2
Other revenues	-	646	-	88
Total revenues	<u>78</u>	<u>667</u>	<u>13,875</u>	<u>90</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community services	104	448	13,929	-
Sanitation	-	-	-	-
Capital maintenance	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>104</u>	<u>448</u>	<u>13,929</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(26)</u>	<u>219</u>	<u>(54)</u>	<u>90</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	667	-	991
Transfers out	-	-	-	(1,078)
Total other financing sources (uses)	<u>-</u>	<u>667</u>	<u>-</u>	<u>(87)</u>
Net change in fund balances	(26)	886	(54)	3
Fund balances - beginning	<u>357</u>	<u>2,612</u>	<u>1,083</u>	<u>-</u>
Fund balances - ending	<u><u>331</u></u>	<u><u>3,498</u></u>	<u><u>1,029</u></u>	<u><u>3</u></u>

Special Assessment Maintenance Districts (Funds 302, 351-369 371-374, 376)	Ng Shing Gung Capital Maintenance (Fund 303)	Subdivision Park Trust (Fund 375)	Construction and Property Conveyance Tax (Funds 377-398)	1943 Gas Tax Maintenance and Construction (Fund 409)	1964 Gas Tax Maintenance and Construction (Funds 410-411)
8,773	-	-	25,879	-	-
-	-	1	293	6,702	7,992
-	-	12,261	-	-	-
-	-	-	-	-	-
60	-	247	145	-	-
110	2	-	900	-	-
<u>8,943</u>	<u>2</u>	<u>12,509</u>	<u>27,217</u>	<u>6,702</u>	<u>7,992</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
9,322	-	9,478	21,160	6,702	7,992
-	-	1,244	2,903	-	-
<u>9,322</u>	<u>-</u>	<u>10,722</u>	<u>24,063</u>	<u>6,702</u>	<u>7,992</u>
<u>(379)</u>	<u>2</u>	<u>1,787</u>	<u>3,154</u>	<u>-</u>	<u>-</u>
852	3	-	948	-	-
-	-	(812)	(6,084)	-	-
<u>852</u>	<u>3</u>	<u>(812)</u>	<u>(5,136)</u>	<u>-</u>	<u>-</u>
473	5	975	(1,982)	-	-
<u>18,102</u>	<u>55</u>	<u>78,587</u>	<u>78,851</u>	<u>-</u>	<u>-</u>
<u>18,575</u>	<u>60</u>	<u>79,562</u>	<u>76,869</u>	<u>-</u>	<u>-</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)
REVENUES				
Taxes and special assessments	-	-	-	-
Intergovernmental	4	775	504	-
Charges for current services	183	-	4	-
Rent	-	-	-	-
Investment income	3	10	8	6
Other revenues	-	-	-	36
Total revenues	<u>190</u>	<u>785</u>	<u>516</u>	<u>42</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	803	-	-
Community services	-	-	-	-
Sanitation	-	-	-	-
Capital maintenance	35	-	312	-
Capital outlay	-	6	-	-
Total expenditures	<u>35</u>	<u>809</u>	<u>312</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>155</u>	<u>(24)</u>	<u>204</u>	<u>42</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(4)	-	(24)	-
Total other financing sources (uses)	<u>(4)</u>	<u>-</u>	<u>(24)</u>	<u>-</u>
Net change in fund balances	151	(24)	180	42
Fund balances - beginning	<u>228</u>	<u>44</u>	<u>2,174</u>	<u>1,535</u>
Fund balances - ending	<u>\$ 379</u>	<u>20</u>	<u>2,354</u>	<u>1,577</u>

Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432,438)	Integrated Waste Management (Fund 423)
7,460	-	280	-	-	-
-	-	-	-	-	85
-	-	-	17	12,168	124,780
-	-	-	-	2,803	-
23	10	5	4	37	73
-	229	-	-	817	-
<u>7,483</u>	<u>239</u>	<u>285</u>	<u>21</u>	<u>15,825</u>	<u>124,938</u>
-	-	-	-	14,860	-
-	380	-	-	-	-
4,667	-	-	-	-	-
-	-	-	-	-	111,808
1,945	-	127	53	2,533	-
-	-	-	-	-	964
<u>6,612</u>	<u>380</u>	<u>127</u>	<u>53</u>	<u>17,393</u>	<u>112,772</u>
<u>871</u>	<u>(141)</u>	<u>158</u>	<u>(32)</u>	<u>(1,568)</u>	<u>12,166</u>
-	-	-	-	5,500	63
(69)	-	(6)	-	(4,342)	(2,160)
<u>(69)</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>1,158</u>	<u>(2,097)</u>
802	(141)	152	(32)	(410)	10,069
<u>6,207</u>	<u>2,685</u>	<u>1,110</u>	<u>1,112</u>	<u>9,525</u>	<u>21,251</u>
<u>7,009</u>	<u>2,544</u>	<u>1,262</u>	<u>1,080</u>	<u>9,115</u>	<u>31,320</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Tobacco Settlement (Fund 426)	Building and Structures Construction Tax (Fund 429)	Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)
REVENUES				
Taxes and special assessments	-	12,593	-	-
Intergovernmental	-	6,392	-	9,463
Charges for current services	-	-	-	-
Rent	-	-	-	-
Investment income	(6)	50	2	-
Other revenues	-	51	-	-
Total revenues	<u>(6)</u>	<u>19,086</u>	<u>2</u>	<u>9,463</u>
EXPENDITURES				
Current:				
General government	108	-	-	-
Public safety	-	-	-	-
Community services	-	-	200	7,282
Sanitation	-	-	-	-
Capital maintenance	-	14,525	-	1,532
Capital outlay	-	3,467	-	500
Total expenditures	<u>108</u>	<u>17,992</u>	<u>200</u>	<u>9,314</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(114)</u>	<u>1,094</u>	<u>(198)</u>	<u>149</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(750)	(435)	-	(1,806)
Total other financing sources (uses)	<u>(750)</u>	<u>(435)</u>	<u>-</u>	<u>(1,806)</u>
Net change in fund balances	(864)	659	(198)	(1,657)
Fund balances - beginning	864	17,543	1,725	4,042
Fund balances - ending	<u>-</u>	<u>18,202</u>	<u>1,527</u>	<u>2,385</u>

Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)	Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Brown Memorial Justice (Funds 474,477)	Municipal Golf Courses (Fund 518)
-	-	13,467	-	-	-
2	-	-	-	269	-
-	32,059	-	730	-	542
-	-	-	-	-	-
-	116	13	2	1	2
-	-	204	-	-	35
<u>2</u>	<u>32,175</u>	<u>13,684</u>	<u>732</u>	<u>270</u>	<u>579</u>
-	-	-	-	-	-
-	-	-	-	271	-
53	-	6,863	-	-	5
-	21,251	-	-	-	-
-	4,223	-	79	-	374
-	999	-	-	-	-
<u>53</u>	<u>26,473</u>	<u>6,863</u>	<u>79</u>	<u>271</u>	<u>379</u>
<u>(51)</u>	<u>5,702</u>	<u>6,821</u>	<u>653</u>	<u>(1)</u>	<u>200</u>
-	-	-	-	-	1,800
-	(508)	(6,406)	(526)	-	(1,932)
-	(508)	(6,406)	(526)	-	(132)
(51)	5,194	415	127	(1)	68
<u>198</u>	<u>29,443</u>	<u>4,012</u>	<u>680</u>	<u>3</u>	<u>309</u>
<u>147</u>	<u>34,637</u>	<u>4,427</u>	<u>807</u>	<u>2</u>	<u>377</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Convention and Cultural Facilities (Fund 536, 481)	Total
REVENUES		
Taxes and special assessments	\$ -	68,452
Intergovernmental	-	46,357
Charges for current services	1,665	184,409
Rent	17,737	20,617
Investment income	26	861
Other revenues	-	3,118
Total revenues	19,428	323,814
EXPENDITURES		
Current:		
General government	-	14,968
Public safety	-	1,454
Community services	24,404	57,955
Sanitation	-	133,059
Capital maintenance	784	81,176
Capital outlay	87	10,170
Total expenditures	25,275	298,782
Excess (deficiency) of revenues over (under) expenditures	(5,847)	25,032
OTHER FINANCING SOURCES (USES)		
Transfers in	6,406	17,230
Transfers out	(521)	(27,463)
Total other financing sources (uses)	5,885	(10,233)
Net change in fund balances	38	14,799
Fund balances - beginning	8,896	293,233
Fund balances - ending	\$ 8,934	308,032

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City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Prusch			Gift Trust		
	Memorial Park			(Fund 139)		
	(Funds 131, 151)			(Fund 139)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	77	77	-	-	-	-
Investment income	-	1	1	-	14	14
Other revenues	-	-	-	1,033	646	(387)
Total revenues	<u>77</u>	<u>78</u>	<u>1</u>	<u>1,033</u>	<u>660</u>	<u>(373)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	155	104	(51)	3,643	450	(3,193)
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>155</u>	<u>104</u>	<u>(51)</u>	<u>3,643</u>	<u>450</u>	<u>(3,193)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(78)</u>	<u>(26)</u>	<u>52</u>	<u>(2,610)</u>	<u>210</u>	<u>2,820</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	3	667	664
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>667</u>	<u>664</u>
Net change in fund balances	<u>\$ (78)</u>	<u>(26)</u>	<u>52</u>	<u>(2,607)</u>	<u>877</u>	<u>3,484</u>
Fund balances - beginning		357			2,521	
Prior year encumbrances		-			1	
Fund balances - ending		<u>\$ 331</u>			<u>\$ 3,399</u>	

Workforce Investment Act (Funds 290-294, 299)			San José Arena Enhancement (Fund 301)			Special Assessment Maintenance Districts (Funds 302, 351-369, 371-374, 376)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	8,768	8,773	5
20,147	13,875	(6,272)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	2	2	114	42	(72)
-	-	-	88	88	-	-	110	110
20,147	13,875	(6,272)	88	90	2	8,882	8,925	43
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
17,975	13,949	(4,026)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	12,600	10,515	(2,085)
-	-	-	-	-	-	-	-	-
17,975	13,949	(4,026)	-	-	-	12,600	10,515	(2,085)
2,172	(74)	(2,246)	88	90	2	(3,718)	(1,590)	2,128
-	-	-	991	991	-	852	852	-
(103)	-	103	(1,078)	(1,078)	-	(15)	-	15
(103)	-	103	(87)	(87)	-	837	852	15
2,069	(74)	(2,143)	1	3	2	(2,881)	(738)	2,143
	1,083			-			16,896	
	-			-			1,166	
	\$ 1,009			\$ 3			\$ 17,324	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Ng Shing Gung Capital Maintenance			Subdivision Park Trust		
	(Fund 303)			(Fund 375)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	1	1
Charges for current services	-	-	-	3,447	12,261	8,814
Rent	-	-	-	-	-	-
Investment income	-	-	-	-	184	184
Other revenues	-	2	2	-	-	-
Total revenues	<u>-</u>	<u>2</u>	<u>2</u>	<u>3,447</u>	<u>12,446</u>	<u>8,999</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	42,094	15,105	(26,989)
Capital outlay	-	-	-	1,244	1,244	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,338</u>	<u>16,349</u>	<u>(26,989)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>2</u>	<u>2</u>	<u>(39,891)</u>	<u>(3,903)</u>	<u>35,988</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	3	3	-	-	-	-
Transfers out	-	-	-	(3,345)	(3,312)	33
Total other financing sources (uses)	<u>3</u>	<u>3</u>	<u>-</u>	<u>(3,345)</u>	<u>(3,312)</u>	<u>33</u>
Net change in fund balances	<u>\$ 3</u>	<u>5</u>	<u>2</u>	<u>(43,236)</u>	<u>(7,215)</u>	<u>36,021</u>
Fund balances - beginning		55			65,181	
Prior year encumbrances		-			2,114	
Fund balances - ending		<u>\$ 60</u>			<u>\$ 60,080</u>	

Construction and Property Conveyance Tax (Funds 377-398)			1943 Gas Tax Maintenance and Construction (Fund 409)			1964 Gas Tax Maintenance and Construction (Funds 410-411)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
21,825	25,879	4,054	-	-	-	-	-	-
454	293	(161)	7,065	6,702	(363)	8,243	7,992	(251)
-	-	-	-	-	-	-	-	-
-	79	79	-	-	-	-	-	-
1,252	900	(352)	-	-	-	-	-	-
<u>23,531</u>	<u>27,151</u>	<u>3,620</u>	<u>7,065</u>	<u>6,702</u>	<u>(363)</u>	<u>8,243</u>	<u>7,992</u>	<u>(251)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
63,395	25,694	(37,701)	7,065	6,702	(363)	8,243	7,992	(251)
2,903	2,903	-	-	-	-	-	-	-
<u>66,298</u>	<u>28,597</u>	<u>(37,701)</u>	<u>7,065</u>	<u>6,702</u>	<u>(363)</u>	<u>8,243</u>	<u>7,992</u>	<u>(251)</u>
<u>(42,767)</u>	<u>(1,446)</u>	<u>41,321</u>	-	-	-	-	-	-
1,021	3,448	2,427	-	-	-	-	-	-
<u>(6,210)</u>	<u>(6,084)</u>	<u>126</u>	-	-	-	-	-	-
<u>(5,189)</u>	<u>(2,636)</u>	<u>2,553</u>	-	-	-	-	-	-
<u>(47,956)</u>	<u>(4,082)</u>	<u>43,874</u>	-	-	-	-	-	-
	70,688			-			-	
	7,982			-			-	
	<u>\$ 74,588</u>			<u>\$ -</u>			<u>\$ -</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Storm Drainage Fee			Supplemental Local Law Enforcement		
	(Funds 413, 427)			(Fund 414)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	4	4	-	1,565	1,560	(5)
Charges for current services	103	183	80	-	-	-
Rent	-	-	-	-	-	-
Investment income	-	2	2	-	5	5
Other revenues	-	-	-	-	-	-
Total revenues	<u>107</u>	<u>189</u>	<u>82</u>	<u>1,565</u>	<u>1,565</u>	<u>-</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	2,807	2,033	(774)
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	59	57	(2)	-	-	-
Capital outlay	-	-	-	6	6	-
Total expenditures	<u>59</u>	<u>57</u>	<u>(2)</u>	<u>2,813</u>	<u>2,039</u>	<u>(774)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>48</u>	<u>132</u>	<u>84</u>	<u>(1,248)</u>	<u>(474)</u>	<u>774</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(5)	(4)	1	-	-	-
Total other financing sources (uses)	<u>(5)</u>	<u>(4)</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ 43</u>	<u>128</u>	<u>85</u>	<u>(1,248)</u>	<u>(474)</u>	<u>774</u>
Fund balances - beginning		225			305	
Prior year encumbrances		-			944	
Fund balances - ending		<u>\$ 353</u>			<u>\$ 775</u>	

Underground Utility (Fund 416)			State Drug Forfeiture (Fund 417)			Library Parcel Tax (Fund 418)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	7,251	7,460	209
730	504	(226)	-	-	-	-	-	-
-	4	4	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	5	5	10	4	(6)	-	16	16
-	-	-	34	37	3	-	-	-
730	513	(217)	44	41	(3)	7,251	7,476	225
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	6,036	4,682	(1,354)
-	-	-	-	-	-	-	-	-
1,925	312	(1,613)	-	-	-	2,763	1,945	(818)
-	-	-	-	-	-	-	-	-
1,925	312	(1,613)	-	-	-	8,799	6,627	(2,172)
(1,195)	201	1,396	44	41	(3)	(1,548)	849	2,397
-	-	-	-	-	-	-	-	-
(30)	(24)	6	-	-	-	(118)	(69)	49
(30)	(24)	6	-	-	-	(118)	(69)	49
(1,225)	177	1,402	44	41	(3)	(1,666)	780	2,446
	2,170			1,532			6,164	
	-			-			32	
\$	2,347		\$	1,573		\$	6,976	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Federal Drug Forfeiture			Residential Construction Tax Contribution		
	(Fund 419)			(Fund 420)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	42	280	238
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Investment income	15	7	(8)	2	3	1
Other revenues	167	229	62	-	-	-
Total revenues	<u>182</u>	<u>236</u>	<u>54</u>	<u>44</u>	<u>283</u>	<u>239</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	444	380	(64)	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	846	127	(719)
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>444</u>	<u>380</u>	<u>(64)</u>	<u>846</u>	<u>127</u>	<u>(719)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(262)</u>	<u>(144)</u>	<u>118</u>	<u>(802)</u>	<u>156</u>	<u>958</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(7)	(6)	1
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7)</u>	<u>(6)</u>	<u>1</u>
Net change in fund balances	<u>\$ (262)</u>	<u>(144)</u>	<u>118</u>	<u>(809)</u>	<u>150</u>	<u>959</u>
Fund balances - beginning		2,679			1,107	
Prior year encumbrances		-			-	
Fund balances - ending		<u>\$ 2,535</u>			<u>\$ 1,257</u>	

Arterial and Major Collectors (Fund 421)			Community Facility Revenue (Funds 422,432,438)			Integrated Waste Management (Fund 423)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	366	85	(281)
-	17	17	-	-	-	146,418	137,518	(8,900)
-	-	-	2,803	2,803	-	-	-	-
-	3	3	29	30	1	165	74	(91)
-	-	-	448	612	164	-	-	-
-	20	20	3,280	3,445	165	146,949	137,677	(9,272)
-	-	-	-	-	-	-	-	-
-	-	-	3,042	1,469	(1,573)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	157,146	151,293	(5,853)
318	103	(215)	2,791	2,532	(259)	-	-	-
-	-	-	-	-	-	964	964	-
318	103	(215)	5,833	4,001	(1,832)	158,110	152,257	(5,853)
(318)	(83)	235	(2,553)	(556)	1,997	(11,161)	(14,580)	(3,419)
-	-	-	5,500	5,500	-	63	63	-
2	-	(2)	(9,392)	(9,392)	-	(2,160)	(2,160)	-
2	-	(2)	(3,892)	(3,892)	-	(2,097)	(2,097)	-
(316)	(83)	233	(6,445)	(4,448)	1,997	(13,258)	(16,677)	(3,419)
	1,094			8,297			17,963	
	15			1			2,996	
\$	1,026		\$	3,850		\$	4,282	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Tobacco Settlement			Building and Structures Construction Tax		
	(Fund 426)			(Fund 429)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	10,500	12,593	2,093
Intergovernmental	-	-	-	15,082	6,392	(8,690)
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Investment income	-	-	-	275	32	(243)
Other revenues	-	600	600	48	51	3
Total revenues	<u>-</u>	<u>600</u>	<u>600</u>	<u>25,905</u>	<u>19,068</u>	<u>(6,837)</u>
EXPENDITURES						
Current:						
General government	108	108	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	29,738	18,286	(11,452)
Capital outlay	-	-	-	3,467	3,467	-
Total expenditures	<u>108</u>	<u>108</u>	<u>-</u>	<u>33,205</u>	<u>21,753</u>	<u>(11,452)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(108)</u>	<u>492</u>	<u>600</u>	<u>(7,300)</u>	<u>(2,685)</u>	<u>4,615</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(750)	(750)	-	(542)	(435)	107
Total other financing sources (uses)	<u>(750)</u>	<u>(750)</u>	<u>-</u>	<u>(542)</u>	<u>(435)</u>	<u>107</u>
Net change in fund balances	<u>\$ (858)</u>	<u>(258)</u>	<u>600</u>	<u>(7,842)</u>	<u>(3,120)</u>	<u>4,722</u>
Fund balances - beginning		147			13,762	
Prior year encumbrances		111			3,746	
Fund balances - ending		<u>\$ -</u>			<u>\$ 14,388</u>	

Development Enhancement (Fund 439)			Community Development Block Grant (Funds 441, 304)			Economic Development Administration Loans (Fund 444)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	-	-	10,161	9,719	(442)	14	12	(2)
-	-	-	-	-	-	-	-	-
-	2	2	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	2	2	10,161	9,719	(442)	14	12	(2)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
850	200	(650)	12,012	9,148	(2,864)	120	61	(59)
-	-	-	-	-	-	-	-	-
-	-	-	2,522	2,224	(298)	-	-	-
-	-	-	500	500	-	-	-	-
850	200	(650)	15,034	11,872	(3,162)	120	61	(59)
(850)	(198)	652	(4,873)	(2,153)	2,720	(106)	(49)	57
-	-	-	-	-	-	-	-	-
-	-	-	(1,806)	(1,806)	-	-	-	-
-	-	-	(1,806)	(1,806)	-	-	-	-
(850)	(198)	652	(6,679)	(3,959)	2,720	(106)	(49)	57
	851			8,110			120	
	-			1,663			-	
	\$ 653			\$ 5,814			\$ 71	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

	Storm Drainage Service Use Charge			Transient Occupancy Tax		
	(Funds 446, 469)			(Fund 461)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	12,455	13,467	1,012
Intergovernmental	-	-	-	-	-	-
Charges for current services	31,800	32,059	259	-	-	-
Rent	-	-	-	-	-	-
Investment income	31	73	42	-	9	9
Other revenues	-	-	-	-	204	204
Total revenues	<u>31,831</u>	<u>32,132</u>	<u>301</u>	<u>12,455</u>	<u>13,680</u>	<u>1,225</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	8,601	6,979	(1,622)
Sanitation	26,133	23,264	(2,869)	-	-	-
Capital maintenance	17,275	6,086	(11,189)	-	-	-
Capital outlay	999	999	-	-	-	-
Total expenditures	<u>44,407</u>	<u>30,349</u>	<u>(14,058)</u>	<u>8,601</u>	<u>6,979</u>	<u>(1,622)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,576)</u>	<u>1,783</u>	<u>14,359</u>	<u>3,854</u>	<u>6,701</u>	<u>2,847</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(752)	(508)	244	(6,416)	(6,406)	10
Total other financing sources (uses)	<u>(752)</u>	<u>(508)</u>	<u>244</u>	<u>(6,416)</u>	<u>(6,406)</u>	<u>10</u>
Net change in fund balances	<u>\$ (13,328)</u>	<u>1,275</u>	<u>14,603</u>	<u>(2,562)</u>	<u>295</u>	<u>2,857</u>
Fund balances - beginning		25,348			3,828	
Prior year encumbrances		4,042			176	
Fund balances - ending		<u>\$ 30,665</u>			<u>\$ 4,299</u>	

Lake Cunningham (Fund 462)			Edward Brown Memorial Justice (Funds 474,477)			Municipal Golf Courses (Fund 518)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	-	-	264	262	(2)	-	-	-
624	730	106	-	-	-	546	542	(4)
-	-	-	-	-	-	-	-	-
-	2	2	-	1	1	3	1	(2)
-	-	-	-	-	-	18	35	17
<u>624</u>	<u>732</u>	<u>108</u>	<u>264</u>	<u>263</u>	<u>(1)</u>	<u>567</u>	<u>578</u>	<u>11</u>
-	-	-	-	-	-	-	-	-
-	-	-	612	546	(66)	-	-	-
-	-	-	-	-	-	15	5	(10)
-	-	-	-	-	-	-	-	-
295	154	(141)	-	-	-	410	374	(36)
-	-	-	-	-	-	-	-	-
<u>295</u>	<u>154</u>	<u>(141)</u>	<u>612</u>	<u>546</u>	<u>(66)</u>	<u>425</u>	<u>379</u>	<u>(46)</u>
329	578	249	(348)	(283)	65	142	199	57
-	-	-	-	-	-	1,800	1,800	-
(526)	(526)	-	(1)	-	1	(1,933)	(1,932)	1
(526)	(526)	-	(1)	-	1	(133)	(132)	1
<u>(197)</u>	52	<u>249</u>	<u>(349)</u>	(283)	<u>66</u>	<u>9</u>	67	<u>58</u>
	646			88			301	
	32			262			7	
	<u>\$ 730</u>			<u>\$ 67</u>			<u>\$ 375</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2012
(\$000's)

Convention and Cultural Facilities			
(Funds 536, 481)			
	<u>Budget</u>	Budgetary Basis Actual	Variance Over (Under)
REVENUES			
Taxes and special assessments	\$ -	-	-
Intergovernmental	-	-	-
Charges for current services	988	1,665	677
Rent	18,000	17,737	(263)
Investment income	-	17	17
Other revenues	-	-	-
Total revenues	<u>18,988</u>	<u>19,419</u>	<u>431</u>
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	-	-	-
Community services	24,739	24,497	(242)
Sanitation	-	-	-
Capital maintenance	2,104	1,367	(737)
Capital outlay	87	87	-
Total expenditures	<u>26,930</u>	<u>25,951</u>	<u>(979)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,942)</u>	<u>(6,532)</u>	<u>1,410</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	6,406	6,406	-
Transfers out	<u>(554)</u>	<u>(521)</u>	<u>33</u>
Total other financing sources (uses)	<u>5,852</u>	<u>5,885</u>	<u>33</u>
Net change in fund balances	<u>\$ (2,090)</u>	<u>(647)</u>	<u>1,443</u>
Fund balances - beginning		8,678	
Prior year encumbrances		495	
Fund balances - ending		<u>\$ 8,526</u>	

Nonmajor Debt Service Funds

City of San José
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2012
(\$000's)

	2000 Series B Camden Park Refunding (Fund 203)	GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
ASSETS				
Receivables (net of allowances for uncollectibles)	\$ -	81	2	83
Due from outside agencies	-	24	-	24
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	-	35,096	2,154	37,250
Total assets	<u>\$ -</u>	<u>35,201</u>	<u>2,156</u>	<u>37,357</u>
LIABILITIES				
Accounts payable	\$ -	-	204	204
FUND BALANCES				
Restricted for debt service	-	35,201	1,952	37,153
Total liabilities and fund balances	<u>\$ -</u>	<u>35,201</u>	<u>2,156</u>	<u>37,357</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2012
(\$000's)

	2000 Series B Camden Park Refunding (Fund 203)	GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
REVENUES				
Property taxes	\$ -	42,490	-	42,490
Investment income	-	85	43	128
Total revenues	<u>-</u>	<u>42,575</u>	<u>43</u>	<u>42,618</u>
EXPENDITURES				
Debt service:				
Principal	-	19,650	-	19,650
Interest and fiscal charges	-	22,249	1,084	23,333
Total expenditures	<u>-</u>	<u>41,899</u>	<u>1,084</u>	<u>42,983</u>
Excess (deficiency) of revenues over(under) expenditures	<u>-</u>	<u>676</u>	<u>(1,041)</u>	<u>(365)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	21,156	21,156
Transfers out	(100)	(643)	(19,048)	(19,791)
Total other financing sources (uses)	<u>(100)</u>	<u>(643)</u>	<u>2,108</u>	<u>1,365</u>
Net change in fund balances	(100)	33	1,067	1,000
Fund balances - beginning	<u>100</u>	<u>35,168</u>	<u>885</u>	<u>36,153</u>
Fund balances - ending	<u>\$ -</u>	<u>35,201</u>	<u>1,952</u>	<u>37,153</u>

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Nonmajor Capital Project Funds

City of San José
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2012
(\$000's)

	Fiber Optics Development (Fund 007)	Capital Improvements (Funds 408, 424, 476)	Civic Center (Fund 425)	RDA Capital Projects (Fund 450)	Construction Excise Tax (Funds 348,349,464 465,470,478-480)
ASSETS					
Equity in pooled cash and investments held in City Treasury	\$ 29	479	-	40	40,840
Receivables (net of allowance for uncollectibles)	-	1	-	1	3,303
Due from other funds	-	-	-	-	7,000
Advances and deposits	-	4	-	-	34
Restricted assets:					
Equity in pooled cash and investments held in City Treasury	-	-	-	-	105
Cash and investments held with fiscal agent	-	-	522	-	-
Total assets	<u>\$ 29</u>	<u>484</u>	<u>522</u>	<u>41</u>	<u>51,282</u>
LIABILITIES					
Accounts payable	\$ -	28	-	-	1,387
Accrued salaries, wages and payroll taxes	-	-	-	-	114
Due to other funds	201	-	237	-	-
Total liabilities	<u>201</u>	<u>28</u>	<u>237</u>	<u>-</u>	<u>1,501</u>
FUND BALANCES					
Nonspendable	-	4	-	-	34
Restricted	-	452	285	41	30,602
Assigned	-	-	-	-	19,145
Unassigned	(172)	-	-	-	-
Total fund balances	<u>(172)</u>	<u>456</u>	<u>285</u>	<u>41</u>	<u>49,781</u>
Total liabilities and fund balances	<u>\$ 29</u>	<u>484</u>	<u>522</u>	<u>41</u>	<u>51,282</u>

Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Neighborhood Security Bond Projects (Fund 475)	San José Financing Authority (Funds 858-859)	Diridon Authority (Fund 482)	Other Capital Projects	Total
1,800	-	-	-	178	-	43,366
2	-	-	-	-	-	3,307
-	-	-	103	-	-	7,103
-	-	-	-	-	-	38
-	-	-	-	-	-	105
32,688	17,857	9,477	2,870	-	-	63,414
<u>34,490</u>	<u>17,857</u>	<u>9,477</u>	<u>2,973</u>	<u>178</u>	<u>-</u>	<u>117,333</u>
13	516	455	-	-	-	2,399
5	8	14	-	1	-	142
-	5,998	765	-	-	-	7,201
<u>18</u>	<u>6,522</u>	<u>1,234</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>9,742</u>
-	-	-	-	-	-	38
34,472	11,335	8,243	2,973	-	-	88,403
-	-	-	-	177	-	19,322
-	-	-	-	-	-	(172)
<u>34,472</u>	<u>11,335</u>	<u>8,243</u>	<u>2,973</u>	<u>177</u>	<u>-</u>	<u>107,591</u>
<u>34,490</u>	<u>17,857</u>	<u>9,477</u>	<u>2,973</u>	<u>178</u>	<u>-</u>	<u>117,333</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the Year Ended June 30, 2012
(\$000's)

	Fiber Optics Development (Fund 007)	Capital Improvements (Funds 408, 424, 476)	Civic Center (Fund 425)	RDA Capital Projects (Fund 450)	Construction Excise Tax (Funds 348,349,464 465,470,478-480)
REVENUES					
Taxes	\$ -	-	-	-	18,028
Intergovernmental	-	-	-	-	15,697
Charges for current services	-	-	-	-	7,708
Investment income	-	2	3	1	179
Other revenues	-	29	-	-	1,531
Total revenues	<u>-</u>	<u>31</u>	<u>3</u>	<u>1</u>	<u>43,143</u>
EXPENDITURES					
Current:					
Capital maintenance	-	29	5	1,530	24,412
Capital outlay	-	-	-	80	514
Total expenditures	<u>-</u>	<u>29</u>	<u>5</u>	<u>1,610</u>	<u>24,926</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>2</u>	<u>(2)</u>	<u>(1,609)</u>	<u>18,217</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	50	-	10	150	-
Transfers out	-	(1)	-	(3)	(4,588)
Total other financing sources (uses)	<u>50</u>	<u>(1)</u>	<u>10</u>	<u>147</u>	<u>(4,588)</u>
Net change in fund balances	50	1	8	(1,462)	13,629
Fund balances - beginning	(222)	455	277	1,503	36,152
Fund balances - ending	<u>\$ (172)</u>	<u>456</u>	<u>285</u>	<u>41</u>	<u>49,781</u>

Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Neighborhood Security Bond Projects (Fund 475)	San José Financing Authority (Funds 858-859)	Diridon Authority (Fund 482)	Other Capital Projects	Total
-	-	-	-	-	-	18,028
-	-	-	-	-	-	15,697
-	-	-	-	-	-	7,708
143	78	53	19	1	(1)	478
-	-	-	-	202	-	1,762
<u>143</u>	<u>78</u>	<u>53</u>	<u>19</u>	<u>203</u>	<u>(1)</u>	<u>43,673</u>
-	2	238	-	26	-	26,242
1,706	4,862	4,107	-	-	-	11,269
<u>1,706</u>	<u>4,864</u>	<u>4,345</u>	<u>-</u>	<u>26</u>	<u>-</u>	<u>37,511</u>
<u>(1,563)</u>	<u>(4,786)</u>	<u>(4,292)</u>	<u>19</u>	<u>177</u>	<u>(1)</u>	<u>6,162</u>
1,420	366	-	-	-	-	1,996
-	(748)	-	(1,701)	-	(437)	(7,478)
<u>1,420</u>	<u>(382)</u>	<u>-</u>	<u>(1,701)</u>	<u>-</u>	<u>(437)</u>	<u>(5,482)</u>
(143)	(5,168)	(4,292)	(1,682)	177	(438)	680
34,615	16,503	12,535	4,655	-	438	106,911
<u>34,472</u>	<u>11,335</u>	<u>8,243</u>	<u>2,973</u>	<u>177</u>	<u>-</u>	<u>107,591</u>

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Internal Service Funds

City of San José
Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2012
(\$000's)

	Public Works Programs Support (Fund 150)	Employee Benefits (Funds 155-161)	Stores, Vehicle Maintenance and Operations (Funds 551-553)	Total
ASSETS				
Current assets:				
Equity in pooled cash and investments held in City Treasury	\$ 2,002	15,563	3,454	21,019
Receivables (net of allowance for uncollectibles)	2	168	57	227
Inventories	-	-	1,214	1,214
Total current assets	<u>2,004</u>	<u>15,731</u>	<u>4,725</u>	<u>22,460</u>
Capital assets (net of accumulated depreciation):				
Depreciable	-	-	6,703	6,703
Total assets	<u>2,004</u>	<u>15,731</u>	<u>11,428</u>	<u>29,163</u>
LIABILITIES				
Current liabilities:				
Accounts payable	22	10	747	779
Accrued liabilities	147	155	119	421
Total current liabilities	<u>169</u>	<u>165</u>	<u>866</u>	<u>1,200</u>
Noncurrent liabilities:				
Accrued vacation, sick leave and compensatory time	2,804	32	492	3,328
Total liabilities	<u>2,973</u>	<u>197</u>	<u>1,358</u>	<u>4,528</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	-	6,703	6,703
Restricted for capital projects and other agreements	37	8	1,323	1,368
Unrestricted	(1,006)	15,526	2,044	16,564
Total net assets	<u>\$ (969)</u>	<u>15,534</u>	<u>10,070</u>	<u>24,635</u>

City of San José
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2012
(\$000's)

	Public Works Programs Support (Fund 150)	Employee Benefits (Funds 155-161)	Stores, Vehicle Maintenance and Operations (Funds 551-553)	Total
OPERATING REVENUES				
Charges for services	\$ 9,627	84,354	19,242	113,223
OPERATING EXPENSES				
Operations and maintenance	11,286	78,388	15,938	105,612
Depreciation and amortization	-	-	3,552	3,552
Other expense	-	-	354	354
Total operating expenses	<u>11,286</u>	<u>78,388</u>	<u>19,844</u>	<u>109,518</u>
Operating income (loss)	(1,659)	5,966	(602)	3,705
NONOPERATING REVENUES (EXPENSES)				
Investment income	122	103	6	231
Income (loss) before transfers	<u>(1,537)</u>	<u>6,069</u>	<u>(596)</u>	<u>3,936</u>
Transfers in	-	9	102	111
Transfers out	<u>(113)</u>	<u>(112)</u>	<u>(595)</u>	<u>(820)</u>
Changes in net assets	(1,650)	5,966	(1,089)	3,227
Net assets - beginning	681	9,568	11,159	21,408
Net assets - ending	<u>\$ (969)</u>	<u>15,534</u>	<u>10,070</u>	<u>24,635</u>

City of San José
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012
(\$000's)

	Public Works Programs Support (Fund 150)	Employee Benefits (Funds 155-161)	Stores, Vehicle Maintenance and Operations (Funds 551-553)	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from interfund services provided	\$ 9,665	85,239	16,803	111,707
Cash payment to suppliers of goods and services	(1,413)	(77,987)	(8,100)	(87,500)
Cash payment to employees for services	(10,942)	(1,263)	(7,030)	(19,235)
Net cash provided by (used in) operating activities	<u>(2,690)</u>	<u>5,989</u>	<u>1,673</u>	<u>4,972</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer from other funds	-	9	102	111
Transfer to other funds	(113)	(112)	(595)	(820)
Net cash used in noncapital financing activities	<u>(113)</u>	<u>(103)</u>	<u>(493)</u>	<u>(709)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	-	-	(1,510)	(1,510)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	122	103	6	231
Net change in cash and cash equivalents	<u>(2,681)</u>	<u>5,989</u>	<u>(324)</u>	<u>2,984</u>
Cash and cash equivalents - beginning	4,683	9,574	3,778	18,035
Cash and cash equivalents - ending	<u>\$ 2,002</u>	<u>15,563</u>	<u>3,454</u>	<u>21,019</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (1,659)	5,966	(602)	3,705
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	3,552	3,552
Decrease (increase) in:				
Accounts receivable	40	885	7	932
Inventories	-	-	(462)	(462)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(607)	(845)	(391)	(1,843)
Accrued vacation, sick leave and compensatory time	(464)	(17)	(431)	(912)
Total adjustments	<u>(1,031)</u>	<u>23</u>	<u>2,275</u>	<u>1,267</u>
Net cash provided by (used in) operating activities	<u>\$ (2,690)</u>	<u>5,989</u>	<u>1,673</u>	<u>4,972</u>

Trust and Agency Funds

City of San José
Combining Statement of Pension Net Assets
Pension Trust Funds
June 30, 2012
(\$000's)

	Federated City Employees' Retirement System (Funds 124, 134 and 140)	Police and Fire Plan (Funds 135 and 141)	Total
ASSETS			
Investments at fair value:			
Investments, excluding securities lending collateral	\$ 1,787,412	2,644,939	4,432,351
Securities lending cash collateral investment pool	-	239,396	239,396
Receivables (net of allowance for uncollectibles):			
Accrued investment income	3,297	9,611	12,908
Employee contributions	1,963	660	2,623
Employer contributions	687	2,876	3,563
Brokers and others	1,728	4,275	6,003
Total assets	<u>1,795,087</u>	<u>2,901,757</u>	<u>4,696,844</u>
LIABILITIES			
Due to brokers	4,384	14,489	18,873
Securities lending collateral, due to borrowers	-	241,875	241,875
Other liabilities	3,656	3,951	7,607
Total liabilities	<u>8,040</u>	<u>260,315</u>	<u>268,355</u>
NET ASSETS HELD IN TRUST FUND FOR:			
Employees' pension benefits	1,649,249	2,578,464	4,227,713
Employees' postemployment healthcare benefits	137,798	62,978	200,776
Net assets held in trust for pension and postemployment healthcare benefits	<u>\$ 1,787,047</u>	<u>2,641,442</u>	<u>4,428,489</u>

City of San José
Combining Statement of Changes in Pension Net Assets
Pension Trust Funds
For the Year Ended June 30, 2012
(\$000's)

	Federated City Employees' Retirement System (Funds 124, 134 and 140)	Police and Fire Plan (Funds 135 and 141)	Total
ADDITIONS			
Investment income:			
Interest	\$ 29,057	44,211	73,268
Dividends	10,488	34,121	44,609
Net rental income	559	6,051	6,610
Net depreciation in fair value of plan investments	(106,666)	(111,359)	(218,025)
Investment expenses	(7,620)	(10,366)	(17,986)
Securities lending activities:			
Securities lending income	95	3,014	3,109
Securities lending rebates and expenses	44	(818)	(774)
Contributions:			
Employer	112,916	142,214	255,130
Employees	25,550	30,819	56,369
Total additions	<u>64,423</u>	<u>137,887</u>	<u>202,310</u>
DEDUCTIONS			
General and administrative	3,574	3,643	7,217
Health insurance premiums	33,077	28,479	61,556
Refund of contributions	2,195	1,926	4,121
Retirement and other benefits:			
Death benefits	8,601	7,480	16,081
Retirement benefits	126,001	142,314	268,315
Total deductions	<u>173,448</u>	<u>183,842</u>	<u>357,290</u>
Change in net assets	(109,025)	(45,955)	(154,980)
Net assets held in trust for pension and postemployment healthcare benefits			
Beginning of year	1,896,072	2,687,397	4,583,469
End of year	<u>\$ 1,787,047</u>	<u>2,641,442</u>	<u>4,428,489</u>

City of San José
Combining Statement of Defined Benefit
and Postemployment Healthcare Plan Net Assets
Federated City Employees' Retirement System
June 30, 2012
(\$000's)

	Federated Retirement (Fund 134)			Federated Cost of Living (Fund 140) and IRS Code Section 115 Trust (Fund 124)			Grand Total
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 134	Defined Benefit Pension Plan Fund 140	IRS Code Section 115 Trust Fund 124	Total	
ASSETS							
Investments at fair value:							
Investments, excluding securities lending collateral	\$ 1,208,760	115,918	1,324,678	441,227	21,507	462,734	1,787,412
Receivables (net of allowance for uncollectibles):							
Accrued investment income	2,304	221	2,525	772	-	772	3,297
Employee contributions	1,600	304	1,904	59	-	59	1,963
Employer contributions	-	-	-	369	318	687	687
Brokers and others	1,216	117	1,333	395	-	395	1,728
Total assets	<u>1,213,880</u>	<u>116,560</u>	<u>1,330,440</u>	<u>442,822</u>	<u>21,825</u>	<u>464,647</u>	<u>1,795,087</u>
LIABILITIES							
Due to brokers	3,063	294	3,357	1,026	1	1,027	4,384
Other liabilities	3,015	289	3,304	349	3	352	3,656
Total liabilities	<u>6,078</u>	<u>583</u>	<u>6,661</u>	<u>1,375</u>	<u>4</u>	<u>1,379</u>	<u>8,040</u>
NET ASSETS HELD IN TRUST FOR:							
Employees' pension benefits	1,207,802	-	1,207,802	441,447	-	441,447	1,649,249
Employees' postemployment healthcare benefits	-	115,977	115,977	-	21,821	21,821	137,798
Net assets held in trust for pension and postemployment healthcare benefits	<u>\$ 1,207,802</u>	<u>115,977</u>	<u>1,323,779</u>	<u>441,447</u>	<u>21,821</u>	<u>463,268</u>	<u>1,787,047</u>

City of San José
Combining Statement of Defined Benefit and Postemployment Healthcare
Changes in Plan Net Assets
Federated City Employees' Retirement System
For the Year Ended June 30, 2012
(\$000's)

	Federated Retirement (Fund 134)			Federated Cost of Living (Fund 140) and IRS Code Section 115 Trust (Fund 124)			Grand Total
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 134	Defined Benefit Pension Plan Fund 140	IRS Code Section 115 Trust Fund 124	Total	
ADDITIONS							
Investment income:							
Interest	\$ 20,199	2,032	22,231	6,827	(1)	6,826	29,057
Dividends	6,983	702	7,685	2,367	436	2,803	10,488
Net rental income	389	39	428	131	-	131	559
Net depreciation in fair value of plan investments	(74,013)	(7,445)	(81,458)	(24,842)	(366)	(25,208)	(106,666)
Investment expenses	(5,267)	(530)	(5,797)	(1,806)	(17)	(1,823)	(7,620)
Securities lending activities:							
Securities lending income	66	7	73	22	-	22	95
Securities lending rebates and expenses	31	3	34	10	-	10	44
Contributions:							
Employer	69,496	4,044	73,540	17,586	21,790	39,376	112,916
Employees	7,994	14,995	22,989	2,561	-	2,561	25,550
Total additions	<u>25,878</u>	<u>13,847</u>	<u>39,725</u>	<u>2,856</u>	<u>21,842</u>	<u>24,698</u>	<u>64,423</u>
DEDUCTIONS							
General and administrative	2,456	247	2,703	850	21	871	3,574
Health insurance premiums	-	33,077	33,077	-	-	-	33,077
Refund of contributions	1,918	-	1,918	277	-	277	2,195
Retirement and other benefits:							
Death benefits	5,180	-	5,180	3,421	-	3,421	8,601
Retirement benefits	100,007	-	100,007	25,994	-	25,994	126,001
Total deductions	<u>109,561</u>	<u>33,324</u>	<u>142,885</u>	<u>30,542</u>	<u>21</u>	<u>30,563</u>	<u>173,448</u>
Change in net assets	(83,683)	(19,477)	(103,160)	(27,686)	21,821	(5,865)	(109,025)
Net assets held in trust for pension and postemployment healthcare benefits							
Beginning of year	1,291,485	135,454	1,426,939	469,133	-	469,133	1,896,072
End of year	<u>\$ 1,207,802</u>	<u>115,977</u>	<u>1,323,779</u>	<u>441,447</u>	<u>21,821</u>	<u>463,268</u>	<u>1,787,047</u>

City of San José
Combining Statement of
Defined Benefit and Postemployment Healthcare Plan Net Assets
Police and Fire Department Retirement Plan
June 30, 2012
(\$000's)

	Police and Fire Retirement (Fund 135)			Police and Fire Cost of Living (Fund 141)	
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 135	Defined Benefit Pension Plan	Total
ASSETS					
Investments at fair value:					
Investments, excluding securities lending collateral	\$ 1,708,232	62,547	1,770,779	874,160	2,644,939
Securities lending cash collateral investment pool	154,722	5,665	160,387	79,009	239,396
Receivables (net of allowance for uncollectibles):					
Accrued investment income	6,350	233	6,583	3,028	9,611
Employee contributions	273	263	536	124	660
Employer contributions	1,421	355	1,776	1,100	2,876
Brokers and others	3,434	126	3,560	715	4,275
Total assets	<u>1,874,432</u>	<u>69,189</u>	<u>1,943,621</u>	<u>958,136</u>	<u>2,901,757</u>
LIABILITIES					
Due to brokers	10,097	370	10,467	4,022	14,489
Securities lending collateral, due to borrowers	156,324	5,724	162,048	79,827	241,875
Other liabilities	3,185	117	3,302	649	3,951
Total liabilities	<u>169,606</u>	<u>6,211</u>	<u>175,817</u>	<u>84,498</u>	<u>260,315</u>
NET ASSETS HELD IN TRUST FOR:					
Employees' pension benefits	1,704,826	-	1,704,826	873,638	2,578,464
Employees' postemployment healthcare benefits	-	62,978	62,978	-	62,978
Net assets held in trust for pension and postemployment healthcare benefits	<u>\$ 1,704,826</u>	<u>62,978</u>	<u>1,767,804</u>	<u>873,638</u>	<u>2,641,442</u>

City of San José
Combining Statement of Defined Benefit and Postemployment Healthcare
Changes in Plan Net Assets
Police and Fire Department Retirement Plan
For the Year Ended June 30, 2012
(\$000's)

	Police and Fire Retirement (Fund 135)			Police and Fire Cost of Living (Fund 141)	Total
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total Fund 135	Defined Benefit Pension Plan	
ADDITIONS					
Investment income:					
Interest	\$ 28,750	1,017	29,767	14,444	44,211
Dividends	22,165	784	22,949	11,172	34,121
Net rental income	3,915	138	4,053	1,998	6,051
Net depreciation in fair value of plan investments	(72,150)	(2,552)	(74,702)	(36,657)	(111,359)
Investment expenses	(6,885)	(244)	(7,129)	(3,237)	(10,366)
Securities lending activities:					
Securities lending income	1,999	71	2,070	944	3,014
Securities lending rebates and expenses	(531)	(19)	(550)	(268)	(818)
Contributions:					
Employer	70,960	21,205	92,165	50,049	142,214
Employees	13,352	11,474	24,826	5,993	30,819
Total additions	<u>61,575</u>	<u>31,874</u>	<u>93,449</u>	<u>44,438</u>	<u>137,887</u>
DEDUCTIONS					
General and administrative	2,454	87	2,541	1,102	3,643
Health insurance premiums	-	28,479	28,479	-	28,479
Refund of contributions	1,540	-	1,540	386	1,926
Retirement and other benefits:					
Death benefits	4,355	-	4,355	3,125	7,480
Retirement benefits	110,648	-	110,648	31,666	142,314
Total deductions	<u>118,997</u>	<u>28,566</u>	<u>147,563</u>	<u>36,279</u>	<u>183,842</u>
Change in net assets	(57,422)	3,308	(54,114)	8,159	(45,955)
Net assets held in trust for pension and postemployment healthcare benefits					
Beginning of year	1,762,248	59,670	1,821,918	865,479	2,687,397
End of year	<u>\$ 1,704,826</u>	<u>62,978</u>	<u>1,767,804</u>	<u>873,638</u>	<u>2,641,442</u>

City of San José
Combining Statement of Fiduciary Net Assets
Private Purpose Trust Funds
June 30, 2012
(\$000's)

	James Lick Private Purpose Trust Fund	Successor Agency to the Redevelopment Agency Trust Fund	Total
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	\$ 104	-	104
Cash and investments	-	6,965	6,965
Receivables (net of allowance for uncollectibles):			
Due from the City of San José	-	850	850
Other	-	519	519
Restricted cash and investments	-	153,999	153,999
Total current assets	<u>104</u>	<u>162,333</u>	<u>162,437</u>
Noncurrent assets:			
Advances to the City of San José	-	280	280
Loans receivable, net	-	31,275	31,275
Deposits	-	155	155
Deferred charges, net	-	30,940	30,940
Property held for resale	-	22,474	22,474
Capital assets:			
Nondepreciable	-	35,581	35,581
Depreciable, net	-	92,895	92,895
Total noncurrent assets	<u>-</u>	<u>213,600</u>	<u>213,600</u>
Total assets	<u>104</u>	<u>375,933</u>	<u>376,037</u>
LIABILITIES			
Current liabilities:			
Accrued interest payable	-	41,682	41,682
Pass-through payable to the County of Santa Clara	-	15,719	15,719
Unearned revenue	-	2,340	2,340
Other liabilities	-	2,320	2,320
Total current liabilities	<u>-</u>	<u>62,061</u>	<u>62,061</u>
Long-term liabilities:			
Due within one year	-	258,149	258,149
Due in more than one year	-	2,119,105	2,119,105
Total noncurrent liabilities	<u>-</u>	<u>2,377,254</u>	<u>2,377,254</u>
Total liabilities	<u>-</u>	<u>2,439,315</u>	<u>2,439,315</u>
NET ASSETS			
Held in trust for:			
Redevelopment dissolution and other purposes	104	(2,063,382)	(2,063,278)
Total net assets	<u>\$ 104</u>	<u>(2,063,382)</u>	<u>(2,063,278)</u>

City of San José
Combining Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
For the Year Ended June 30, 2012
(\$000's)

	James Lick Private Purpose Trust Fund	Successor Agency to the Redevelopment Agency Trust Fund	Total
ADDITIONS			
Redevelopment property tax revenues	\$ -	82,237	82,237
Investment earnings	5	150	155
Rent	-	322	322
Other	-	578	578
Total additions	<u>5</u>	<u>83,287</u>	<u>83,292</u>
DEDUCTIONS			
General and administrative	-	967	967
Project expenses	-	816	816
Pass through amounts to the County of Santa Clara	-	8,177	8,177
Loss on fair value of property held for resale	-	27,417	27,417
Depreciation	-	2,040	2,040
Interest on debt	-	45,401	45,401
Total deductions	<u>-</u>	<u>84,818</u>	<u>84,818</u>
Extraordinary loss from dissolution of the Redevelopment Agency	-	(2,061,851)	(2,061,851)
Change in net assets	5	(2,063,382)	(2,063,377)
NET ASSETS HELD IN TRUST			
Beginning of year	99	-	99
End of year	<u>\$ 104</u>	<u>(2,063,382)</u>	<u>(2,063,278)</u>

City of San José
Statement of Changes in Assets and Liabilities
Agency Fund
For The Year Ended June 30, 2012
(\$000's)

<u>Arena Capital Reserve (Fund 459)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 3,226	1,073	2,603	1,696
Receivables (net of allowances for uncollectibles):				
Accrued interest	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Total assets	<u>3,228</u>	<u>1,075</u>	<u>2,605</u>	<u>1,698</u>
LIABILITIES				
Other liabilities	<u>3,228</u>	<u>508</u>	<u>2,038</u>	<u>1,698</u>
Total liabilities	<u>\$ 3,228</u>	<u>508</u>	<u>2,038</u>	<u>1,698</u>

Statistical Section

Statistical Section

This section of the comprehensive annual financial report for the City of San José presents detailed information as a context to the information presented in the financial statements, note disclosures, and required supplementary information and to provide a framework to assess the economic condition affecting the City of San José.

GASB issued Statement No. 44, *Economic Condition Reporting; The Statistical Section – an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition affecting a government. During fiscal year 2005-2006, the City implemented this statement and added new information that financial statement users have identified as important and eliminated certain schedules previously required.

The dissolution of the former Agency on February 1, 2012 had a significant impact on the presentation of funds in the City's governmental fund financial statements and government-wide financial statements which affects the statistical data. Most notably, the transfer of \$2.313 billion in long-term debt of the former Agency to SARA affected the ratios of outstanding debt for the governmental activities in Schedules IX and X. More information on the dissolution of the former Agency is provided in the MD&A section and Notes to Basic Financial Statements.

Contents	Schedule
Financial Trends	I - IV
<i>These schedules present trend information to help the reader understand the City's financial performance and condition.</i>	
Revenue Capacity	V - VIII
<i>These schedules contain information regarding property tax, the City's most significant local revenue source.</i>	
Debt Capacity	IX - XIII
<i>These schedules present information regarding the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	XIV-XV
<i>These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the City's financial activities.</i>	
Operating Information	XVI-XVIII
<i>These schedules contain service and infrastructure data related to services the City provides and the activities it performs.</i>	

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

CITY OF SAN JOSE
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCURAL BASIS OF ACCOUNTING)
(\$000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 6,252,648	\$ 6,118,214	\$ 5,755,755	\$ 5,402,375	\$ 5,193,578	\$ 4,769,191	\$ 4,400,552	\$ 4,201,672	\$ 3,810,801	\$ 5,350,666
Restricted	551,968	229,871	380,102	735,931	501,391	662,863	654,124	527,931	622,241	939,509
Unrestricted	286,281	217,204	181,646	(107,947)	79,524	95,863	32,914	(63,494)	(129,419)	(197,298)
Total governmental activities net assets	\$ 7,070,897	\$ 6,565,289	\$ 6,317,503	\$ 6,030,359	\$ 5,774,493	\$ 5,527,917	\$ 5,087,590	\$ 4,676,109	\$ 4,303,623	\$ 6,092,877
Business-type activities										
Invested in capital assets, net of related debt	\$ 513,697	\$ 651,130	\$ 672,893	\$ 689,045	\$ 750,334	\$ 823,223	\$ 885,744	\$ 926,638	\$ 889,674	\$ 859,392
Restricted	178,166	178,620	178,548	187,370	158,992	160,153	103,694	120,510	122,534	128,361
Unrestricted	391,585	330,904	335,016	350,079	339,562	281,494	339,254	307,209	332,633	329,047
Total business-type activities net assets	\$ 1,083,448	\$ 1,160,654	\$ 1,186,457	\$ 1,226,494	\$ 1,248,888	\$ 1,264,870	\$ 1,328,692	\$ 1,354,357	\$ 1,344,841	\$ 1,316,800
Primary government										
Invested in capital assets, net of related debt	\$ 6,766,345	\$ 6,769,344	\$ 6,428,648	\$ 6,091,420	\$ 5,943,912	\$ 5,592,414	\$ 5,286,296	\$ 5,128,310	\$ 4,700,475	\$ 6,210,058
Restricted	730,134	408,491	558,650	923,301	660,383	823,016	757,818	648,441	744,775	1,067,870
Unrestricted	657,866	548,108	516,662	242,132	419,086	377,357	372,168	253,715	203,214	131,749
Total primary government net assets	\$ 8,154,345	\$ 7,725,943	\$ 7,503,960	\$ 7,256,853	\$ 7,023,381	\$ 6,792,787	\$ 6,416,282	\$ 6,030,466	\$ 5,648,464	\$ 7,409,677

Note: (1) For fiscal year ended June 30, 2009, the Airport reclassified certain components of net assets from restricted to unrestricted to conform with the provisions of its Airline Lease Agreement and Master Trust Agreement. The reclassifications do not have an effect on the financial position or changes in financial position. As a result, this schedule was not adjusted to reflect these reclassifications for prior fiscal years.

(2) The increase in Invested in capital assets, net of related debt for fiscal year ended June 30, 2012, was primarily due to long-term obligations of the former Agency totaling \$2.313 billion that were transferred to SARA.

CITY OF SAN JOSE
CHANGE IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 125,482	\$ 143,335	\$ 108,070	\$ 180,633	\$ 120,362	\$ 142,886	\$ 172,077	\$ 137,159	\$ 148,515	\$ 111,986
Public safety	323,461	363,009	326,029	351,331	393,449	476,570	463,196	457,892	487,659	490,442
Community services	222,250	277,404	210,936	220,719	276,343	211,511	276,396	260,835	254,481	247,518
Sanitation	77,001	76,889	89,159	91,353	99,720	113,525	122,705	130,343	129,138	135,543
Capital maintenance	652,748	502,819	502,586	514,025	528,727	569,636	595,547	588,382	515,909	473,674
Unallocated interest and fiscal charges	121,647	127,052	136,955	144,444	154,135	170,852	166,672	161,734	163,280	123,686
Total governmental activities expenses	1,522,589	1,480,508	1,373,735	1,502,505	1,572,736	1,684,980	1,796,593	1,736,345	1,698,982	1,582,869
Business-type activities:										
Norman Y. Mineta San José International Airport	112,723	117,122	122,882	125,770	139,623	153,927	140,641	171,976	195,867	200,380
Wastewater Treatment System	102,148	101,627	111,026	108,510	111,435	134,882	126,788	140,831	147,283	149,980
Municipal Water System	15,577	19,089	18,328	19,896	22,618	26,017	25,416	24,355	24,600	29,280
Parking System	7,479	9,952	8,652	10,058	9,787	10,127	11,800	11,579	9,630	9,290
Total business-type activities expenses	237,927	247,790	260,888	264,234	283,463	324,953	304,645	348,741	377,380	388,910
Total primary government expenses	\$ 1,760,516	\$ 1,728,298	\$ 1,634,623	\$ 1,766,739	\$ 1,856,199	\$ 2,009,933	\$ 2,101,238	\$ 2,085,086	\$ 2,076,362	\$ 1,971,779
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 10,533	\$ 18,646	\$ 34,550	\$ 51,449	\$ 56,125	\$ 32,585	\$ 30,906	\$ 29,986	\$ 25,716	\$ 24,732
Public safety	19,569	18,856	21,411	18,377	21,776	45,845	39,254	20,343	21,454	22,089
Community services	55,361	53,635	67,276	78,736	73,671	88,050	66,090	75,208	85,971	90,252
Sanitation	71,794	80,265	86,166	86,957	95,548	121,793	125,198	135,099	137,677	151,644
Capital maintenance	32,871	28,359	27,365	28,998	26,559	37,580	36,340	31,072	46,040	52,205
Operating grants and contributions	51,691	46,034	63,909	76,004	93,090	94,357	115,965	110,926	100,045	123,829
Capital grants and contributions	70,726	81,229	48,715	60,337	68,835	48,075	26,306	49,926	33,041	22,749
Total governmental program revenues	312,545	327,024	349,392	400,858	435,604	468,285	440,059	452,560	449,944	487,510
Business-type activities:										
Charges for services:										
Norman Y. Mineta San José International Airport	113,047	113,758	112,273	117,963	118,978	138,532	138,999	130,030	145,895	154,713
Wastewater Treatment System	103,041	99,511	113,850	109,587	113,772	129,568	151,516	158,256	167,721	167,783
Municipal Water System	17,538	20,013	19,149	20,284	22,399	24,154	25,807	24,732	26,010	28,542
Parking System	10,144	9,583	9,473	9,756	9,777	11,226	11,052	10,458	9,541	11,565
Operating grants and contributions	5,685	5,724	5,570	8,398	8,284	8,444	9,326	1,149	701	670
Capital grants and contributions	16,821	80,651	21,584	32,956	17,927	9,162	18,618	46,237	19,413	10,899
Total business-type activities program revenues	266,276	329,240	281,899	298,984	291,137	321,086	355,318	370,862	369,281	374,192
Total primary government revenues	\$ 578,821	\$ 656,264	\$ 631,291	\$ 699,822	\$ 726,741	\$ 789,371	\$ 795,377	\$ 823,422	\$ 819,225	\$ 861,702

CITY OF SAN JOSE
CHANGE IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (Expenses) Revenues										
Governmental activities	\$ (1,210,044)	\$ (1,153,484)	\$ (1,024,343)	\$ (1,101,647)	\$ (1,137,132)	\$ (1,216,695)	\$ (1,356,534)	\$ (1,283,785)	\$ (1,249,038)	\$ (1,095,359)
Business-type activities	28,349	81,450	21,011	34,730	7,674	(3,867)	50,673	22,121	(8,099)	(14,718)
Total primary government	(1,181,695)	(1,072,034)	(1,003,332)	(1,066,917)	(1,129,458)	(1,220,562)	(1,305,861)	(1,261,664)	(1,257,137)	(1,110,077)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes and franchise fees:										
Property and other taxes										
Utility	351,902	338,210	398,541	430,426	467,917	495,731	507,273	498,973	481,145	404,877
Franchise	65,785	68,455	73,081	75,489	79,129	82,255	93,619	108,151	108,528	110,912
Transient occupancy	32,093	31,712	33,722	36,760	40,415	41,064	41,067	38,410	41,273	41,709
Business license	14,600	14,166	15,957	19,214	21,400	23,900	19,261	17,250	18,102	22,451
Sales taxes shared revenues	35,594	36,201	36,936	37,236	39,502	39,901	38,597	34,952	37,963	41,134
State of California in-lieu	122,757	126,426	128,822	136,031	145,340	149,500	127,802	123,312	137,970	154,026
Unrestricted interest and investment earnings	53,787	41,455	20,850	5,817	5,911	9,244	8,839	7,169	4,889	2,611
Other revenue	59,287	17,040	17,594	23,682	39,359	65,721	34,092	5,010	8,142	6,950
Gain on sale of capital assets	22,994	26,368	44,343	42,076	35,875	53,420	40,372	35,786	33,237	21,207
Transfers	317	4,487	-	-	-	-	-	-	-	-
Extraordinary gain on dissolution of former RDA	7,338	(48,782)	6,711	7,772	6,418	9,383	5,285	3,291	5,303	3,357
Special items	-	-	-	-	-	-	-	-	-	2,075,379
Total governmental activities	766,454	647,876	776,557	814,503	881,266	970,119	916,207	872,304	876,552	2,884,613
Business-type activities										
Unrestricted interest and investment earnings	15,861	3,024	11,503	13,079	21,138	29,232	18,434	1,192	3,886	3,562
Transfers	(7,338)	(7,268)	(6,711)	(7,772)	(6,418)	(9,383)	(5,285)	(3,291)	(5,303)	(3,357)
Extraordinary loss on dissolution of former RDA										(13,528)
Total business-type activities	8,523	(4,244)	4,792	5,307	14,720	19,849	13,149	(2,099)	(1,417)	(13,323)
Total primary government	\$ 774,977	\$ 643,632	\$ 781,349	\$ 819,810	\$ 895,986	\$ 989,968	\$ 929,356	\$ 870,205	\$ 875,135	\$ 2,871,290
Change in Net Assets										
Governmental activities	\$ (443,590)	\$ (505,608)	\$ (247,786)	\$ (287,144)	\$ (255,866)	\$ (246,576)	\$ (440,327)	\$ (411,481)	\$ (372,486)	\$ 1,789,254
Business-type activities	36,872	77,206	25,803	40,037	22,394	15,982	63,822	20,022	(9,516)	(28,041)
Total Primary government	\$ (406,718)	\$ (428,402)	\$ (221,983)	\$ (247,107)	\$ (233,472)	\$ (230,594)	\$ (376,505)	\$ (391,459)	\$ (382,002)	\$ 1,761,213

CITY OF SAN JOSE
 FUND BALANCE, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$000's)

Data prior to GASB 54 implementation:

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2010	2010
General Fund										
Reserved	\$ 33,918	\$ 29,582	\$ 29,514	\$ 33,267	\$ 35,708	\$ 48,511	\$ 32,400	\$ 27,269	\$ 32,400	\$ 27,269
Unreserved	163,735	153,757	162,517	203,703	244,889	228,622	178,793	143,618	178,793	143,618
Total General Fund	\$ 197,653	\$ 183,339	\$ 192,031	\$ 236,970	\$ 280,597	\$ 277,133	\$ 211,193	\$ 170,887	\$ 211,193	\$ 170,887
Other Governmental Funds										
Reserved	\$ 894,117	\$ 666,185	\$ 633,171	\$ 573,567	\$ 539,761	\$ 695,408	\$ 704,866	\$ 711,231	\$ 704,866	\$ 711,231
Unreserved, reported in:										
Special revenue funds	202,580	191,129	248,863	288,344	285,532	299,078	314,128	280,031	299,078	280,031
Debt service funds	-	-	-	(15,109)	(31,493)	(31,067)	-	(1,373)	(31,067)	(1,373)
Capital project funds	202,475	284,743	301,019	293,622	307,713	263,207	185,549	38,384	263,207	38,384
Total Other Governmental Funds	\$ 1,299,172	\$ 1,142,057	\$ 1,183,053	\$ 1,120,424	\$ 1,101,513	\$ 1,226,626	\$ 1,204,543	\$ 1,028,273	\$ 1,226,626	\$ 1,028,273

Data incorporating GASB 54 implementation⁽¹⁾:

	Fiscal Year	
	2010 ⁽²⁾	2012
General Fund		
Nonspendable	\$ 13	\$ 13
Restricted	489	397
Committed	55,414	63,014
Assigned	70,527	70,236
Unassigned	44,443	49,373
Total General Fund	\$ 170,887	\$ 183,028
Other Governmental Funds		
Nonspendable	\$ 1,149	\$ 1,111
Restricted	953,322	1,007,431
Committed	30,450 ⁽³⁾	41,774 ⁽³⁾
Assigned	29,397 ⁽³⁾	31,714 ⁽³⁾
Unassigned	(642)	(222)
Total Other Governmental Funds	\$ 1,013,676	\$ 1,081,808

Note: There are some changes made to this schedule effective fiscal year 2011.

(1) The City implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions", beginning fiscal year 2011. Certain data required by GASB 54 was not readily available for years prior to 2010. The City of San José has elected to show eight years of data prior to GASB 54 implementation, and three years of data incorporating GASB 54 for this schedule.

(2) The retrospective 2010 information is provided to show comparable information as if GASB 54 were implemented in fiscal year 2010.

(3) Reclassified to comply with recent Governmental Accounting Standard Board guidance on committed fund balance.

CITY OF SAN JOSE
 CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
REVENUES										
Taxes and special assessments	\$ 676,229	\$ 646,732	\$ 686,088	\$ 730,905	\$ 788,680	\$ 827,531	\$ 808,152	\$ 806,979	\$ 805,034	\$ 792,365
Licenses, permits, and fines	73,687	83,631	86,518	90,351	88,611	89,856	84,274	81,983	93,471	62,197
Intergovernmental	78,946	67,254	81,352	80,003	92,051	96,300	120,460	101,527	113,669	112,169
Charges for current services	177,567	202,564	225,397	250,975	265,381	296,281	322,002	308,164	206,328	227,522
Rent	9,142	7,856	8,211	9,836	10,326	13,789	12,740	19,676	21,092	20,970
Investment income and other revenues	133,246	68,082	97,499	106,571	140,631	169,506	106,979	73,729	75,270	73,081
Total revenues	1,148,817	1,076,119	1,185,065	1,268,641	1,385,690	1,493,693	1,454,607	1,392,058	1,314,864	1,288,304
EXPENDITURES										
General government	185,256	190,132	198,319	212,984	227,255	238,747	259,699	235,571	112,809	(2)
Public safety	307,991	325,301	334,169	343,576	370,575	418,869	420,483	428,594	434,260	445,790
Community services	194,959	249,079	194,509	203,273	254,525	191,541	249,624	233,355	222,950	214,719
Sanitation	76,799	77,507	89,368	91,908	99,746	111,965	123,477	130,114	128,309	133,908
Capital maintenance	338,504	177,688	178,262	210,032	233,910	248,203	282,230	279,396	214,305	160,346
Capital outlay	201,059	278,536	289,985	203,573	130,669	171,575	173,434	126,137	49,679	53,038
Debt service:										
Principal	46,056	54,966	50,752	63,567	67,487	71,621	88,738	152,239	107,829	110,578
Interest and fiscal charges	126,531	129,641	138,253	145,698	150,600	167,837	164,785	162,790	164,439	116,338
Bond issuance costs	10,443	11,175	6,822	6,676	20,664	4,718	2,926	1,068	1,839	-
Payment to refunded bond escrow agent	17,331	14,916	2,022	9,282	14,974	12,992	3,143	-	-	-
Total expenditures	1,503,929	1,508,941	1,482,461	1,490,549	1,570,405	1,638,068	1,766,539	1,749,284	1,436,419	1,323,102
Deficiency of revenues under expenditures	(355,112)	(432,822)	(297,396)	(221,908)	(184,715)	(144,375)	(313,932)	(357,206)	(121,555)	(34,798)
OTHER FINANCING SOURCES (USES)										
Bonds issued	541,493	216,725	245,025	151,320	171,300	246,030	162,875	160,405	138,410	-
Refunding bonds issued	21,555	373,610	195,870	277,520	737,740	125,500	88,380	-	-	-
Premium / (discount) on bonds	(3,778)	16,795	3,127	20,477	30,124	1,645	(1,072)	22	(2,650)	-
Payment to refunded bond escrow agent	(53,122)	(352,829)	(126,899)	(288,673)	(745,137)	(116,908)	(84,982)	(86,735)	-	-
Reclassification of debt	-	3,200	19,427	25,094	-	374	44,700	-	23,562	(88,600)
Proceeds from sale of capital assets	317	4,487	4,482	11,449	8,491	-	8,365	33,647	20,577	12,237
Transfers in	569,750	187,128	192,968	231,082	221,671	239,207	266,681	310,277	206,745	476,238
Transfers out	(562,412)	(179,860)	(186,916)	(223,081)	(214,758)	(229,824)	(256,038)	(306,986)	(201,223)	(472,172)
Total other financing sources (uses)	513,803	289,256	347,084	204,218	209,431	266,024	225,909	140,630	185,421	(72,297)
Special item	-	(7,862)	-	-	-	-	-	-	-	-
Extraordinary gain from dissolution of RDA	-	-	-	-	-	-	-	-	-	44,795
Net change in fund balance	\$ 158,691	\$ (171,428)	\$ 49,688	\$ (17,690)	\$ 24,716	\$ 121,649	\$ (85,023)	\$ (216,576)	\$ 63,866	\$ (62,300)
Debt service as a percentage of noncapital expenditures	14.50%	16.22%	16.02%	16.98%	16.19%	17.21%	16.09%	19.41%	19.63%	17.87%

Note: (1) Debt ratio was calculated by dividing debt service expenditure excluding bond issuance costs by total government expenditures excluding capital outlay.
 (2) In 2011, as a result of the implementation of GASB 54, Public Works Program Support Fund (Fund 150), Employee Benefits Fund (Funds 155-161), and Stores Vehicle Maintenance and Operations Fund (Funds 551-553) were converted from Special Revenue Funds to Internal Service Funds.

CITY OF SAN JOSE
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (\$000's)

SCHEDULE V

Fiscal Year	City				Former Agency / SARA				Net Taxable Assessed Value
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	
2003	\$ 65,530,209	\$ 4,371,115	\$ 1,985,708	\$ 67,915,616	\$ 13,266,320	\$ 5,466,624	0	\$ 18,732,944	
2004	71,389,828	4,062,051	2,373,902	73,077,977	11,685,532	5,277,110	0	16,962,642	
2005	76,286,940	3,979,113	2,733,404	77,532,649	11,197,792	3,843,039	0	15,040,831	
2006	84,455,121	3,800,649	3,020,934	85,234,836	11,211,222	3,822,707	0	15,033,929	
2007	92,922,334	3,908,432	3,214,283	93,616,483	12,116,350	3,975,452	0	16,091,802	
2008	100,183,489	4,397,235	3,487,434	101,093,290	13,948,249	4,104,730	0	18,052,979	
2009	104,823,540	4,686,153	3,682,139	105,827,554	15,256,509	4,253,680	0	19,510,189	
2010	102,272,875	4,826,605	4,081,360	103,018,120	15,888,334	4,115,097	0	20,003,431	
2011	100,551,658	4,317,806	4,180,818	100,688,646	14,633,045	3,861,489	0	18,494,534	
2012	101,709,647	4,526,059	4,249,198	101,986,508	13,987,097	4,215,662	0	18,202,759	

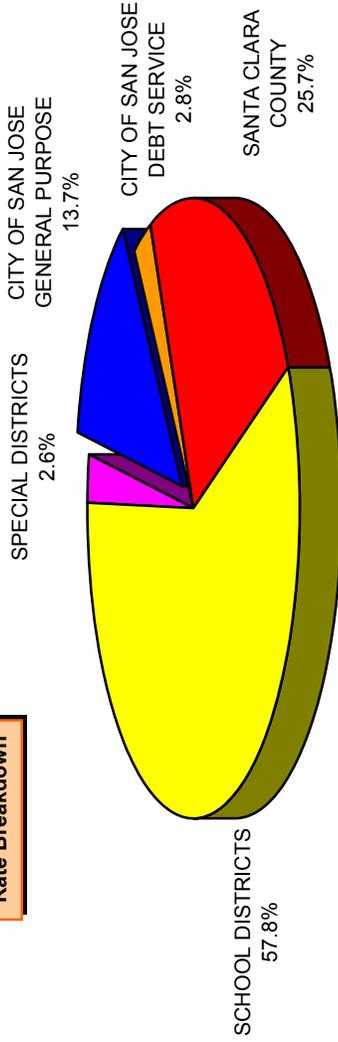
Note:

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

Source: Finance Department, County of Santa Clara

CITY OF SAN JOSE
 PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
 LAST TEN FISCAL YEARS

2012 Property Tax Rate Breakdown



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Fiscal Year										
City of San José:										
General purpose	0.155	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156
Debt service	0.019	0.026	0.026	0.029	0.033	0.032	0.033	0.035	0.033	0.032
Total Direct Rate	0.174	0.182	0.182	0.185	0.189	0.188	0.189	0.191	0.189	0.188
Overlapping rates:										
Santa Clara County	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292
School districts	0.667	0.656	0.656	0.669	0.670	0.628	0.684	0.699	0.694	0.699
Special districts	0.032	0.039	0.039	0.031	0.031	0.030	0.031	0.031	0.030	0.030
Total direct and overlapping rates	1.166	1.169	1.169	1.177	1.182	1.137	1.195	1.212	1.205	1.209

- Note:
- The above tax rates are applied per \$100 of assessed valuation.
 - In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within as broken down in the pie chart above. In addition to the 1.00% fixed amount, the property owners are charged taxes as a percentage of assessed property values for the payment of school district bonds.

Source: Finance Department, County of Santa Clara

CITY OF SAN JOSE
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO
 (\$000's)

SCHEDULE VII

Taxpayer	2012		2003	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Cisco Technology Inc.	\$ 1,008,029	0.84%	\$ -	-
Blackhawk Parent LLC	744,488	0.62%	-	-
The Irvine Company LLC	742,758	0.62%	-	-
Hitachi Global Storage Techs, Inc.	494,648	0.41%	-	-
VF Mail LLC	491,064	0.41%	311,450	0.36%
Legacy Partners	398,828	0.33%	-	-
Carr NP Properties LLC	377,410	0.31%	-	-
FRIT San Jose Town & Country Village LLC	374,094	0.31%	-	-
San Jose Water Works	357,692	0.30%	-	-
Sobrato Interests	310,244	0.26%	400,958	0.46%
Mission West Properties LP	269,907	0.22%	286,684	0.33%
Tishman Speyer Archstone-Smith	259,986	0.22%	-	-
Oakridge Mall LP	256,662	0.21%	-	-
Ebay Inc.	216,182	0.18%	-	-
International Business Machines Corporation	193,800	0.16%	935,518	1.08%
Xilinx Inc.	188,342	0.16%	-	-
Park Center Plaza Investors LP	179,320	0.15%	-	-
WPV San Jose LLC	168,258	0.14%	-	-
Woods LP	166,656	0.14%	-	-
Laramar San Jose Parts LLC	164,803	0.14%	-	-
Total assessed property valuation, local secured net	\$ 7,363,171	6.13%	\$ 1,934,610	2.23%
Total City of San José net assessed property valuation:				
FY 2002-2003			\$ 86,648,560	
FY 2011-2012	\$ 120,189,267			

Sources: California Municipal Statistics, Inc.
 Finance Department, County of Santa Clara

CITY OF SAN JOSE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(\$000's)

SCHEDULE VIII

Fiscal Year	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2003	\$ 93,592	\$ 93,592	100.0	0	\$ 93,592	100.0
2004	97,748	95,407	97.6	0	95,649	97.9
2005	105,486	105,486	100.0	0	105,486	100.0
2006	118,803	117,360	98.8	209	117,570	99.0
2007	127,693	127,141	99.6	213	127,354	99.7
2008	137,290	135,866	99.0	223	136,088	99.1
2009	139,735	139,501	99.8	234	139,735	100.0
2010	132,901	132,175	99.5	246	132,421	99.6
2011	127,527	127,418	99.9	219	127,637	100.0
2012	129,822	129,822	100.0	0	129,822	100.0

Note: The tax levied for the current year is based on estimates provided by the County of Santa Clara. The tax levied for prior years are adjusted to reflect actual tax collections.

Sources: Finance Department, County of Santa Clara
Finance Department, City of San José

CITY OF SAN JOSE
 RATIOS OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (\$000's)

Fiscal Year	Governmental Activities										Total Governmental Activities
	General Obligation Bonds	Tax Allocation Bonds	Notes & Loans	Lease Revenue Bonds	Special Assessment Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Governmental Activities	
2003	\$ 184,720	\$ 1,605,925	\$ 4,315	\$ 578,100	\$ 80,708	\$ 291,985	\$ 2,745,753				
2004	178,480	1,735,480	4,125	581,978	85,142	346,760	2,931,965				
2005	337,240	1,782,775	23,347	655,235	79,434	339,595	3,217,626				
2006	432,445	1,745,275	92,786	646,070	75,007	331,870	3,323,453				
2007	510,710	1,796,345	89,926	641,551	71,580	322,460	3,432,572				
2008	528,565	1,978,935	86,166	629,324	68,151	312,240	3,603,381				
2009	519,320	2,055,505	131,858	655,137	64,886	301,250	3,727,956				
2010	499,970	2,107,575	76,650	644,983	60,905	284,150	3,674,233				
2011	480,320	2,049,440	70,627	669,233	163,904	271,385	3,704,909				
2012	460,670	0	(1) 20,803	(1) 659,578	160,310	164,125	1,465,486				

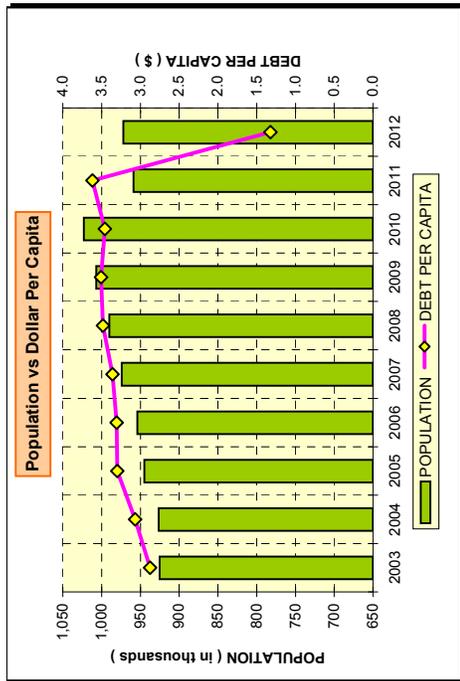
Fiscal Year	Business-type Activities										Total Primary Government	Percentage of Property Value	Debt Per Capita
	Airport Revenue Bonds	Clean Water Revenue Bonds	Wastewater Revolving Fund Loans	Total Business-type Activities	Total Primary Government	Percentage of Property Value	Debt Per Capita						
2003	\$ 268,770	\$ 99,285	\$ 59,479	\$ 427,534	\$ 3,173,287	3.66%	\$ 3.43						
2004	512,500	95,745	56,099	664,344	3,596,309	3.99%	3.88						
2005	503,885	92,035	52,658	648,578	3,866,204	4.18%	4.09						
2006	494,910	81,150	49,153	625,213	3,948,666	3.94%	4.14						
2007	485,545	77,185	45,585	608,315	4,040,887	3.68%	4.15						
2008	1,060,815	72,875	41,953	1,175,643	4,779,024	4.01%	4.83						
2009	1,049,635	62,685	38,254	1,150,574	4,878,530	3.89%	4.84						
2010	1,037,990	58,045	34,487	1,130,522	4,804,755	3.91%	4.70						
2011	1,025,870	53,255	30,651	1,109,776	4,814,685	4.04%	5.02						
2012	1,420,395	48,310	26,746	1,495,451	2,960,937	(1) 2.46%	3.05						

Note: Data pertaining to personal income specific to the City of San José Redevelopment is not readily available, thus the total debt outstanding is expressed as a percentage of property value.

(1) As of February 1, 2012, obligations of the former RDA were transferred to SARA resulting in a decrease in Government Bonds outstanding Tax Allocation Bonds, notes and loans, and other revenue bonds of the former Agency will be paid as enforceable obligations of SARA.

Sources: Finance Department, City of San José
 Finance Department, County of Santa Clara

CITY OF SAN JOSE
 RATIO OF GENERAL BONDED DEBT OUTSTANDING
 LAST TEN FISCAL YEARS
 (\$000'S)



Outstanding General Debt

Fiscal Year	General Obligation Bonds	Tax Allocation Bonds	Lease Revenue Bonds	Revenue Bonds	Total	Net Assessed Value	Population	Ratio of General Bonded Debt to Net Assessed Value	
								Bonded Debt Per Capita	Per Capita
2003	\$ 184,720	\$ 1,605,925	\$ 578,100	\$ 291,985	\$ 2,660,730	\$ 86,648,560	925,000	0.030707	\$ 2.88
2004	178,480	1,735,480	581,978	346,760	2,842,698	90,040,619	926,200	0.031571	3.07
2005	337,240	1,782,775	655,235	339,595	3,114,845	92,573,480	945,000	0.033647	3.30
2006	432,445	1,745,275	646,070	331,870	3,155,660	100,268,765	954,000	0.031472	3.31
2007	510,710	1,796,345	641,551	322,460	3,271,066	109,708,285	974,000	0.029816	3.36
2008	528,565	1,978,935	629,324	312,240	3,449,064	119,146,269	990,000	0.028948	3.48
2009	519,320	2,055,505	655,137	301,250	3,531,212	125,337,743	1,007,000	0.028174	3.51
2010	499,970	2,107,575	644,983	284,150	3,536,678	123,021,551	1,023,000	0.028748	3.46
2011	480,320	2,049,440	689,233	271,385	3,470,378	119,183,180	959,000	0.029118	3.62
2012	460,670	0	659,578	164,125	1,284,371	120,189,267	972,000	0.010686	1.32

Note: Total Outstanding General Debt excludes special assessment and special tax bonds and notes and loans payable.

(1) Decrease in General Bonded Debt Per Capita primarily due to Tax Allocation Bonds and Merged Area Revenue Bonds being transferred to SARA at February 1, 2012.

(2) For details, please refer to Note IV.C.3. of the Notes to Basic Financial Statements.

Sources: Finance Department, City of San José
 State of California, Department of Finance, Population Estimates for California Cities

CITY OF SAN JOSE
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2012

SCHEDULE XI

City Net Taxable Assessed Valuation		\$ 120,189,267,000	
			Estimated Share
	% Applicable	Outstanding Debt as of 06/30/12	of Overlapping Debt
<u>City Direct Debt</u>	100.00%	\$ 460,670,000	\$ 460,670,000
<u>Direct Tax and Assessment Debt:</u>			
City of San Jose Community Facilities Districts	100.00%	\$ 30,435,000	\$ 30,435,000
City of San Jose Special Assessment Bonds	100.00%	22,450,043	22,450,043
Total Direct Tax and Assessment Debt		<u>52,885,043</u>	<u>52,885,043</u>
<u>Overlapping Tax and Assessment Debt</u>			
Alum Rock Union School District	77.76%	75,618,665	58,802,586
Berryessa Union School District	95.79%	36,188,031	34,665,601
Cambrian School District	67.63%	18,304,944	12,380,366
Campbell Union High School District	61.94%	161,195,000	99,844,183
Campbell Union School District	49.22%	148,704,944	73,195,548
Cupertino Union School District	16.75%	120,672,535	20,212,650
East Side Union High School District	95.74%	638,508,678	611,327,364
Evergreen School District	99.45%	110,075,551	109,475,639
Evergreen School District Community Facilities District No. 92-1	100.00%	3,080,000	3,080,000
Foothill-DeAnza Community College District	4.73%	628,424,288	29,718,185
Franklin-McKinley School District	99.65%	80,756,314	80,470,437
Fremont Union High School District	10.24%	260,605,108	26,675,537
Gavilan Joint Community College District	7.75%	102,690,000	7,955,394
Los Gatos Union School District	1.49%	94,060,000	1,404,316
Los Gatos-Saratoga Joint Union High School District	0.67%	51,160,000	343,284
Luther Burbank School District	21.26%	10,487,011	2,229,434
Milpitas Unified School District	0.00%	43,585,000	87
Moreland School District	76.31%	85,223,316	65,033,912
Morgan Hill Unified School District	18.78%	55,494,040	10,419,561
Mount Pleasant School District	87.64%	6,769,992	5,933,424
Oak Grove School District	99.80%	106,774,352	106,565,074
Orchard School District	100.00%	49,195,671	49,195,671
San Jose Unified School District	98.16%	481,247,986	472,407,460
San Jose-Evergreen Community College District	87.60%	319,168,992	279,604,804
Santa Clara County	38.19%	316,800,000	120,989,088
Santa Clara Unified School District	4.25%	441,095,000	18,733,305
Santa Clara Valley Water District Benefit Assessment District	38.19%	133,440,000	50,962,070
Union School District	73.59%	70,008,042	51,521,718
West Valley Community College District	28.35%	210,961,930	59,816,146
Subtotal Overlapping Tax and Assessment Debt		<u>4,860,295,390</u>	<u>2,462,962,844</u>
Total Direct and Overlapping Tax and Assessment Debt		<u>4,913,180,433</u>	<u>2,515,847,887</u>
<u>Overlapping Other Debt:</u>			
Alum Rock Union School District Certificates of Participation	77.76%	28,000,000	21,773,360
East Side Union High School District Post Employment Obligations	95.74%	31,405,000	30,068,089
Foothill-DeAnza Community College District General Fund Obligations	4.73%	18,890,000	893,308
Franklin-McKinley School District Certificates of Participation	99.65%	5,165,000	5,146,716
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.67%	9,070,000	60,860
Campbell Union High School District Certificates Programs	61.94%	12,451,514	7,712,468
Midpeninsula Regional Open Space Park District General Fund Obligations	0.02%	138,474,717	22,156
Morgan Hill Unified School District Certificates of Participation	18.78%	13,505,000	2,535,699
San Jose Unified School District Certificates of Participation	98.16%	105,171,792	103,239,786
San Jose-Evergreen Community College District Benefit Obligations	87.60%	47,450,000	41,568,098
Santa Clara County Board of Education Certificates of Participation	38.19%	11,540,000	4,407,241
Santa Clara County General Fund Obligations	38.19%	770,947,000	294,432,369
Santa Clara County Pension Obligations	38.19%	383,034,822	146,284,829
Santa Clara County Vector Control District Certificates of Participation	38.19%	3,630,000	1,386,333
Santa Clara Unified School District Certificates of Participation	4.25%	12,980,000	551,261
West Valley-Mission Community College District General Fund Obligations	28.35%	65,715,000	18,632,831
Total Overlapping Other Debt		<u>1,657,429,845</u>	<u>678,715,404</u>
Total Overlapping Debt		<u>\$ 6,570,610,278</u>	
Total Direct and Overlapping Debt			<u>\$ 3,194,563,291</u>

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses in the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt, of each overlapping government. The City direct debt in this schedule includes General Obligation Bonds only, it does not include Special Hotel Tax Revenue Bonds (Convention Center Expansion and Renovation project), Series 2011 and outstanding obligation of the former Agency which was transferred to SARA on February 1, 2012

Sources: California Municipal Statistics, Inc.
Finance Department, County of Santa Clara

CITY OF SAN JOSE
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (\$000's)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Calculation of Debt Limit</u>										
Gross assessed value for fiscal year	\$ 88,634,267	\$ 92,414,621	\$ 95,306,884	\$ 103,289,698	\$ 112,922,568	\$ 122,633,703	\$ 129,019,882	\$ 127,102,911	\$ 123,363,998	\$ 124,438,465
Debt limit at 15% of assessed value (1)	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15
Debt limit applicable to fiscal year	\$ 13,295,140	\$ 13,862,178	\$ 14,296,033	\$ 15,493,455	\$ 16,938,385	\$ 18,395,055	\$ 19,352,882	\$ 19,065,437	\$ 18,504,600	\$ 18,665,770
<u>Calculation of Legal Debt Margin</u>										
Debt limit applicable to fiscal year	\$ 13,295,140	\$ 13,862,178	\$ 14,296,033	\$ 15,493,455	\$ 16,938,385	\$ 18,395,055	\$ 19,352,882	\$ 19,065,437	\$ 18,504,600	\$ 18,665,770
Less: total general obligation bonds	184,720	178,480	337,240	432,445	510,710	528,565	519,320	499,970	480,320	460,670
Legal debt margin	\$ 13,110,420	\$ 13,683,698	\$ 13,958,793	\$ 15,061,010	\$ 16,427,675	\$ 17,866,490	\$ 18,833,662	\$ 18,565,467	\$ 18,024,280	\$ 18,205,100
Total debt applicable to the limit as a percentage of debt limit	1.4%	1.3%	2.4%	2.8%	3.0%	2.9%	2.7%	2.6%	2.6%	2.5%

(1) Section 1216 of the San José City Charter limits the general obligation bonds of the City to 15% of the total assessed value of all real and personal property within the City limits.

Source: Finance Department, County of Santa Clara

CITY OF SAN JOSE
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(\$000's)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

Year	Gross Revenues and Other Available Funds (1)	Operating Expenses (2)	Net Revenue Available for Debt Service		Debt Service Requirements		Coverage (3)
			Debt Service	Debt Service	Principal	Interest	
2003 (4)	\$ 127,816	\$ 72,960	\$ 54,856	\$ 6,610	\$ 11,036	\$ 17,646	3.11
2004 (4)	125,779	71,020	54,759	5,993	11,461	17,454	3.14
2005 (4)	127,472	73,422	54,050	7,608	10,324	17,932	3.01
2006 (4)	137,553	78,156	59,397	8,975	12,448	21,423	2.77
2007 (4)	140,911	86,120	54,791	8,776	12,061	20,837	2.63
2008 (4)	159,359	95,615	63,744	9,753	11,814	21,567	2.96
2009 (4)	164,168	90,783	73,385	11,195	11,842	23,037	3.19
2010	158,113	82,606	75,507	11,653	19,714	31,367	2.41
2011	175,894	76,850	99,044	12,135	41,755	53,890	1.84
2012	188,441	67,875	120,566	25,550	55,175	80,725	1.49

(1) Includes operating and other revenues and prior year's surplus, excludes Passenger Facility Charges and other items as defined in the Master Trust Agreement.

(2) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.

(3) Debt coverage is calculated by dividing net revenue available for debt service by net bond debt service payable from revenues.

(4) Beginning 2009-2010, debt service requirements calculation includes Passenger Facility Charges.

(5) Some data reported previously was revised to reflect the most recent information.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

WASTEWATER TREATMENT SYSTEM

Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service		Debt Service Requirements		Coverage
			Debt Service	Debt Service	Principal	Interest	
2003	\$ 112,333	\$ 78,798	\$ 33,535	\$ 8,994	\$ 5,385	\$ 14,379	2.33
2004	101,281	78,393	22,888	6,920	5,057	11,977	1.91
2005	119,995	87,749	32,246	7,151	5,037	12,188	2.65
2006	116,453	85,936	30,517	14,389	4,775	19,164	1.59
2007	124,754	89,313	35,441	7,533	3,786	11,319	3.13
2008	141,777	105,779	35,998	7,943	3,405	11,348	3.17
2009	165,484 *	101,833	63,651	8,179	3,276	11,455	5.56
2010	159,124	113,648	45,476	8,407	3,038	11,445	3.97
2011	170,078	120,225	49,853	8,626	2,816	11,442	4.36
2012	168,976	122,439	46,537	8,850	2,569	11,419	4.08

(1) Includes operating and other revenues.

(2) Includes operating expenses less depreciation and amortization.

* Rate increase effective July 1, 2008.

Source: Environmental Services Department, City of San José

CITY OF SAN JOSE
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Fiscal Year	Population	Net Taxable Assessed Values (\$000's)		Per Capita Taxable Property Values	Average Unemployment Rate %
		Net Taxable Assessed Values (\$000's)	Per Capita Taxable Property Values		
2003	925,000	\$ 86,648,560	\$ 93,674	9.8	
2004	926,200	90,040,619	97,215	9.6	
2005	945,000	92,573,480	97,961	7.2	
2006	954,000	100,268,765	105,104	6.0	
2007	974,000	109,708,285	112,637	5.0	
2008	990,000	119,146,269	120,350	5.3	
2009	1,007,000	125,337,743	124,466	6.6	
2010	946,000 (*)	123,021,551	130,044	12.2	
2011	959,000	119,183,180	124,279	12.2	
2012	971,000	120,189,267	123,779	10.8	

Note: Data pertaining to personal income is not readily available, thus the City used taxable assessed values to calculate per capita taxable property values.

Sources: State of California, Department of Finance, Population Estimates for California Cities
 Finance Department, County of Santa Clara
 State of California, Employment Development Department, Labor Market Information Division

Notes:
 (*) Revised by State of California Department of Finance due to using the 2010 Census counts as the new benchmark in estimating population for California Cities.

CITY OF SAN JOSE
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND SIX YEARS AGO

SCHEDULE XV

Company or Organization	2012			2006		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	15,360	1	1.70%	14,860	2	1.70%
Cisco Systems	13,600	2	1.51%	16,500	1	1.89%
City of San Jose*	5,400	3	0.60%	6,670	3	0.76%
San Jose State University	4,780	4	0.53%	3,100	5	0.35%
eBay Inc.	4,700	5	0.52%	2,200	8	0.25%
IBM	4,100	6	0.45%	5,800	4	0.66%
U.S. Postal Service	3,921	7	0.43%	n/a (**)	n/a (**)	n/a (**)
San Jose Unified School District	2,690	8	0.30%	1,820	13	0.21%
Hitachi	2,150	9	0.24%	2,800	6	0.33%
Adobe Systems, Inc.	2,020	10	0.22%	2,000	10	0.23%
Kaiser Permanente	1,940	11	0.21%	n/a (**)	n/a (**)	n/a (**)
Cadence Design Systems	1,924	12	0.21%	1,750	14	0.20%
Good Samaritan Hospital	1,810	13	0.20%	1,850	12	0.21%
Sanmina-SCI	1,780	14	0.20%	2,100	9	0.24%
Safeway	1,760	15	0.20%	n/a (**)	n/a (**)	n/a (**)

Note: Data pertaining to principal employers for nine years ago is not readily available. As such we used 2006 information which was the earliest available.

(*) Full-time employees.

(**) Company or Organization not included in top 15 principal employers in 2006.

Source: California Employment Development Department, Labor Market Information Division

CITY OF SAN JOSE
 FULL-TIME AND PART-TIME CITY EMPLOYEES
 LAST TEN FISCAL YEARS

	Full-Time and Part-Time Employees as of June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011 (4)	2012
Airport	361	362	360	347	360	367	343	281	190	181
City Attorney's Office	93	91	88	82	87	85	87	79	71	67
City Auditor's Office	28	23	21	20	17	17	19	16	14	12
City Clerk's Office	20	13	14	15	19	21	21	16	12	11
City Council Staff	99	97	97	94	85	93	80	83	81	81
City Manager's Office	97	95	108	109	126	117	118	104	68	62
Convention & Cultural Facilities	129	118	93	71	78	72	69	53	8	1
Environmental Services Department	408	401	424	418	460	477	498	499	486	455
Finance Department	107	106	106	133 (1)	127	142	139	127	114	109
Fire Department	796	775	766	801	859	867	828	816	712	740
General Services Department	338	325	298	178 (1)	189	208	304 (3)	303	234	0 (5)
Housing Department	67	70	66	67	80	85	86	83	65	57
Human Resources	189	146	123	139	164	179	148	140	93	74
Independent Police Auditor	6	6	5	6	6	6	5	6	6	6
Information Technology	113	109	117	100	102	143	141	128	99	83
Library Department	528	543	589	621	733 (2)	712	701	651	566	532
Office of Economic Development	46	54	60	85	75	76	90	90	107	138
Parks, Recreation & Neighborhood Svcs	2,323	1,944	1,960	2,214	1,956	1,909	1,709 (3)	1,717	1,521	1,422
Planning, Building & Code Enforcement	335	336	320	309	351	367	328	272	295	288
Police Department	1,990	1,962	1,898	1,881	1,934	1,927	1,953	1,831	1,715	1,572
Public Works Department	455	440	383	365	347	361	332	293	240	475
Retirement Services	23	23	21	26	29	29	30	28	28	27
Transportation	500	480	452	447	431	478	462	444	408	406
	9,051	8,519	8,369	8,528	8,615	8,738	8,491	8,060	7,133	6,799

Note:

- (1) Effective FY 2005-2006, the Purchasing Group and the Parks Maintenance Group were transferred from the General Services to the Finance Department and the Parks, Recreation & Neighborhood Services Department.
- (2) Effective FY 2006-2007, the City opened the Evergreen and Cambian Libraries
- (3) Effective FY 2008-2009, the Animal Care Services Division was transferred from the Parks, Recreation & Neighborhood Services Department to the General Services Department.
- (4) Decrease primarily due to layoffs and a number of eliminated positions as a cost-saving strategy to reduce the FY 2010-11 \$115.2 million budget shortfall.
- (5) Effective FY 2011-2012, the General Services Department merged with the Public Works Department.

Source: Finance Department, City of San José

CITY OF SAN JOSE
OPERATING INDICATORS
LAST TEN FISCAL YEARS

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
AIRPORT:										
Takeoffs Per Year:										
Commercial Airline Operations	129,317	113,972	98,892	97,198	97,596	96,860	86,672	76,024	73,094	71,672
Cargo Commercial Airlines Operations	5,815	4,636	3,594	3,464	3,388	3,140	2,554	2,076	2,046	1,678
Taxi / Commuter Commercial	10,385	19,032	29,672	30,756	28,906	29,504	23,930	19,776	16,172	14,806
General Aviation	78,618	62,510	63,708	61,907	55,021	55,146	46,674	33,439	30,503	31,664
Military Flights	211	125	99	83	103	64	242	275	276	285
Landings Per Day:										
Commercial	199	189	181	180	178	177	155	134	125	121
General Aviation	108	86	87	85	75	76	64	46	42	43
Number of Passengers Per Year:										
Business	4,320,000	5,136,000	5,148,960	5,208,960	5,113,920	5,116,800	4,200,000	3,950,400	4,026,720	3,964,800
Non-Business	6,480,000	5,564,000	5,578,040	5,643,040	5,540,080	5,543,200	4,550,000	4,279,600	4,382,280	4,295,200
ENVIRONMENT AND UTILITIES:										
Water:										
Gallons of Wastewater Treated Per Day (in millions)	118	118	116	116	116	116	107	106	167	167
Gallons of Municipal Water Consumption Per Year (in billions)	7.0	7.0	7.4	7.7	7.7	8.3	8.7	7.9	6.8	7.7
Recycled Materials:										
Tons of Recyclables	95,217	69,615	100,703	104,631	105,648	132,821	129,462	120,511	120,819	114,369
Tons of Yard Trimmings	127,401	135,733	141,061	146,706	161,142	123,473	125,676	128,728	130,637	132,875
Gallons of Used Motor Oil	212,276	194,645	244,647	249,477	165,357	120,098	116,864	123,318	122,745	124,871
FIRE:										
Fires Per Year	2,245	2,200	1,700	2,794	3,270	3,172	3,018	1,659	1,570	1,765
Hazardous Materials Incidents Per Year	500	500	350	221	330	546	841	368	291	448
Fire Safety Code Inspections Per Year	16,000	16,000	16,000	16,050	14,123	16,989	12,056	11,073	11,508	14,318
Emergency Medical Calls Per Year	40,000	40,000	40,650	41,322	41,616	40,534	46,533	49,036	49,663	49,320
LIBRARIES:										
Circulation	11,635,848	13,491,212	14,170,776	14,449,984	14,200,000	14,250,000	14,399,685	15,000,000	13,580,762	11,544,886
Reference Questions	500,345	536,073	529,641	489,282	550,000	600,000	648,721	650,000	748,647	666,385
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Annual Participant Hours / Attendance in Recreation Programs *	11,160,164	4,226,800 ⁽¹⁾	3,592,800	3,679,836	2,610,890	2,740,500	2,200,000	2,050,000	2,030,000	220,743 ⁽²⁾
POLICE:										
911 Calls Per Year	212,152	202,891	235,100	317,884	368,855	400,155	457,360	405,739	669,594	420,862
311 Calls Per Year	285,214	301,144	300,700	265,548	259,834	257,100	256,648	343,868	435,312	360,929
Cases Investigated Per Year	32,472	33,202	24,262	37,399	42,000	46,096	45,000	38,006	35,090	32,982
BUILDING PERMITS:										
Number issued:										
New Buildings	1,023	1,166	1,206	1,201	1,534	916	593	369	388	620
Building Alterations	8,976	8,924	8,547	8,025	7,718	7,272	6,165	6,020	6,677	4,495
Value:										
New Buildings (in \$)	552,699,198	473,149,068	532,765,367	466,877,910	535,783,080	455,272,352	332,315,767	298,573,631	388,496,732	517,738,795
Building Alterations (in \$)	371,974,285	331,486,068	273,798,097	358,482,282	412,444,929	439,999,543	342,053,067	301,370,071	383,794,593	475,777,145

Note: (1) For fiscal year 2003, participation was measured using hours. Effective fiscal year 2003-2004, participation was changed from hours to attendance. (2) Decrease due to change in methodology used to calculate attendance from number of attendees to number of events.

Sources: 2012-13 Adopted Operating Budget
City Manager's Office, City of San José

CITY OF SAN JOSE
CAPITAL ASSET STATISTICS
BY FUNCTION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
AIRPORT:										
Terminals	2	2	2	2	2	2	2	2	2	2
Runways	3	3	3	3	3	3	3	3	3	3
Public Parking Spaces:										
Short-Term Parking	2,878	2,888	2,888	2,888	2,856	2,383	2,383	2,695	2,539	2,539
Long-Term Parking	4,100	4,000	4,050	4,050	3,646	3,991	3,991	3,600	3,085	3,085
ENVIRONMENT AND UTILITIES:										
Wastewater:										
Miles of Municipal Sewer Mains	2,169	2,181	2,190	2,195	2,200	2,200	2,200	2,251	2,258	2,264
Maximum Daily Capacity (millions of gallons)	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0
Water:										
Meters in Municipal Service Water Area	25,500	26,025	26,416	26,954	26,954	26,230	26,500	26,475	26,300	26,400
Miles of Water Mains	311	325	330	340	340	343	344	344	344	345
FIRE:										
Stations	31	31	31	31	31	34	34	34	33	33
LIBRARIES:										
Main Library	1	1	1	1	1	1	1	1	1	1
Branches	17	17	17	20	20	21	21	21	21	22
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Park Sites	149	170	194	159	163	174	183	188	189	192
Community Centers	19	19	27	28	30	38	42	10	12	12
POLICE:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles and Motorcycles	418	412	399	384	384	387	390	384	382	430
Horses and Dogs	34	33	23	26	29	27	27	27	26	20
Aircraft	2	2	2	2	2	2	2	2	2	2

Source: City Manager's Office, City of San José

CITY OF SAN JOSE
 CONDUIT ISSUER OF MULTIFAMILY HOUSING REVENUE BONDS OUTSTANDING⁽¹⁾
 June 30, 2012

SCHEDULE XIX

Project Name	Series	Date Issued	Issue Amount	6/30/2012 Balance	Maturity/Redemption	Annual Fees ⁽²⁾
Siena at Renaissance Square	1996A	08/22/96	\$ 50,000,000	\$ 60,000,000	12/01/29	\$ 75,000
Almaden Lake Village Apartments	1997A	03/27/97	25,000,000	25,000,000	03/01/32	33,750
Coleman Senior Apartments	1998	04/24/98	8,050,000	6,782,112	05/01/30	8,535
Italian Gardens Senior Apartments	1998	04/24/98	8,000,000	6,738,776	05/01/30	8,480
Carlton Plaza	1998A	04/24/98	12,000,000	12,000,000	10/15/32	15,000
The Gardens Apartments	1999A	05/12/99	18,970,000	0	01/01/32	6,000
Helzer Court Apartments	1999A	06/02/99	16,948,000	15,618,000	12/01/41	26,122
Ohlone-Chynoweth Commons Apartments	1999	06/04/99	16,200,000	0	05/30/09	10,125
Kimberly Woods Apartments	1999A	12/20/99	16,050,000	16,050,000	12/01/29	20,062
Almaden Lake Village Apartments	2000A	03/29/00	2,000,000	2,000,000	03/01/32	na
Sixth and Martha Family Apartments Phase I	2000	07/21/00	9,900,000	8,550,000	03/01/33	12,375
Craig Gardens Apartments	2000A	12/05/00	7,100,000	4,123,014	12/01/32	8,875
El Parador Apartments	2000A	12/07/00	6,130,000	5,660,000	01/01/41	14,412
El Parador Apartments	2000B	12/07/00	900,000	345,000	01/01/16	na
Monte Vista Gardens Senior Housing	2000A	12/08/00	3,740,000	2,956,631	07/15/33	9,350
San Jose Lutheran Seniors Apartments	2001A-1	07/11/01	3,850,000	3,355,758	02/15/34	6,250
Sixth and Martha Family Apartments Phase II	2001C	08/01/01	9,000,000	7,200,000	04/01/34	11,250
The Villages Parkway Senior Apartments	2001D	08/01/01	6,800,000	5,080,000	04/01/34	8,500
Lenzen Housing	2001B	08/22/01	8,395,000	7,735,000	02/20/43	11,868
Terramina Square Apts/North White Rd Proj	2001F	11/15/01	16,845,000	16,009,729	04/01/44	21,056
Villa de Guadalupe Apartments	2001E	11/27/01	6,840,000	6,840,000	01/01/32	9,687
Villa de Guadalupe Apartments	2001E (Tax.)	11/27/01	760,000	26,133	04/01/12	na
Almaden Senior Housing Apartments	2001G	12/05/01	6,050,000	2,940,000	07/15/34	7,562
Betty Anne Gardens Apartments	2002A	04/05/02	11,000,000	6,690,000	04/01/34	13,750
El Paseo Apartments	2002B	04/05/02	9,600,000	4,645,000	10/01/34	12,000
Sunset Square Apartments	2002E	06/26/02	10,904,000	4,069,000	06/01/34	13,360
Villa Monterey Apartments	2002F	06/27/02	11,000,000	10,300,000	07/15/35	13,750
Monte Vista Gardens Senior Housing Apartments, Phase II	2002C-1	07/24/02	3,465,000	2,835,344	02/01/35	4,581
Pollard Plaza Apartments	2002D	08/06/02	14,000,000	6,895,000	08/01/35	17,500
Evans Lane Apartments	2002H	10/08/02	31,000,000	0	04/15/36	38,750
Hacienda Villa Creek Senior Apartments	2002G-1	10/10/02	4,453,000	3,560,000	12/01/34	8,750
Kennedy Apartment Homes	2002K	12/11/02	14,000,000	9,075,000	12/15/35	17,500
Fallen Leaves Apartments	2002J-1	12/18/02	13,360,000	11,110,000	06/01/36	23,500
Fallen Leaves Apartments	2002J-2 (Sub.)	12/18/02	3,340,000	2,860,000	05/01/36	na
Turnleaf Apartments	2003A	06/26/03	15,290,000	15,090,000	06/21/36	19,112
The Oaks of Almaden Apartments	2003B-1	07/29/03	4,365,000	3,753,873	02/15/36	10,437
Cinnabar Commons	2003C	08/07/03	25,900,000	25,000,000	02/01/37	32,375
Almaden Family Apartments	2003D	11/14/03	31,300,000	24,615,000	11/15/37	39,125
Trestles Apartments	2004A	03/04/04	7,325,000	7,325,000	03/01/37	10,781
Trestles Apartments	2004A (Sub.)	03/04/04	1,300,000	1,131,028	04/15/37	na
Vintage Tower Apartments	2004B-1	06/28/04	4,150,000	3,139,040	01/15/37	6,875
Delmas Park	2004C-1	10/15/04	13,780,000	12,834,071	01/01/47	24,223
Raintree Apartments	2005A	02/01/05	21,100,000	20,600,000	02/01/38	26,375
Paseo Senter I	2005B-1	12/21/05	6,142,200	4,825,042	12/01/38	7,500
Paseo Senter II	2005C-1	12/21/05	4,903,000	3,737,047	06/01/38	7,500
Casa Feliz Studio Apartments	2007A	06/13/07	11,000,000	0	12/01/09	7500
Almaden Family Apartments	2007B (Sub.)	12/17/07	6,385,000	4,036,640	11/15/37	na
Curtner Studios	2007C-1	12/19/07	5,520,000	5,279,631	12/01/39	7,500
Fairgrounds Senior Housing Apartments	2008B	05/08/08	26,000,000	13,335,000	05/01/41	32,500
Las Ventanas Apartments	2008B	07/15/08	25,900,000	25,900,000	07/01/38	na
Brookwood Terrace Family Apts	2009B-1	12/23/09	7,780,000	7,650,000	01/01/44	17,000
Brookwood Terrace Family Apts	2009B-2	12/23/09	5,445,000	0	01/01/44	na
Fourth Street Apts	2010A-1	06/02/10	5,620,000	5,620,000	01/01/14	28,750
Fourth Street Apts	2010A-2	06/02/10	17,380,000	16,728,566	01/01/14	na
Orvieto Family Apartments	2010B-1	07/20/10	7,760,000	7,760,000	08/01/29	17,750
Orvieto Family Apartments	2010B-2	07/20/10	6,440,000	4,157,922	08/01/29	na
Kings Crossing Apartments	2010C	09/17/10	24,125,000	17,627,602	09/01/45	30,156
Taylor Oaks Apartments	2011A-1	10/21/11	3,950,000	3,950,000	10/01/28	7,875
Taylor Oaks Apartments	2011A-2	10/21/11	2,350,000	2,350,000	04/01/24	na
1st and Rosemary Family Apartments	2012C	04/19/12	35,500,000	14,819,285	10/01/44	44,375
1st and Rosemary Senior Apartments	2012D	04/19/12	15,500,000	4,441,818	10/01/44	19,375
Mayfair Court Apartments	2012B-1	04/20/12	5,220,000	1,644,730	10/01/44	27,500
Mayfair Court Apartments	2012B-2	04/20/12	16,780,000	0	10/01/44	na
Total			\$ 749,860,200	\$ 534,400,789		\$ 912,284

(1) California Government Code Chapter 10.7 "Conduit Financing Transparency and Accountability" requires additional reporting and public disclosures by public agencies that issue certain revenue bonds, including conduit revenue bonds. This table provides the information required by section 5872 of Chapter 10.7 which includes disclosure of fees imposed on borrowers by conduit financing provider, expenditures related to fees, dollar amount and nature of fees and expenses, amount of any authorized, but unsold bonds at end of June 30, 2012, and amount of debt issued and outstanding at end of reporting period.

As of June 30, 2012 the City has served as a conduit issuer for only multifamily housing revenue bonds.

(2) Annual monitoring fees and upfront fees are collected pursuant to City Council Policy No. 1-16, Policy for the Issuance of Multifamily Housing Revenue Bonds. The annual monitoring fee is charged to reimburse the City for monitoring the restricted units, the reimbursement agreement and ensure compliance with tax law. The annual monitoring fees are deposited in the Housing Activities Fund.