CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

2014

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014
SAN JOSE, CALIFORNIA

City of San José
California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014

Prepared by the Finance Department

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Director of Finance

City of San José

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City Attorney	Housing	Public Works
City Auditor	Human Resources	Successor Agency to the Redevelopment Agency
City Clerk	Information Technology	Retirement Services
City Manager	Library	Transportation

Parks, Recreation and Neighborhood Services

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Manager

November 14, 2014

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, 2013 through June 30, 2014 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 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 ("MGO"), 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 2013-2014 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 "unmodified" or "clean" opinion. The independent auditor's report is included in the Financial Section of this report.

In addition, MGO 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.

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.

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 provides an oversight in the management of convention, cultural event and hospitality facilities that include the San José McEnery Convention Center, Center for the Performing Arts, California Theatre, Mexican Heritage Plaza, Ice Centre, Dolce Hayes Mansion and Conference Center, and the SAP Center at San José – home of the San José Sharks of the National Hockey League.

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 and 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.

- ***Environmental and Utility Services***: The Environmental and Utility Services CSA 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.

- ***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.

- ***Public Safety***: The Public Safety CSA's objective is to provide prevention and emergency response services for crime, fire, medical, hazardous, and disaster-related situations.

- ***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, develop the City's human resources, and manage the City's financial and technology systems.

- ***Transportation and 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, along with the City's economic development efforts.

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 2014 estimated population of 1,001,000[1], 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 79.6 percent[2] 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, account for approximately 14.7 percent[2] 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 San José-Santa Clara Clean Water Financing Authority, the City of San José Financing Authority, and the Successor Agency to the Redevelopment Agency of the City of San José ("SARA").

ECONOMIC CONDITION and FISCAL OUTLOOK

Fiscal year 2013-2014 ended with a continued solid growth in a number of revenue categories such as Property Tax, Sales Tax, Transient Occupancy Tax, and development-related fees and taxes. Other revenue categories such as the Construction and Conveyance taxes have shown improvement in 2013-2014. With strategic financial reform, revenue increases from a stronger economy, and the careful management of expenses, the City's budget continued to stabilize in 2013-2014 and provided for limited services enhancements and infrastructure improvements, avoided service cuts, and allowed for small increases in employee compensation. However, the balance between revenues and expenditures remains fragile and the General Fund budget forecast is essentially flat over the next five years with variances representing less than 1% of the projected General Fund budget (revenues and expenditures). Therefore,

[1] State of California, Department of Finance, Population Estimates for Cities and Counties, January 2014.
[2] State of California, Employment Development Department, Labor Market Information Division, June 2014.

it is important for the organization to continue to monitor increasing costs and to seek new opportunities to increase tax base revenues to maintain fiscal sustainability.

Expenditure savings were achieved during fiscal year 2013-2014 as elements of the Fiscal Reform Plan approved by the City Council in May 2011 were implemented including the elimination of the Supplemental Retiree Benefit Reserve ("SRBR") in each of the City's retirement plans and changes to the healthcare plans for active employees and retirees. Additional changes to the healthcare plans for active employees and retirees were made in fiscal year 2013-2014 with the implementation of a four tier rate program for the healthcare plans for both active non-sworn employees and all retirees creating additional savings. However, the City still faces uncertainties related to the implementation of the retirement reform measures, including those approved by the voters with the passage of Measure B in June 2012, and changes to the lowest cost healthcare plans offered to active employees and retirees. Significant portions of Measure B are the subject of legal challenges by individual employees, retirees and bargaining units representing current employees that were consolidated under the caption of San José Police Officers' Association v. City of San José, Board of Administration for Police and Fire Department (the "SJPOA Case") in the Santa Clara County Superior Court and the judgment in the SJPOA Case is currently on appeal by the City and various other parties. In connection with the SJPOA Case, the parties have stipulated to delay implementation of various aspects of Measure B including the additional retirement contributions required under Measure B by employees in Tier 1 of both retirement plans to a date no sooner than July 1, 2015. A separate case was filed in July 2014 by the San Jose Retired Employees Association, along with four individual retirees, challenging the changes to healthcare plans for retirees and is pending in the Santa Clara County Superior Court.

Additionally, unfair labor practice charges filed by various bargaining units with the California Public Employment Relations Board related to Measure B and the Quo Warranto action brought by the San José Police Officers Association alleging that the City violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the June 2012 ballot remain pending.

The property taxes withheld in redevelopment project areas by the County of Santa Clara ("County") primarily to fund the County employees' retirement plans and the Water District levy are concerning issues for the City's General Fund. The County's continued withholding of these funds will require the City to advance additional funding to ensure timely payment of certain debt obligations of the former Redevelopment Agency that the City is contractually obligated to pay in the absence of sufficient redevelopment property tax revenues. The City and County are engaged in litigation regarding the County's actions, which remains pending in the California Court of Appeals. However, with the continuing growth in the tax increment, it is anticipated that the amount of additional funding needed to be provided by the City may decrease in the near future.

The 2013-2014 Adopted Budget was developed with the assumption of continued economic recovery. Economic indicators and actual revenue performance supported this assumption, with continued improvement during 2013-2014. Employment indicators, residential and industrial permit activity, median single-family home prices and days on market have all improved. The June 2014 employment level in the MSA of 1.0 million was 3.5%[3] above the June 2013 level of 969,600[3]. This employment level exceeds the most recent peak of 991,900 in December 2013, and well above the pre-recession peak of 930,500 experienced in December 2007. The unemployment rate in the MSA continued to improve in 2013-2014, dropping from 7.3% in June 2013 to 5.5% in June 2014. These rates remain well below the double digit levels that had been experienced in recent years. The June 2014 unemployment rate in this region is less than the unadjusted rate for California (7.3%) and the nation (6.3%).

[3] State of California, Employment Development Department, Labor Market Information Division, June 2014.

Construction activity in the City was quite strong in 2013-2014, with total fiscal year end valuation of $1.7 billion, a 77% increase from the prior year of $1.0 billion and a decade-plus high. The strongest increase in performance continued in the commercial permit activity, with construction valuation of $398.5 million, which was up 89% from the prior year valuation level. The 4,724 permits for new residential units were issued through June 2014, which were 75% above the prior year level. The total valuation of industrial permits issued of $457.4 million was 85% above the prior year valuation level. Overall, this construction activity drives the revenue collection in several construction tax categories and is an indicator of future activity for several other categories, such as property taxes and storm and sanitary sewer system fees.

The housing market also continued to improve in 2013-2014. The median price for single family homes increased in value, with a median home price in June 2014 of $795,400, up 8.6% from the June 2013 price of $732,500. In addition, the amount of time it takes to sell a home (single-family and multi-family dwelling units) has decreased in the past year from 22 days in June 2013 to 20 days in June 2014, a 9.1% decrease. The June 2014 figure reflects a new low compared to the prior low in June 2013. The number of home sales (single-family and multi-family dwelling units), however, has decreased over the past year (-3.3%) from 8,091 sales in 2012-2013 to 7,824 sales in 2013-2014. As the national, state and local economy continues to improve, the City's economically sensitive revenues also reflect strong growth from the low points in recent years, such as the property taxes.

The City Council adopted a balanced fiscal year 2014-2015 budget in June 2014. This marks the third year that the operating budget did not include significant reductions in services, staffing, and compensation to achieve a balanced budget.

Consistent with the prior fiscal year, the 2014-2015 budget continues with a two-year balancing approach by setting aside $2.4 million in one-time funds to address the projected shortfall in fiscal year 2015-2016. The fiscal year 2014-2015 budget focused on the following three goals: (1) Keeping Our Community Safe; (2) Investing in Our Future; and, (3) Effectively Delivering Services. These goals were met by using a balanced approach to maintaining stability, meeting service delivery needs, and planning for uncertainties. The 2014-2015 Adopted Budget has a limited number of new budget actions in strategically important areas. It avoids service cuts and includes incremental increases in employee compensation in a phased effort to restore compensation reductions made in prior years. The Adopted Budget also includes service delivery efficiencies and cost savings that can be obtained while maintaining service levels. Despite this hard-won stability of the budget in both the current fiscal year and the prior two fiscal years, the City will continue to face a long-term "service level deficit", unless there are significant new sources of revenues that will allow the City to fully restore services to prior levels.

The City's current general obligation credit ratings are Aa1/AA+/AA+ from Moody's Investors Service, ("Moody's"), Standard & Poor's ("S&P"), and Fitch Ratings ("Fitch"), respectively. These credit ratings have remained the same from the prior year, and the City continues to be one of the highest rated large cities (with population over 250,000) in California, and third highest among the nation's ten largest cities. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence and sound financial management and prudent budgetary practices.

SIGNIFICANT COMMUNITY EVENTS and ACCOMPLISHMENTS

Examples of significant community events and accomplishments for the fiscal year ended June 30, 2014, include the following:

- In July 2013, Partnership for Working Families ("PWF") a national nonprofit social-justice group, identified the City of San José as one of three cities in the nation with sustainable recycling programs that help achieve zero waste and support family-sustainable wages and economic development. In addition, The Transforming Trash in Urban America study surveyed 37 of the country's largest cities, and named San José a "model and hub of innovation" for producing one of the highest recycling rates in the country." These recognitions reflect the City's franchise agreements and service contracts that enable the City to set and enforce standards including "a living wage for haulers and give workers a voice on the job".

- In August 2013, the Public Works Department accepted an award for Project of the Year for the construction of the City's Seven Trees Community Center and Branch Library. The award was presented by the American Public Works Association at its annual national conference in Chicago, Illinois. The project consisted of the construction of a new two-story, 58,000 square-feet combined community and branch library in Central San José. Although the construction of the project was completed in July 2011, the facility became fully operational in January 2013.

- In December 2013, the City received three of the seven awards presented by the Silicon Valley Leadership Group ("SVLG") for its outstanding achievement to build a strong and vibrant local economy. The City's awards included the Mineta San José International Airport in the category for "Responding Globalization" for economic development strategies, the San José High Rise Incentive Program in the category of "Sustainable Green Development" for the City's efforts to boost a vibrant urban environment in downtown San José, and the City's Samsung Project in the category of "Real Estate Development and Reuse" for innovative reuse of real estate to develop a project for creating and preserving jobs for San José and Silicon Valley. For the SVLG awards program, twenty-one public agencies participated, submitting 33 applications involving innovative programs and services that have a positive difference in the region.

- In June 2014, the City's library parcel tax extension measure was approved by San José voters by the required two-thirds margin. The measure will continue funding open library hours, updated books and research materials, access to computers, children's reading programs, teen and senior programs, and adult literacy and job readiness. The measure extended the library parcel tax for another 25 years.

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

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. The CIP continues the approach of carefully balancing resource investments to improve and rehabilitate existing public infrastructure while still making targeted investments that align with the City's economic development and community livability goals contained within the Envision San José 2040 General Plan.

In total, the City's 2014-2015 Adopted Capital Budget totals $937.9 million and the 2015-2019 Adopted CIP totals $2.4 billion. The 2014-2015 Adopted Capital Budget reflects a 3.6% increase from the 2013-2014 Adopted Capital Budget of $905.3 million and from the five-year CIP perspective, the 2015-2019 Adopted CIP is 15.7% higher than the 2014-2018 Adopted CIP of $2.1 billion. The CIP includes large investments to upgrade and revitalize the Water Pollution Control Plant ("WPCP"), now referred to as the San José-Santa Clara Regional Wastewater Facility ("Wastewater Facility"). The five-year CIP increase is driven primarily by the Wastewater Facility upgrades and investments in park and transportation infrastructure generated through higher construction and real estate taxes.

Key components of the 2015-2019 Adopted Capital Improvement Program include:

- Water Pollution Control Plant is the largest capital program accounting for 38% of the 2015-2019 CIP with a total of $926.3 million directed to renovate and upgrade the WPCP infrastructure to ensure capacity and reliability of treatment plant operations.

- Traffic Capital Program is the second largest program at 16% of the CIP with a budget of $384.7 million, of this amount, approximately 31% or $124.7 million is directed towards pavement maintenance and rehabilitation activities.

- Parks, and Community Facilities Development Capital Program for fiscal years 2015-2019 plans funding of $346.5 million, of which $186.9 million is budgeted in 2014-2015. Bond Projects Fund totals $20.0 million for the anticipated completion of new softball and soccer sports complexes in the 2015-2019 CIP.

- Airport Capital Program for fiscal years 2015-2019 totals $262.9 million, of which $133.3 million is budgeted in 2014-2015. After the successful completion of several large Airport Master Plan projects, the 2015-2019 CIP focuses on the maintenance and preservation of Airport infrastructure, and on the redevelopment of the non-terminal areas, including the Airport's west side and the northeast and southeast of the Airport.

- Sanitary Sewer System Capital Program for fiscal years 2015-2019 plans funding of $205.1 million, of which $97.4 million is budgeted in 2014-2015. The program's funding is used to enhance sewer capacity for continued development and to rehabilitate existing sewers. This level of funding does not include an increase for Sewer Service and Use Charge fees in 2014-2015. Estimated rate increases ranging from 3% to 5% beyond 2014-2015 may be revised based on future assessments of capital and operating needs or changes in project costs.

- Storm Sewer System Capital Program for fiscal years 2015-2019 plans funding of $61.8 million, of which $33.1 million is budgeted in 2014-2015. This level of funding did not require a rate increase in fiscal year 2014-2015, however, the need for a rate increase may be reassessed beyond 2014-2015.

- Library Capital Program for fiscal years 2015-2019 plans funding of $63.7 million, of which $38.4 million is allocated in 2014-2015. A total of $10.8 million is allocated in the 2015-2019 capital program for the completion of branch library bond projects including the construction of a new branch (Southeast Branch) which is the final library branch designated as a bond funded project and is anticipated to open in winter 2016. The Library Parcel Tax approved by San José voters in June 2014 for the next 25 years will continue to be a significant source of funding for maintaining the library's ongoing efforts and supporting its potential growth.

- Public Safety Capital Program for fiscal years 2015-2019 plans funding of $53.6 million, of which $24.3 million is budgeted in 2014-2015. The majority of the Public Safety Bond Projects for the Police and the Fire Departments funded by the Neighborhood Security Act Bond Measure have been completed. One of the two remaining bond projects, Fire Station 21 Relocation, is expected to be completed in 2015. There is insufficient bond funding, however, to complete the last project, Fire Station 37. This project has been deferred pending the completion of an analysis of the Fire Department response time performance through a comprehensive Fire Department organizational review.

Although the local economic climate has improved, the need to invest in the rehabilitation of the City's critical infrastructures quickly outpace the increase in available revenues. The Deferred Infrastructure Maintenance Backlog report submitted to the Transportation and Environment Committee in May 2014 identified a backlog of unmet/deferred infrastructure needs totaling approximately $1.05 billion. Faced with this continued funding gap the City continues to seek out additional revenue sources for these infrastructure needs, as well as methods to reduce project costs, such as design-build project delivery.

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 external independent auditors.

As part of the City's single audit procedures, tests are performed to test 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.

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 most recently revised on June 10, 2014, 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
- Ensure the full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with applicable City Policy and 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, 2013. This was the twenty-sixth 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 only one year. 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-fourth consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the fiscal year beginning July 1, 2013. 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.

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,

EDWARD K. SHIKADA
City Manager

Julia H Cooper

JULIA H. COOPER
Director of Finance

Government Finance Officers Association

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, 2013

Executive Director/CEO

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

City of San Jose

California

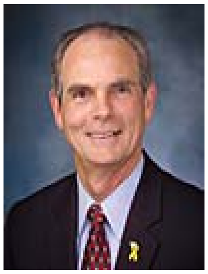
For the Fiscal Year Beginning

July 1, 2013

Executive Director

San José Mayor & City Council

To contact members of the San José City Council by mail, send to:
200 East Santa Clara Street, Tower 18th, San José, CA 95113



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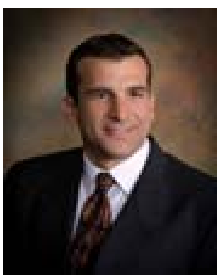

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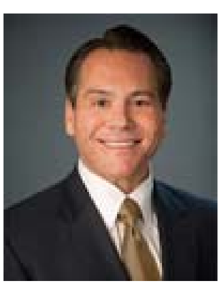

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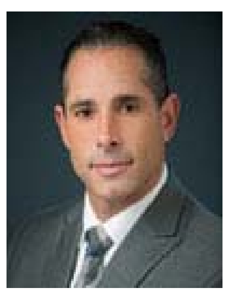

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CITY ORGANIZATION BY FUNCTION

RESIDENTS OF SAN JOSE

MAYOR AND CITY COUNCIL

BOARDS AND COMMISSIONS

COUNCIL APPOINTEES

- Office of City Attorney
- Office of City Auditor
- Office of City Clerk
- Office of Independent Police Auditor

CITY MANAGER

- Budget Office
- Communications
- Economic Development
- Employee Relations

GENERAL GOVERNMENT DEPARTMENTS

- Finance
- Human Resources
- Information Technology
- Retirement Services

PUBLIC SAFETY DEPARTMENTS

- Fire
- Police

CAPITAL MAINTENANCE DEPARTMENTS

- Public Works
- Transportation

COMMUNITY SERVICES DEPARTMENTS

- Airport
- Environmental Services
- Housing
- Library
- Parks, Recreation and Neighborhood Services
- Planning, Building and Code Enforcement

MGO Certified Public Accountants.

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Walnut Creek, CA 94596
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Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

Independent Auditor's Report

City Council
City of San José, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principles

As discussed in Note I.E. to the basic financial statements, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25,* for the year ended June 30, 2014.

Defined Benefit Pension Plans - Net Pension Liabilities

As described in Note IV.A.1., IV.A.6, and IV.A.7 to the basic financial statements, based on the most recent actuarial valuations as of June 30, 2013, rolled forward to June 30, 2014, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2014, the defined benefit pension plans' total pension liabilities were $3.7 billion and $3.1 billion, respectively, which exceeded their fiduciary net positions by $569 million and $1.1 billion, respectively. The actuarial valuations are very sensitive to the underlying assumptions, including the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's discount rates of 7.125% and 7.25%, respectively, which represent the long-term expected rates of return.

Postemployment Healthcare Plans - Unfunded Actuarial Accrued Liabilities

As described in Note IV.A.2.4. to the basic financial statements, based on the most recent actuarial valuations as of June 30, 2013, the Police and Fire Department Retirement Plan's and the Federated City Employees' Retirement System's independent actuaries determined that, at June 30, 2013, the postemployment healthcare plans' actuarial accrued liabilities exceeded the actuarial value of their assets by $625 million and $713 million, respectively. The actuarial valuation of the Police and Fire Department Retirement Plan's postemployment healthcare plan includes the assets and liabilities of the Postemployment Healthcare 401(h) Trust, the Police Department Healthcare Trust, and the Fire Department Healthcare Trust funds.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Management has consolidated the schedule of funding progress for the Police and Fire Department Retirement Plan's postemployment healthcare plans that accounting principles generally accepted in the United States of America require to be presented separately for each plan to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this consolidated information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The 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. Such 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 combining nonmajor governmental, internal service, trust and agency funds financial statements and schedules are 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 it.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2014

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, 2014. Readers are encouraged to read the MD&A in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal at the beginning of the Introductory Section, and with other portions of this Comprehensive Annual Financial Report ("CAFR"). All amounts have been rounded to the nearest one hundred thousand dollars and one tenth of a percent.

FINANCIAL HIGHLIGHTS

- The government-wide statement of net position for the City's governmental and business-type activities indicates that as of June 30, 2014, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $6.764 billion. Of this amount, $200.3 million represent unrestricted net position, which is comprised of a deficit balance of $206.4 million for governmental activities, and a positive balance of $406.7 million for business-type activities. In addition, the City's restricted net position totals $1.015 billion ($889.6 million for governmental activities and $125.3 million for business-type activities) and is dedicated to specific purposes. Lastly, net position of $5.549 billion is the City's net investment in capital assets ($4.770 billion for governmental activities and $779.0 million for business-type activities).

- The net position decreased by $197.3 million or 2.8 percent during 2013-2014 to $6.764 billion from $6.961 billion is from operating activities. Expenses continued to exceed revenues although tax revenues were increased by $57.7 million.

- Governmental funds reported a combined ending fund balances of $1.271 billion at June 30, 2014, which is $114.2 million or 9.9 percent more than the June 30, 2013 balance. The increase was attributable to an increase in the General Fund ($77.2 million), Housing Activities Fund ($12.8 million), the Low and Moderate Income Housing Asset Fund ($10.2 million), and the Nonmajor Funds ($27.2 million). These increases were partially offset by decreases in fund balances of the Special Assessment Districts ($9.5 million) and San José Financing Authority Debt Service ($3.7 million).

- Unassigned fund balance totals $50.6 million, which is 4.0 percent of combined governmental fund balances at June 30, 2014.

- Total long-term liabilities decreased by $13.5 million to $3.499 billion at June 30, 2014, which represents a decrease of 0.4 percent compared to $3.512 billion at June 30, 2013. The decrease was due to a reduction of $24.5 million in long-term liabilities for business-type activities but was partially offset by an increase of $11.0 million in long-term liabilities for governmental activities. The primary factor leading to the increase in governmental activities was the recording of the net other post-employment benefit liability of $34.9 million, a new lease-purchase obligation of $19.3 million related to the Master Equipment Lease for Energy Conservation Equipment Agreement, additional accrued vacation and sick leave liability of $5.8 million and accrued self-insurance liability of $2.8 million. This increase was partially offset by payments of scheduled debt service ($51.1 million) of governmental bonds. The primary factor leading to the decrease in business-type activities was due to payments of scheduled debt service including Airport revenue bonds of $22.3 million and Wastewater revenue bonds and State loans of $9.4 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 Basic Financial Statements
- Required Supplementary Information

In addition, this report also contains other supplementary information.

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances present information separately for the General Fund, Housing Activities, Low and Moderate Income Housing Asset, 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 project funds, which are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this CAFR.

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

The City accounts for its public works program support, employee benefits, and 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 Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of net position: As noted earlier, net position may serve as a useful indicator of a government's financial position. As of June 30, 2014, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $6.764 billion.

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

Statement of Net Position
June 30, 2014 and 2013
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Assets:						
Current and other assets……………	$ 1,678,924	1,594,138	830,468	804,313	2,509,392	2,398,451
Capital assets……………………….	5,946,797	6,222,847	2,056,728	2,106,430	8,003,525	8,329,277
Total assets……………………….	7,625,721	7,816,985	2,887,196	2,910,743	10,512,917	10,727,728
Deferred outflows of resources:						
Loss on refundings of debt…………	1,460	1,645	1,075	1,336	2,535	2,981
Liabilities:						
Current and other liabilities…………	163,881	159,371	87,388	95,561	251,269	254,932
Long-term liabilities………………….	2,010,433	1,999,432	1,488,486	1,513,032	3,498,919	3,512,464
Total liabilities…………………….	2,174,314	2,158,803	1,575,874	1,608,593	3,750,188	3,767,396
Deferred inflows of resources:						
Gain on refundings of debt…………	-	-	1,374	2,104	1,374	2,104
Net position:						
Net investment in capital assets	4,769,632	5,012,359	779,015	817,594	5,548,647	5,829,953
Restricted …………………………….	889,631	864,808	125,345	124,753	1,014,976	989,561
Unrestricted ………………………….	(206,396)	(217,340)	406,663	359,035	200,267	141,695
Total net position…………………	$ 5,452,867	5,659,827	1,311,023	1,301,382	6,763,890	6,961,209

At June 30, 2014, the City reported positive balances in all three categories of net position on a total basis.

Net investment in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire them) of $5.549 billion comprise 82.0 percent of the City's total net position. These capital assets facilitate providing services to the San José community, but they are not liquid, and therefore they are not available for future spending. During 2013-2014, net investment in capital assets decreased by $281.3 million due primarily to the depreciation expense ($444.9 million) offset by additions (net) to capital assets of $119.2 million.

A portion of the City's net position, $1,015.0 million or 15.0 percent, are subject to legal restrictions on their use, including $889.6 million in governmental activities and $125.3 million in business-type activities. Of the total net position at June 30, 2014, $200.3 million or 3.0 percent represents unrestricted net position, which comprises a deficit balance of $206.4 million for governmental activities, and a positive balance of $406.7 million for business-type activities. Primary factors contributing to the governmental activities deficit balance are the City's long-term liabilities for other postemployment benefits and a new capital lease financing related to the Energy Conservation Equipment Agreement.

During 2013-2014, the City's total net position decreased by $197.3 million. Notable changes in the statement of net position between June 30, 2014 and June 30, 2013 include:

- Capital assets decreased by $325.8 million or 3.9 percent compared to the prior fiscal year. Governmental capital assets decreased by $276.1 million and business-type capital assets decreased by $49.7 million. The decrease in governmental capital assets resulted from depreciation expense of $360.2 million for major infrastructure and other assets. The decrease in governmental capital assets was partially offset by additions (net) to capital assets of $84.2 million. The decrease in business-type capital assets was primarily due to depreciation expense of $84.7 million but was offset by additional projects ($35.9 million) primarily within the Wastewater Treatment System and at the Airport. As of June 30, 2014, the Airport completed taxiway reconstruction and terminal area development projects.

- Current and other assets increased by $110.9 million or 4.6 percent due to an increase of $84.8 million for governmental activities which also included an increase of $26.2 million for business-type activities. The increase in current assets for business-type activities is mainly due to an increase in cash and cash equivalents from Program Revenues (fees, fines, and charges for services). The increase in governmental activities is primarily the result of decreases of $14.0 million in General Government expenses and $14.8 million in Sanitation and an increase of $38.6 million in Property Taxes and $19.1 million other tax revenue.

- Long-term liabilities decreased by a net amount of $13.5 million or 0.4 percent, comprised of an $11.0 million increase for governmental activities and a $24.5 million decrease for business-type activities. The primary factor leading to the increase in governmental activities was the recording of the net other post-employment benefit liability of $34.9 million, a new lease-purchase obligation of $19.3 million related to the Master Equipment Lease for Energy Conservation Equipment Agreement, additional accrued vacation and sick leave liability of $5.8 million and accrued self-insurance liability of $2.8 million. This increase was partially offset by payments of scheduled debt service ($51.1 million) of governmental bonds. The primary factor leading to the decrease in business-type activities was due to payments of scheduled debt service including Airport revenue bonds of $22.3 million and Wastewater revenue bonds and State loans of $9.4 million.

- Current and other liabilities for the City decreased slightly by $3.7 million or 1.4 percent due to a decrease of $8.2 million for business-type activities offset by a decrease of $4.5 million for governmental activities. The decrease for governmental activities and business-type activities was due to lower payables to vendors as the City started to make payments to vendors on a weekly basis instead of biweekly basis in the fiscal year 2014.

Unrestricted net position for governmental activities increased by $10.9 million or 5.0 percent resulting in a deficit balance of $206.4 million at June 30, 2014. At June 30, 2014, balance for business-type activities unrestricted net position is $406.7 million increased by $47.6 million. The net increase in unrestricted net position was due to increases in unrestricted revenue sources and continued cost reduction strategies.

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

Statement of Activities
For the Years Ended June 30, 2014 and 2013
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013
Revenues:						
Program revenues:						
Fees, fines, and charges for services…………	$ 367,998	399,161	404,917	370,399	772,915	769,560
Operating grants and contributions……………	103,844	108,858	1,651	565	105,495	109,423
Capital grants and contributions……………….	29,873	36,365	14,507	16,246	44,380	52,611
General revenues:						
Property taxes……………………………………	368,233	329,591	-	-	368,233	329,591
Utility taxes………………………………………	114,486	111,750	-	-	114,486	111,750
Franchise fees……………………………………	45,749	43,741	-	-	45,749	43,741
Transient occupancy taxes………………………	29,685	25,258	-	-	29,685	25,258
Sales taxes shared revenue………………………	173,412	163,751	-	-	173,412	163,751
State of California in-lieu…………………………	434	524	-	-	434	524
Business taxes……………………………………	45,500	45,140	-	-	45,500	45,140
Unrestricted interest and investment income….	5,060	2,019	4,581	(1,612)	9,641	407
Other revenue……………………………………	18,278	20,678	-	-	18,278	20,678
Total revenues…………………………………	1,302,552	1,286,836	425,656	385,598	1,728,208	1,672,434
Expenses:						
General government…………………………….	119,299	133,330	-	-	119,299	133,330
Public safety………………………………………	493,544	489,572	-	-	493,544	489,572
Community services………………………………	207,967	214,770	-	-	207,967	214,770
Sanitation…………………………………………	146,058	160,860	-	-	146,058	160,860
Capital maintenance…………………………….	484,260	475,995	-	-	484,260	475,995
Interest and fiscal charges………………………	60,852	64,467	-	-	60,852	64,467
Norman Y. Mineta San José International Airport……………………………………………	-	-	199,987	199,681	199,987	199,681
Wastewater Treatment System…………………	-	-	169,622	147,994	169,622	147,994
Municipal Water System…………………………	-	-	33,187	31,523	33,187	31,523
Parking System…………………………………	-	-	10,751	10,231	10,751	10,231
Total expenses…………………………………	1,511,980	1,538,994	413,547	389,429	1,925,527	1,928,423
Deficiency before transfers and extraordinary items	(209,428)	(252,158)	12,109	(3,831)	(197,319)	(255,989)
Transfers………………………………………	2,468	829	(2,468)	(829)	-	-
Extraordinary gain (loss) on dissolution of the former Redevelopment Agency…………	-	(167,244)	-	-	-	(167,244)
Change in net position…………………………	(206,960)	(418,573)	9,641	(4,660)	(197,319)	(423,233)
Net position at beginning of year, as previously reported	5,659,827	6,092,877	1,301,382	1,316,800	6,961,209	7,409,677
Change in accounting principle…………………	-	(14,477)	-	(10,758)	-	(25,235)
Net position at beginning of year, as restated	5,659,827	6,078,400	1,301,382	1,306,042	6,961,209	7,384,442
Net position at end of year………………………	$ 5,452,867	5,659,827	1,311,023	1,301,382	6,763,890	6,961,209

Governmental activities: Net position for governmental activities decreased by $207.0 million or 3.7 percent during 2013-2014 from $5.660 billion to $5.453 billion. Total expenses decreased by $27.0 million and total revenues increased by $15.7 million. Expenses continue to exceed revenues resulting in a decrease in net position before transfers and extraordinary items. Significant elements of the decrease in net position before transfers and extraordinary items for governmental activities from June 30, 2013 to June 30, 2014 are as follows:

- Contributing factors resulting in increases to certain revenue categories are as follows: Property tax revenue increased by $38.6 million or 11.7 percent due to increasing assessed property tax valuations. Sales tax revenue increased by $9.7 million or 5.9 percent indicating a modest improvement in consumer spending. Transient occupancy tax receipts from guests staying in the City's local hotels increased by $4.4 million or 17.5 percent. For the fourteen largest hotels in the City, the average room rate increased from $148 to $163 and the occupancy rate rose from 74.3 percent to 79.6 percent during the year indicating signs of continued economic recovery. Franchise fees increased by $2.0 million or 4.6 percent due to growth in the Commercial Solid Waste Franchise Fee. Business tax revenues improved by $0.4 million or 0.8 percent due to an increase in additional receipts from general business tax amnesty program. Utility taxes increased by $2.7 million or 2.4 percent due to an increase in utility usage as a result of improved economy.

- Contributing factors resulting in decreases to certain revenue categories are as follows: Fees, fines, and charges for services decreased by $31.2 million or 7.8 percent primarily due to a decrease in subdivision park trust fund in-lieu fee of $15.9 million, a decrease of $5.1 million in tobacco tax settlement, and a one-time payment of $6.9 million received in prior year from the County of Santa Clara property tax administrative fee. Operating grants and contributions decreased by $5.0 million or 4.6 percent primarily due to a decrease of $3.0 million in WIA grants and a decrease of $3.0 million in CBDG grants. Capital grants contributions decreased by $6.5 million or 17.9 percent primarily due to the revenues accrued by the City for the net payments to SARA reduced by $10.9 million as the need for the City's contribution to the SARA decreased. The redevelopment property tax revenues increased and therefore, the SARA can cover the debt services for the Convention Center and City supported services. The reduction was offset by an increase of $5.7 million in donated capital assets from developers.

- Increase in the fair value of investments resulted in the City's interest and investment income of $3.0 million, an increase of 150.6 percent from the prior year. The City maintained higher cash balances in interest bearing accounts from prior year. In addition, the annualized investment interest yield for the City's investment pool increased to 0.7 percent at June 30, 2014 from 0.6 percent reflecting an improved interest rate environment experienced in the capital markets.

- General government expenses decreased by $14.0 million or 10.5 percent during 2013-2014 primarily due to a decrease of $9.2 million in General Fund, which is explained in more detail in the governmental fund section and a decrease of $1.8 million in cost of issuance as no new bonds were issued in 2013-2014.

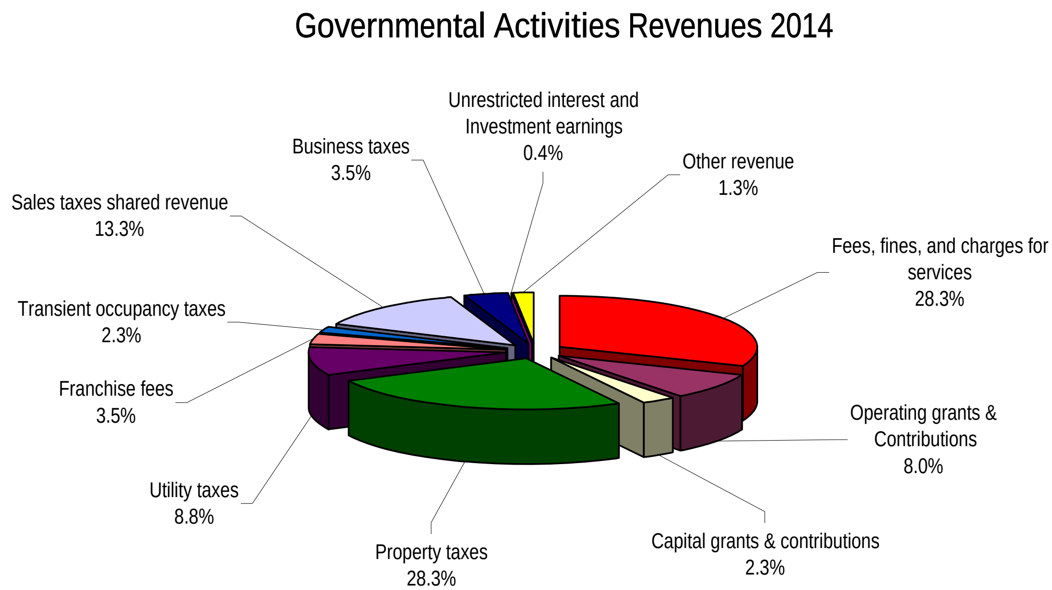
- Public safety expenses remained relatively stable at $493.6 million with an increase of $4.0 million or 0.8 percent from $489.6 million in the prior fiscal year. Retirement expense increased in current year due to a rate increase for City's contribution by 15.5 percent from prior year for Police and 14.3 percent for Fire. The number of employees in Police and Fire decreased 3.7 percent and 2.8 percent, respectively from prior year.

- Community services expenses decreased by $6.8 million or 3.2 percent is primarily due to a decrease in the allowance for loan loss reserve of the multi-family housing loans in the Low and Moderate Income Housing Asset Fund. As a result of a $5.6 million in loan repayments and the maturity of the loans being closer to their due date, the allowances of the loans have been lowered to reflect an adjusted outstanding loans balance.

- Sanitation expenses decreased by $14.8 million or 9.2 percent primarily due to a one-time expense in prior year related to the New Markets Tax Credit financing transaction.

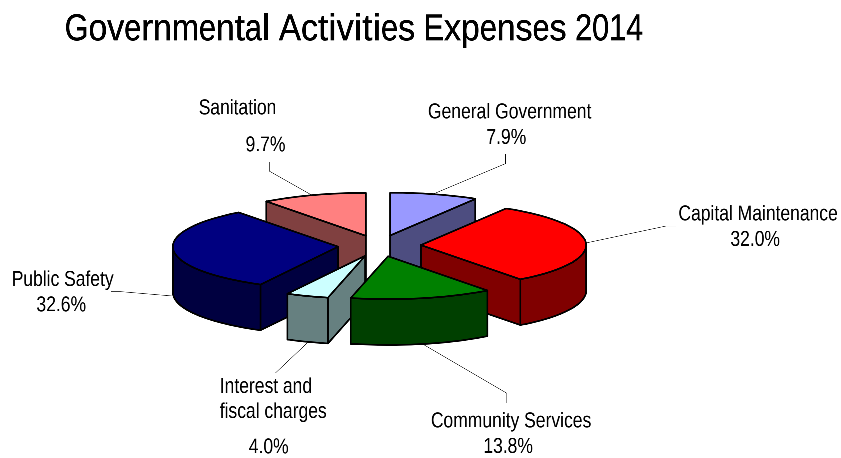
- Capital maintenance increased by $8.3 million or 1.7 percent primarily due to increase of $3.0 million in the General Fund, $2.4 million increase in depreciation expense and $2.2 million increase in City-Wide workers' compensation and compensated absences expense. The number of employees increased by 2.6 percent in the Public Works department from prior year.

- Interest and fiscal charges decreased by $3.6 million or 5.6 percent primarily due to the payoff and retirement of long-term obligations. The balance of debt payable for various bonds and loans decreased $51.1 million or 3.7 percent from prior year.



The chart above shows the primary components of governmental activities revenue sources for 2013-2014. Of the $1.303 billion in total revenues generated by governmental activities, 78.7 percent is attributable to four categories: property taxes (28.3 percent), fees, fines, and charges for services (28.3 percent), sales taxes (13.3 percent), and utility taxes (8.8 percent). All revenue sources increased except for fees, fines, and charges for services ($31.2 million), operating grants and contributions ($5.0 million), capital grants and contributions ($6.5 million) and other revenue ($2.4 million) which decreased compared to the previous year.

The chart below shows the principal categories of 2013-2014 expenses for governmental activities. Of the $1.512 billion in total expenses incurred by governmental activities, the categories accounting for 78.4 percent of the totals are: public safety (32.6 percent); capital maintenance (32.0 percent); and community services (13.8 percent).



Business-type activities: Business-type activities net position increased by $9.6 million or 0.7 percent to $1.311 billion during 2013-2014.

The notable components of net position for business-type activities during 2013-2014 are:

- Airport net position decreased by $33.0 million or 9.9 percent due to nonoperating expenses exceeding nonoperating revenues by $37.9 million, offset by $4.8 million in capital contributions. The Airport had an operating income of $0.04 million, an increase of $1.4 million or 103.0 percent compared to prior year's operating loss of $1.3 million. Operating revenues increased $2.6 million or 2.1 percent, which was mainly due to an increase in general aviation, fuel handling fees, and parking and roadway all attributable to growth in passenger traffic. A total of approximately 9.1 million passengers travelled through the Airport in 2014 compared to approximately 8.5 million in 2013, resulting in a healthy passenger traffic growth of 6.8 percent. Operating expenses of $125.7 million were higher by $1.2 million or 1.0 percent compared to the prior fiscal year due to an increase in nonpersonnel, expensed capital costs, fees charged by the City for police and firefighting services, and workers' compensation offset partially by decreases in personnel, overhead, other postemployment benefits (OPEB) costs, and depreciation and amortization. Nonoperating expenses exceeded nonoperating revenues by $37.9 million which represented a decrease of $5.9 million from 2012-2013. This decrease was mainly due to an increase in CFC revenues ($2.1 million), an increase in investment income ($1.8 million), a decrease in interest expense ($1.2 million), and an increase in passenger facility charges ($0.9 million).

- Wastewater Treatment System net position increased by $37.3 million or 4.6 percent from $808.7 million to $846.0 million. The largest portion, $484.2 million or 57.2 percent, of the net position was its net investment in capital assets (e.g. land, buildings, infrastructures) less outstanding debt that was used to acquire those assets. Approximately $306.3 million, or 36.2 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. Operating revenues increased $23.7 million primarily due to higher contributions from the Tributary Agencies toward the Water Pollution Control Plant's maintenance costs, higher sale of recycled water due to larger customer base increase ($2.0 million), higher service connection fee revenue due to recent increases in economic activity and development in the Silicon Valley ($3.9 million). Total operating expenses increased by $21.6 million compared to the prior fiscal year. The increase can be mainly attributed to an increase in urgent repairs and rehabilitation of equipment and existing infrastructures due to the aging of the wastewater collection systems and the treatment facilities ($8.8 million), an increase in the program management costs to fund the administration and management of the Sanitary Sewer Capital Improvement Program ($5.5 million), an increase in overhead costs ($2.4 million), higher energy costs due to higher energy prices and multi-failures in the in-house generation system at the Treatment Plant ($1.0 million), higher staffing levels including temporary staffing and contractual service charges ($1.9 million) and increases in materials and supplies and depreciation expense ($1.5 million). Net nonoperating revenues increased by $5.9 million primarily due to increase in fair value of investment and lower interest expense on long-term debt payments ($4.2 million), an operating grant reflected as an nonoperating revenue ($0.5 million) and a payment from a surety as settlement for a contractor defaulting on a construction project ($0.5 million). Capital contributions decreased by $1.1 million mainly due to less funding appropriated from the U.S. Bureau of Reclamation for construction of wastewater recycling facilities ($3.5 million) offset by an increase in donated capital assets from developers ($2.5 million).

- Municipal Water System net position increased by $3.2 million or 3.8 percent from $83.6 million to $86.8 million. Operating revenues of $35.4 million increased by $3.1 million or 9.5 percent due to rate increase in potable water of 8.0 percent, which increased revenues by $2.3 million and an increase in the recycled water rate index of 9.0 percent and 14.0 percent increase in demand, which generated an additional $0.7 million. Operating expenses of $33.2 million increased by $1.7 million or 5.3 percent mainly due to increased water facility capacity to support increase demand and economic growth.

- Parking System net position increased by $2.2 million or 2.8 percent from $76.2 million to $78.4 million. Operating revenues increased by $1.5 million or 12.6 percent primarily due to increased activity at the parking facilities resulting from a recovering economy. Operating expenses increased by $0.5 million or 5.1 percent reflecting higher general and administrative costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

As of June 30, 2014, the City's governmental funds reported combined fund balances of $1.271 billion, an increase of $114.2 million or 9.9 percent compared to the balance at June 30, 2013. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- $0.3 million consists of nonspendable fund balance including prepaid items, advances and deposits, and other assets that are not intended to convert into cash and long-term in nature and do not represent currently available resources.
- $895.7 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.
- $153.8 million is reported as committed fund balance that had been limited by formal Council action to specific purposes.
- $170.8 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.
- $50.6 million is reported as unassigned fund balance that represents the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications.

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2014, the General Fund's unassigned fund balance is $50.6 million or 16.7 percent of the $304.1 million total General Fund balance. Comparing unassigned fund balance and total fund balance to total fund expenditures may be useful as a measure of the General Fund's capacity to liquidate future obligations. At June 30, 2014, unassigned fund balance represents 7.1 percent of total General Fund expenditures of $715.3 million, while total fund balance represents 42.5 percent of total General Fund expenditures. This measure of financial health shows an improvement from the prior fiscal year. At June 30, 2013, the same measures were 9.2 percent and 32.6 percent, respectively.

Consistent with the prior year, revenues exceeded expenditures resulting in an excess of $71.6 million in 2013-2014. The excess was generated through a combination of slightly stronger revenues and continued implementation of cost reduction measures. Compared to the prior year, there were no further service cuts, instead reductions were limited to areas where alternative service delivery models can reduce costs and enhance service levels.

In 2013-2014, General Fund revenues of $786.9 million were $33.9 million or 4.5 percent higher than 2012-2013 revenues of $753.0 million. Taxes and special assessments revenues increased by $35.1 million or 6.1 percent. The increase was primarily attributed to the following revenue sources: increases in sales tax ($9.7 million), franchise tax ($2.0 million), property tax ($18.6 million), utility tax ($2.7 million), and marijuana business tax ($0.4 million) offset by a decrease in State of California motor vehicle in-lieu fees ($0.9 million).

License, permits and fines increased by $5.7 million or 9.3 percent mainly due to an increase in revenues from building permit fees ($2.0 million), electric permits ($1.0 million), parking fines ($0.8 million). various other licenses & permits ($2.3 million), fines & forfeitures ($0.4 million), but were offset by decreases in business tax ($0.3 million), and vehicle code fines ($0.3 million).

2013-2014 General Fund expenditures of $715.3 million were $20.0 million or 2.9 percent higher than 2012-2013 expenditures of $695.3 million.

General government expenditures decreased by $9.2 million primarily due to a decrease in sick leave payout on retirement ($1.0 million), a decrease in labor and fringe benefits in various departments ($2.3 million) and a decrease of advance payments to SARA by $10.9 million, offset by increases in general liability expense ($3.9 million), salary expenditures in various departments ($1.3 million) and non-personnel expenses in Information Technology Department ($1.3 million).

Public safety expenditures increased by $24.9 million primarily due to additional 27 firefighters hired in the Fire department and increase in public safety services for crime, fire, medical and disaster related situations.

Community services expenditures increased by $9.1 million mainly due to various expenditures ($10.1 million) related to the Library salaries & fringe benefits, Property Leases, Homeless Response Team, and more community services related services like Community Centers and Libraries, this increase was offset by decreases in Children's health initiative program ($1.0 million).

Sanitation expenditures slightly increased by $0.1 million due to increases in staffing expenditures ($0.2 million) which was offset by a decrease in Clean Creek Healthy Communities spending ($0.1 million).

Capital outlay expenditures decreased by $1.7 million due to purchases made in prior year for a Fire Apparatus of $2.1 million and Cardiac Monitors of $1.3 million not purchased in current year offset by purchases made of $1.7 million for upgrades to Police Administration and Communication Buildings and capital purchases.

Capital maintenance expenditures increased by $3.3 million or 5.3 percent due to Building Development Fee program personnel costs of $3.9 million.

Housing Activities fund: The City's Housing Activities fund receives resources from the U.S. Department of Housing and Urban Development and the California Department of Housing and

Community Development. At June 30, 2014, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first time homebuyers, was $66.2 million. This balance includes loans to developers for various projects, including Ford and Monterey, Taylor Oaks Apartments, Northrup, Roundtable, Kings Crossing, Peacock Commons, Archer Studios, Canoas, Terrace, Curtner Gardens, Homesafe, Markham Plaza, Plaza Del Sol, Verandas, Corde Terra Village Senior, and Willow Glen Senior Housing. Additions to the loan receivable balance were offset by an increase in the valuation allowance in the Housing Activities fund based on the City's annual review of the valuations and adjustments reflecting the terms of the loans. Restricted fund balance increased by $12.9 million to $80.7 million at June 30, 2014. The increase is primarily due to revenues from intergovernmental ($9.3 million), investment income ($1.7 million), and other revenues ($10.4 million) exceeding expenditures for community services ($8.5 million). Other revenues for 2013-2014 decreased by $11.9 million or 53.4 percent due to one-time payments received in prior fiscal year from the County of Santa Clara and from a developer agreement. Intergovernmental revenues decreased $3.4 million or 26.9 percent compared to prior year due to less grants received from the wind-down of the NSP2 program which is also attributable to the decrease in community services expenditure of $4.4 million or 34.0 percent.

<u>Low and Moderate Income Housing Asset fund:</u> The Low and Moderate Income Housing Asset fund was created pursuant to the Redevelopment Dissolution Law to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the former Agency. At June 30, 2014, the fund's loan receivable balance (net) was $253.5 million. Restricted fund balance increased by $10.2 million to $312.9 million from $302.7 million as of June 30, 2014. The increase is primarily due to an increase in the receipts of interest payments from developer loans.

<u>Special Assessment Districts fund:</u> 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 $152.3 million in special assessment and special tax debt outstanding at June 30, 2014 is either secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt or secured by a first lien on the Convention Center Facilities District No.2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT as defined in the bond documents) that is appropriated by City Council. The City is not obligated to secure any deficiency or redeem any debt of special assessment districts from City funds.

Restricted fund balance decreased by $9.5 million to $42.4 million from $51.9 million as of June 30, 2014. The decrease is primarily due to expenditures for capital maintenance, debt service payments and transfers out continuously exceeding the tax revenues. However, total expenditures for 2013-2014 decreased by $65.7 million or 72.4 percent compared to the prior fiscal year primarily due to a decrease in capital outlay, which were funded in part by the Special Hotel Tax Revenue Bonds, Series 2011, associated with the Convention Center renovation and expansion completed in November 2013.

<u>Financing Authority fund</u>: The City's Financing Authority Debt Service fund accounts for debt activity related to lease revenue bonds and commercial paper notes, which serves as a mechanism for financing City public improvements. Restricted fund balance decreased by $3.7 million to $13.1 million as of June 30, 2014. The decrease is primarily due to an increase in debt service payments of $6.8 million which is partially offset by a transfer from other City funds for the completion of the Convention Center renovation and expansion project through commercial paper issuance.

<u>Proprietary funds</u>

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, 2014, the unrestricted net position was $62.2 million for the Airport, $306.3 million for the Wastewater Treatment System, $19.7 million for the Municipal Water System and $18.5 million for the Parking System. Net position for proprietary funds increased from $1.301 billion at June 30, 2013 to $1.311 billion at June 30, 2014, resulting in an increase of $9.6 million or 0.7 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 2013-2014 budgets in June 2013.

During the fiscal year ended June 30, 2014, there was a $30.1 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; business tax; licenses, permits and fines; intergovernmental; charges for current services; and other revenues.

Actual budgetary basis expenditures of $767.1 million were $73.3 million less than the amended budget and $98.3 million less than the original budget. Savings were experienced over all expenditure categories.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to $8.004 billion at June 30, 2014. 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, 2014, net capital assets decreased by $325.8 million ($276.1 million in governmental activities and $49.7 million in business-type activities) or 3.9 percent compared to net capital assets at June 30, 2013. The decrease in capital assets of $276.1 million in governmental activities is primarily due to depreciation expense of $360.2 million and deletions of capital assets totaling $1.7 million. These decreases were offset by capital projects, infrastructure, land and other asset acquisitions totaling $85.9 million in the governmental activities. The decrease of $49.7 million in capital assets in the business-type activities resulted from depreciation expense of $84.7 million, offset by additions of capital projects of $35.9 million at the Airport and within the Wastewater Treatment System.

Total construction-in-progress decreased by $116.5 million or 61.1 percent from $190.7 million at June 30, 2013 to $74.2 million at June 30, 2014. Construction-in-progress for the governmental activities decreased by $107.3 million or 66.6 percent primarily due to the completion of the Convention Center renovation and expansion project being placed into service in November 2013. Business-type activities contributed a decrease of $9.2 million to the total construction-in-progress as additions to the Airport and the Wastewater Treatment System construction-in-progress totaling $17.5 million was offset by $26.2 million in projects that were completed and placed in service. The completed Airport projects include the following: reconstruction of the final phase of Taxiway W and the construction of the Power Suite located between Gates 17 and 18 in Terminal B.

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, 2013 and June 30, 2014 (in thousands):

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 414,721	400,642	134,926	134,926	549,647	535,568
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	53,865	161,122	20,337	29,544	74,202	190,666
Buildings	1,035,849	934,019	1,178,186	1,229,370	2,214,035	2,163,389
Improvements, other than buildings	190,234	186,205	614,892	614,127	805,126	800,332
Infrastructure	4,230,395	4,516,780	-	-	4,230,395	4,516,780
Furniture and fixtures, vehicles, equipment	21,624	23,777	94,338	84,282	115,962	108,059
Property under capital leases	109	302	1,167	1,299	1,276	1,601
Total capital assets	$5,946,797	6,222,847	2,056,728	2,106,430	8,003,525	8,329,277

Commitments outstanding as of June 30, 2014, related to governmental and business-type activities construction in progress totaled approximately $30.0 million and $59.8 million, respectively. Additional information about the City's capital assets can be found in the Notes to Basic Financial Statements, Note III.D.

General Obligation Bonded Debt Limit

The City Charter limits bonded indebtedness for General Obligation bonds to 15.0 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2013-2014 tax roll was $137.0 billion, which results in a net total debt capacity of $20.6 billion. As of June 30, 2014, the City had $421.4 million of General Obligation bonds outstanding.

General Obligation Bonds and Other Bond Ratings

The City continued to receive high general credit ratings from all three national rating agencies. Moody's Investors Service ("Moody's") currently has a rating of Aa1 for the City's general obligation. Standard & Poor's ("S&P") currently has a rating of AA+ for the City's general obligation. Fitch Ratings ("Fitch") currently has a rating of AA+ for the City's general obligation bonds. The outlook for all three agencies are stable.

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

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 2013-2014, the City's gross outstanding long-term debt decreased by $82.7 million to $2.760 billion, comprised of governmental activities ($1.319 billion) and business-type activities ($1.441 billion). The balances at June 30, 2013 were $1.370 billion for governmental activities and $1.473 billion for business-type activities, for a total of $2.843 billion. The decrease of $82.7 million is primarily due to the scheduled debt service payments.

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

	As of June 30, 2014	As of June 30, 2013	Net Change
Governmental Activities:			
General obligation bonds	$ 421,380	441,025	(19,645)
HUD Section 108 loan	14,706	14,706	-
San José Financing Authority			
Lease revenue bonds	588,235	604,155	(15,920)
Lease revenue bonds with reimbursement agreement	110,300	119,870	(9,570)
Revenue bonds with pledge agreement	31,695	33,435	(1,740)
Special assessment bonds with limited governmental commitment	152,335	156,545	(4,210)
Sub-total	1,318,651	1,369,736	(51,085)
Business-Type Activities:			
Revenue bonds	1,422,545	1,450,140	(27,595)
State of CA-Revolving Fund Loan	18,720	22,769	(4,049)
Sub-total	1,441,265	1,472,909	(31,644)
Total:	$ 2,759,916	2,842,645	(82,729)

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City completed 2013-2014 with better operating financial results than expected when the 2013-2014 Adopted Budget was developed. Although the economic indicators in this region appear to have stabilized, the City still faces fiscal challenges on a long-term basis to achieve a more desirable level of budget stability while avoiding any reduction in services. In June 2014, the City Council approved a balanced General Fund budget for fiscal year 2014-2015 with a projected surplus of $1.1 million and has a focus on achieving budget and service level stability, target investments to meet priority needs of the community, and to continue service delivery efficiencies.

- The Adopted Budget sets aside $2.4 million to address the forecasted shortfall in 2015-2016 and establishes other reserves to better position the City to address potential funding needs. Targeted investments are focused on the most pressing service delivery and infrastructure needs. However, a large portion of those investments ($20.0 million) is contingent on the outcome of pending litigation associated with elements of retirement reform and the continued implementation of the lowest cost healthcare plan changes. A $20 million contingency plan is included in the 2014-2015 Adopted Budget to address the uncertainty.

- Due to an improved forecast for 2014-2015; the City does not face further service cuts in the fiscal year. The small projected surplus is due to increases in revenues from a stronger economy and voter approved initiatives, reduction in services and careful management of expenses.

- In order to maintain service level stability, the 2014-2015 Adopted Budget includes funding of $24.0 million in the General Fund ($31.4 million in all funds) for compensation increases.

- 2014-2015 redevelopment property tax revenues are forecast to be less than the amount necessary to pay enforceable obligations of SARA. In FY 2013-2014, the City advanced to SARA $16.5 million to fund the debt service for the Convention Center ($13.1 million) and the 4th Street San Fernando Garage ($3.4 million). In January 2014, the SARA paid back $11.0 million to the City. More information related to SARA is provided in Note IV.C.

- For funding purposes, as of June 30, 2013, the most recent actuarial valuation date, the Police and Fire Department Retirement Plan ("PFDRP") had a 77 percent actuarial funded ratio for pension benefits. The actuarial accrued liability for pension benefits was $3.578 billion, and the actuarial value of assets was $2.772 billion resulting in an unfunded actuarial accrued liability ("UAAL") of $806.1 million. For funding purposes, as of June 30, 2013, the most recent actuarial valuation date, the Federated City Employees' Retirement System ("FCERS") had a 59 percent actuarial funded ratio for pension benefits. The actuarial accrued liability for pension benefits was $3.014 billion and the actuarial value of pension assets was $1.783 billion, resulting in a UAAL of $1.231 billion.

- For funding purposes, as of June 30, 2013, the most recent actuarial valuation date, PFDRP's Postemployment Healthcare Plan had an 11 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was $700.5 million and the actuarial value of assets was $75.0 million resulting in a UAAL of $625.5 million. As of June 30, 2013, the most recent actuarial valuation date, FCERS's Postemployment Healthcare Plan had an 18 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was $870.9 million and the actuarial value of postemployment healthcare benefit assets was $157.7 million, resulting in a UAAL of $713.2 million.

- For 2014-2015, the City's contribution rates for pension benefits, as a percentage of payroll are as follows: for police Tier 1, police Tier 2 and fire members of PFDRP, 72.1 percent, 10.8 percent and 73.5 percent, respectively, and 60.3 percent for Tier 1 FCERS members and 5.5 percent for Tier 2 FCERS members. For 2014-2015, the City's contribution rates for postemployment healthcare benefits, as a percentage of payroll, are as follows: for police and fire members of PFDRP, 11.0 percent and 9.3 percent, respectively, 9.4 percent for FCERS Tier 1 and Tier 2 members, and 12.7 percent for FCERS Tier 2B 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 sum prepayments of City required contributions for pension benefits and postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for the fiscal year ending June 30, 2015 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 $146.3 million for PFDRP, and $132.4 million for FCERS Tier 1 members. The prepayment for PFDRP and for FCERS Tier 1 members was paid by the City in July 2014. The City did not exercise its option to prepay its contribution for FCERS and Police Tier 2 members.

- Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. 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 a five year period; the fiscal year ended June 30, 2014, was the fifth year of the phase-in. Effective March 3, 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; the fiscal year ended June 30, 2014 was the third year of the phase-in for fire members. The Fire and Police members entered into separate MOAs with the City; however, both agreements contain incremental increase caps of 1.25% and 1.35% of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for members and 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11% of pensionable pay.

- The City and the bargaining units representing employee members of FCERS entered into separate MOAs to increase the contribution rates for postemployment healthcare benefits to the ARC over a five year period. During the fiscal year ended June 30, 2014, the System's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2013, was prepared by Cheiron, Inc., FCERS's actuary. The year ended June 30, 2014 was the fifth year of the Memorandum of Agreement (MOA) entered into by the bargaining units representing FCERS members and the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions (ARC) over a five-year period. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions, in the first four years of the agreement. In the fifth year of the phase-in, the City and active members' contributions for retiree medical benefits will be split evenly and the retiree dental benefits will be split in a ratio of 8 to 3 with the City contributing 8/11 of the total contribution. The year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the MOA, the employees and the City are required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015. The June 30, 2013 valuation establishes, for the fiscal year ending June 30, 2015, the City's annual required contribution rate as a percentage of pay to be 23.16% compared to 9.41% on a phase-in funded basis.

All of these factors were considered in preparing the City's budget for 2014-2015.

FORWARD-LOOKING STATEMENTS AND REQUESTS FOR INFORMATION

Forward-Looking Statements

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

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

Requests for Information

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

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

Basic Financial Statements

City of San José
Statement of Net Position
June 30, 2014
($000's)

		Governmental Activities	Business-Type Activities	Total
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	780,471	481,483	1,261,954
Receivables (net of allowances for uncollectibles)		142,959	13,336	156,295
Due from outside agencies		783	-	783
Internal balances		(5,074)	5,074	-
Inventories		1,081	1,220	2,301
Loans receivable (net of allowances for uncollectibles)		325,247	-	325,247
Advances and deposits		296	3,446	3,742
Other assets		41,931	198	42,129
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		52,681	191,158	243,839
Cash and investments held with fiscal agent		152,809	116,941	269,750
Other cash and investments		4,878	-	4,878
Receivables (net of allowances for uncollectibles)		-	3,799	3,799
Prepaid bond insurance costs (net of accumulated amortization)		404	7,727	8,131
Long-term receivables from SARA		180,458	6,086	186,544
Capital assets (net of accumulated depreciation):				
Nondepreciable		468,586	168,145	636,731
Depreciable		5,478,211	1,888,583	7,366,794
Total assets		7,625,721	2,887,196	10,512,917
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refundings of debt		1,460	1,075	2,535
LIABILITIES				
Accounts payable		28,374	11,463	39,837
Accrued liabilities		17,723	2,087	19,810
Interest payable		11,412	25,031	36,443
Due to SARA		15	256	271
Due to outside agencies		390	-	390
Short-term notes payable		46,403	41,159	87,562
Unearned revenue		21,081	1,922	23,003
Advances, deposits, and reimbursable credits		6,959	5,470	12,429
Long-term payables to SARA		472	-	472
Other liabilities		31,052	-	31,052
Long-term obligations:				
Due within one year		110,759	39,708	150,467
Due in more than one year		1,899,674	1,448,778	3,348,452
Total liabilities		2,174,314	1,575,874	3,750,188
DEFERRED INFLOWS OF RESOURCES				
Gain on refundings of debt		-	1,374	1,374
NET POSITION				
Net investment in capital assets		4,769,632	779,015	5,548,647
Restricted for:				
Debt service		36,348	32,509	68,857
Capital projects		330,708	92,836	423,544
Community services		517,880	-	517,880
Public safety		4,695	-	4,695
Unrestricted (deficit)		(206,396)	406,663	200,267
Total net position	$	5,452,867	1,311,023	6,763,890

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, 2014
($000's)

Functions/Programs	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business - Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:							
General government	$ 119,299	41,168	416	-	(77,715)	-	(77,715)
Public safety	493,544	19,228	16,518	-	(457,798)	-	(457,798)
Community services	207,967	116,522	41,619	31	(49,795)	-	(49,795)
Sanitation	146,058	151,056	117	42	5,157	-	5,157
Capital maintenance	484,260	40,024	45,174	29,800	(369,262)	-	(369,262)
Interest and fiscal charges	60,852	-	-	-	(60,852)	-	(60,852)
Total governmental activities	**1,511,980**	**367,998**	**103,844**	**29,873**	**(1,010,265)**	**-**	**(1,010,265)**
Business -Type activities:							
Norman Y. Mineta San José International Airport	199,987	159,978	605	4,843	-	(34,561)	(34,561)
Wastewater Treatment System	169,622	195,891	1,046	8,030	-	35,345	35,345
Municipal Water System	33,187	35,427	-	1,634	-	3,874	3,874
Parking System	10,751	13,621	-	-	-	2,870	2,870
Total business-type activities	**413,547**	**404,917**	**1,651**	**14,507**	**-**	**7,528**	**7,528**
Total	**$ 1,925,527**	**772,915**	**105,495**	**44,380**	**(1,010,265)**	**7,528**	**(1,002,737)**

	Governmental Activities	Business - Type Activities	Total
General revenues:			
Taxes and franchise fees:			
Property and other taxes	368,233	-	368,233
Utility	114,486	-	114,486
Franchise	45,749	-	45,749
Transient occupancy	29,685	-	29,685
Business taxes	45,500	-	45,500
Sales taxes shared revenue	173,412	-	173,412
State of California in-lieu	434	-	434
Unrestricted interest and investment income	5,060	4,581	9,641
Other revenue	18,278	-	18,278
Transfers	2,468	(2,468)	-
Total general revenues and transfers	**803,305**	**2,113**	**805,418**
Change in net position	**(206,960)**	**9,641**	**(197,319)**
Net position - beginning	5,659,827	1,301,382	6,961,209
Net position - ending	**$ 5,452,867**	**1,311,023**	**6,763,890**

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2014
($000's)

-

		General Fund	Housing Activities	Low and Moderate Income Housing Asset
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	282,631	22,616	31,032
Receivables (net of allowance for uncollectibles)		56,834	3,142	1,489
Due from outside agencies		783	-	-
Due from other funds		2,078	-	-
Loans receivables (net of allowance for uncollectibles)		1,491	66,156	253,539
Advances and deposits		219	-	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		1,264	8,549	-
Cash and investments held with fiscal agent		19,260	3	-
Other cash and investments		-	-	-
Advances to other funds		3,297	-	-
Advances receivable from SARA		13,109	-	12,942
Other assets		-	2,300	20,021
Total assets	$	380,966	102,766	319,023
LIABILITIES				
Accounts payable	$	6,994	659	19
Accrued salaries, wages, and payroll taxes		14,681	40	100
Due to other funds		10,149	-	-
Due to SARA		15	-	-
Due to outside agencies		373	-	-
Short-term notes payable		-	-	-
Unearned revenue		6,792	-	-
Advances, deposits, and reimbursable credits		7	-	-
Advances from other funds		8,111	-	-
Long-term advances from SARA		-	-	472
Other liabilities		29,780	-	-
Total liabilities		76,902	699	591
DEFERRED INFLOWS OF RESOURCES		-	21,352	5,528
FUND BALANCES				
Nonspendable		219	-	-
Restricted		19,629	80,715	312,904
Committed		121,991	-	-
Assigned		111,587	-	-
Unassigned		50,638	-	-
Total fund balances		304,064	80,715	312,904
Total liabilities, deferred inflows of resources and fund balances	$	380,966	102,766	319,023

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

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
-	-	421,880	758,159
46,717	-	34,369	142,551
-	-	-	783
-	-	11,344	13,422
-	-	4,061	325,247
5	-	72	296
8,282	-	34,586	52,681
35,170	48,915	49,461	152,809
-	-	4,878	4,878
-	-	10,611	13,908
-	14,227	-	40,278
-	-	-	22,321
90,174	63,142	571,262	1,527,333
46	49	18,695	26,462
3	-	2,396	17,220
-	234	8,113	18,496
-	-	-	15
-	17	-	390
-	46,403	-	46,403
-	-	14,289	21,081
2,425	-	4,527	6,959
-	3,297	2,500	13,908
-	-	-	472
-	-	1,272	31,052
2,474	50,000	51,792	182,458
45,310	-	1,481	73,671
5	-	72	296
42,385	13,142	426,895	895,670
-	-	31,779	153,770
-	-	59,243	170,830
-	-	-	50,638
42,390	13,142	517,989	1,271,204
90,174	63,142	571,262	1,527,333

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014
($000's)

Total fund balances-governmental funds (Page 25)		$	1,271,204
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Land	414,721		
Construction in progress	53,865		
Infrastructure assets	11,396,426		
Other capital assets	1,828,253		
Accumulated depreciation	(7,752,567)		
Total capital assets			5,940,698
Other long-term assets associated with the New Market Tax Credit (NMTC) financing program are not current financial resources, therefore, are not reported in governmental funds.			19,610
Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds.			28,361
Long-term receivables associated with lease, pledge revenue agreements, and reimbursement arrangements from the private-purpose trust fund are not current financial resources and therefore are not reported in the governmental funds.			140,180
Prepaid bond insurance costs are expended in governmental funds when paid, however, such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.			404
Refunding of debt reported as deferred outflows of resources are not financial resources, therefore are not reported in the funds. Such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.			1,460
Special assessments are reported as revenue when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred inflows of resources since they are not available.			45,310
Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is generally not accrued as a liability in the balance sheet of governmental funds.			(11,412)
Internal service funds are used by management to charge the cost of public works support, employee benefits, and stores, vehicle, maintenance and operations to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.			24,354
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	(1,386,875)		
Accrued vacation, sick leave and compensatory time	(63,557)		
Estimated liability for self-insurance	(136,562)		
Net other postemployment benefits obligation	(393,095)		
Other	(27,213)		
Total long-term liabilities			(2,007,302)
Net position of governmental activities (Page 22)		$	5,452,867

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, 2014
($000's)

		General Fund	Housing Activities	Low and Moderate Income Housing Asset
REVENUES				
Taxes and special assessments	$	615,099	-	-
Licenses, permits, and fines		66,826	-	-
Intergovernmental		18,951	9,322	31
Charges for current services		42,806	-	-
Rent		-	-	5
Investment income		3,795	1,693	11,986
Other revenue		39,461	10,384	74
Total revenues		786,938	21,399	12,096
EXPENDITURES				
Current:				
General government		75,559	-	-
Public safety		462,187	-	-
Community services		107,512	8,540	1,732
Sanitation		1,041	-	-
Capital maintenance		64,845	-	-
Capital outlay		3,685	-	-
Debt service:				
Principal		-	-	-
Interest and fiscal charges		499	-	-
Total expenditures		715,328	8,540	1,732
Excess (deficiency) of revenues over (under) expenditures		71,610	12,859	10,364
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease financing		19,286	-	-
Proceeds from sale of capital assets		2,221	-	-
Transfers in		9,784	-	-
Transfers out		(25,731)	(7)	(197)
Total other financing sources (uses)		5,560	(7)	(197)
Net change in fund balances		77,170	12,852	10,167
Fund balances - beginning		226,894	67,863	302,737
Fund balances - ending	$	304,064	80,715	312,904

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

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
18,050	-	162,401	795,550
-	-	-	66,826
-	-	68,092	96,396
-	-	194,059	236,865
-	-	28,678	28,683
172	96	3,359	21,101
359	19,281	8,556	78,115
18,581	19,377	465,145	1,323,536
-	-	14,836	90,395
-	-	2,485	464,672
-	-	60,405	178,189
-	-	141,725	142,766
58	-	104,786	169,689
11,291	-	58,061	73,037
4,210	27,230	19,645	51,085
9,442	32,512	20,501	62,954
25,001	59,742	422,444	1,232,787
(6,420)	(40,365)	42,701	90,749
-	-	-	19,286
-	-	-	2,221
299	46,711	47,303	104,097
(3,414)	(10,000)	(62,800)	(102,149)
(3,115)	36,711	(15,497)	23,455
(9,535)	(3,654)	27,204	114,204
51,925	16,796	490,785	1,157,000
42,390	13,142	517,989	1,271,204

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, 2014
($000's)

Net change in fund balances--total governmental funds (Page 29)		$	114,204
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	73,037		
Depreciation expense	(357,582)		
Excess of depreciation expense over capital outlay			(284,545)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)			
Donated assets	10,303		
Transfers from internal service fund	(41)		
Proceeds from sale of capital assets	(2,221)		
Loss on disposal of assets	509		
			8,550
Decrease in long-term receivables associated with lease, pledge revenue, and reimbursement arrangements from the private purpose trust fund are not current financial resources and therefore are not reported in the governmental funds			(25,197)
Prepaid bond insurance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.			(19)
Amortization of deferred inflows of resources and deferred outflows of resources resulting from the deferred refunding (gains) and losses.			(185)
Repayment of long-term obligation principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The City's long-term obligations were reduced because principal payments were made to bondholders and HUD.			51,085
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 and discounts 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 and discounts not reported in governmental funds.			
Decrease in accrued interest expense	317		
Amortization of premiums and discounts on bonds issued	1,970		
Total net interest expense and amortization of discount/premium			2,287
Proceeds from capital lease financing provides current financial resources to governmental funds, however, such transaction increases long-term liabilities in the statement of net position.			(19,286)
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available revenues" and are reported as deferred inflows of resources in the governmental funds.			(6,090)
Internal service funds are used by management to charge the cost of public works support, employee benefits, and vehicle, maintenance and operations to individual funds. The change in net position is included in governmental activities in the statement of activities.			(3,374)
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	(34,857)		
Net increase in vacation, sick leave, and compensatory time	(5,442)		
Net increase in estimated liability for self-insurance	(2,776)		
Net decrease in other liabilities	(1,315)		
Total additional expenditures			(44,390)
Change in net position of governmental activities (Page 23)		$	(206,960)

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

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City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2014
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
ASSETS						
Current assets:						
Equity in pooled cash and investments held in City Treasury	$ 96,418	348,932	22,282	13,851	481,483	22,312
Receivables (net of allowance for uncollectibles)	5,998	3,701	3,261	376	13,336	408
Due from other funds	-	5,074	-	-	5,074	-
Prepaid expenses, advances and deposits	135	-	-	-	135	-
Inventories	-	1,220	-	-	1,220	1,081
Total unrestricted current assets	102,551	358,927	25,543	14,227	501,248	23,801
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	137,555	51,553	-	2,050	191,158	-
Cash and investments held with fiscal agent	110,651	6,290	-	-	116,941	-
Receivables (net of allowances for uncollectibles)	3,799	-	-	-	3,799	-
Prepaid expenses, advances and deposits	63	-	-	-	63	-
Total restricted assets	252,068	57,843	-	2,050	311,961	-
Total current assets	354,619	416,770	25,543	16,277	813,209	23,801
Noncurrent assets:						
Prepaid bond insurance (net of accumulated amortization)	7,680	47	-	-	7,727	-
Advances and deposits	3,446	-	-	-	3,446	-
Long-term receivable from SARA	-	-	-	6,086	6,086	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	97,142	48,977	2,278	19,748	168,145	-
Depreciable	1,305,097	480,580	64,830	38,076	1,888,583	6,099
Total noncurrent assets	1,413,365	529,604	67,108	63,910	2,073,987	6,099
Total assets	1,767,984	946,374	92,651	80,187	2,887,196	29,900
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refundings of debt	$ 626	449	-	-	1,075	-

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

City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2014
($000's)

		Enterprise Funds					
		Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
LIABILITIES							
Current liabilities:							
Accounts payable	$	1,355	6,403	2,249	462	10,469	1,912
Accrued liabilities		544	1,396	103	44	2,087	503
Interest payable		3	196	-	-	199	-
Due to SARA		-	-	-	256	256	-
Short-term notes payable		41,159	-	-	-	41,159	-
Accrued vacation, sick leave and compensatory time		1,667	2,500	118	143	4,428	-
Estimated liability for self-insurance		393	650	184	-	1,227	-
Advances and deposits payable		1,619	-	-	89	1,708	-
Unearned revenue		1,922	-	-	-	1,922	-
Loans payable		-	4,123	-	-	4,123	-
Pollution remediation obligation		330	-	-	-	330	-
Total current liabilities unrestricted		48,992	15,268	2,654	994	67,908	2,415
Current liabilities payable from restricted assets:							
Accounts payable and accrued liabilities		994	-	-	-	994	-
Interest payable		24,641	191	-	-	24,832	-
Current portion of bonds payable, net		23,460	5,756	-	-	29,216	-
Pollution remediation obligation		384	-	-	-	384	-
Total current liabilities payable from restricted assets		49,479	5,947	-	-	55,426	-
Total current liabilities		98,471	21,215	2,654	994	123,334	2,415
Noncurrent liabilities:							
Accrued vacation, sick leave and compensatory time		789	1,527	-	-	2,316	3,131
Estimated liability for self-insurance		1,849	2,888	-	-	4,737	-
Advance contributions from participating agencies		-	2,411	-	-	2,411	-
Advances, deposits and reimbursable credits		-	-	1,351	-	1,351	-
Loans payable		-	14,597	-	-	14,597	-
Bonds payable (net of premium/discount)		1,352,578	33,169	-	-	1,385,747	-
Net other postemployment benefits obligation		13,636	25,037	1,877	831	41,381	-
Total noncurrent liabilities		1,368,852	79,629	3,228	831	1,452,540	3,131
Total liabilities		1,467,323	100,844	5,882	1,825	1,575,874	5,546
DEFERRED INFLOWS OF RESOURCES							
Gain on refundings of debt		1,374	-	-	-	1,374	-
NET POSITION							
Net investment in capital assets		169,870	484,213	67,108	57,824	779,015	6,099
Restricted for debt service		26,260	6,249	-	-	32,509	-
Restricted for capital projects and other agreements		41,588	49,198	-	2,050	92,836	2,684
Unrestricted		62,195	306,319	19,661	18,488	406,663	15,571
Total net position	$	299,913	845,979	86,769	78,362	1,311,023	24,354

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
OPERATING REVENUES						
Charges for services	$ 50,103	147,402	35,364	13,612	246,481	113,470
Rentals and concessions	15,423	6,409	-	-	21,832	-
Service connection, engineering and inspection	53,991	6,993	-	-	60,984	-
Operating contributions from participating agencies	-	33,425	-	-	33,425	-
Other	6,193	1,169	-	-	7,362	-
Total operating revenues	125,710	195,398	35,364	13,612	370,084	113,470
OPERATING EXPENSES						
Operations and maintenance	51,766	114,123	29,436	4,033	199,358	114,982
General and administrative	19,877	26,539	1,297	4,697	52,410	-
Depreciation and amortization	54,027	26,596	2,454	1,961	85,038	2,650
Materials and supplies	-	430	-	60	490	-
Total operating expenses	125,670	167,688	33,187	10,751	337,296	117,632
Operating income (loss)	40	27,710	2,177	2,861	32,788	(4,162)
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	18,161	-	-	-	18,161	-
Customer facility charges	15,493	-	-	-	15,493	-
Operating grants	605	461	-	-	1,066	-
Investment income	1,571	2,730	169	111	4,581	238
Interest expense	(73,836)	(1,934)	-	-	(75,770)	-
Contributions for maintenance reserves	-	585	-	-	585	-
Loss on disposal of capital assets	(481)	-	-	-	(481)	(11)
Other revenues, net	614	493	63	9	1,179	-
Net nonoperating revenues (expenses)	(37,873)	2,335	232	120	(35,186)	227
Income (loss) before capital contributions and transfers	(37,833)	30,045	2,409	2,981	(2,398)	(3,935)
Capital contributions	4,843	8,030	1,634	-	14,507	41
Transfers in	-	-	-	-	-	800
Transfers out	-	(811)	(829)	(828)	(2,468)	(280)
Changes in net position	(32,990)	37,264	3,214	2,153	9,641	(3,374)
Net position - beginning	332,903	808,715	83,555	76,209	1,301,382	27,728
Net position - ending	$ 299,913	845,979	86,769	78,362	1,311,023	24,354

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, 2014
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 126,318	162,084	35,679	13,535	337,616	-
Cash received from interfund services provided	-	-	-	-	-	113,368
Payments to suppliers	(48,658)	(69,894)	(26,233)	(6,815)	(151,600)	(91,321)
Payments to employees	(23,392)	(65,358)	(4,722)	(2,121)	(95,593)	(20,109)
Other receipts	613	33,425	-	-	34,038	-
Net cash provided by operating activities	54,881	60,257	4,724	4,599	124,461	1,938
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	-	-	-	-	-	800
Transfer to other funds	-	(811)	(829)	(828)	(2,468)	(280)
Operating grants	575	461	-	-	1,036	-
(Advances to) / payments from other funds	-	(12)	117	-	105	-
Increase in long-term receivable from SARA	-	-	-	(3,363)	(3,363)	-
Decrease in long-term receivable from SARA	-	-	-	648	648	-
Net cash provided by (used in) noncapital and related financing activities	575	(362)	(712)	(3,543)	(4,042)	520
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	18,077	-	-	-	18,077	-
Customer facility charges received	15,244	-	-	-	15,244	-
Principal payment on commercial paper	(4,221)	-	-	-	(4,221)	-
Capital grants received	5,654	8,782	-	-	14,436	-
Acquisition and construction of capital assets	(13,371)	(14,990)	(2,256)	(126)	(30,743)	(2,566)
Principal paid on debt	(22,275)	(9,369)	-	-	(31,644)	-
Interest paid on debt	(74,712)	(2,047)	-	-	(76,759)	-
Advances and deposits received	1,534	-	-	-	1,534	-
Net cash used in capital and related financing activities	(74,070)	(17,624)	(2,256)	(126)	(94,076)	(2,566)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	32,028	6,251	-	-	38,279	-
Purchase of investments	(32,014)	-	-	-	(32,014)	-
Interest received	1,692	2,724	168	111	4,695	238
Net cash provided by investing activities	1,706	8,975	168	111	10,960	238
Net change in cash and cash equivalents	(16,908)	51,246	1,924	1,041	37,303	130
Cash and cash equivalents - beginning	323,704	355,529	20,358	14,860	714,451	22,182
Cash and cash equivalents - ending	$ 306,796	406,775	22,282	15,901	751,754	22,312

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, 2014
($000's)

	Enterprise Funds					
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	$ 40	27,710	2,177	2,861	32,788	(4,162)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	54,027	26,596	2,454	1,961	85,038	2,650
Other nonoperating revenues	614	484	63	1	1,162	-
Decrease (increase) in:						
Accounts receivable	1,069	(392)	252	(78)	851	(101)
Inventories	-	89	-	-	89	2,603
Prepaid expenses, advances and deposits	16	20	-	-	36	-
Increase (decrease) in:						
Accounts payable and accrued liabilities	(1,946)	(52)	(550)	(293)	(2,841)	568
Accrued salaries, wages, and payroll	129	327	32	5	493	-
Accrued vacation, sick leave and compensatory time	308	903	(66)	66	1,211	380
Estimated liability for self-insurance	564	699	66	-	1,329	-
Unearned revenue	(609)	-	-	-	(609)	-
Due to SARA	-	-	-	(52)	(52)	-
Advances and deposits payable	155	-	-	-	155	-
Other liabilities	514	3,873	296	128	4,811	-
Total adjustments	54,841	32,547	2,547	1,738	91,673	6,100
Net cash provided by operating activities	$ 54,881	60,257	4,724	4,599	124,461	1,938
Reconciliation of cash and cash equivalents to the statement of net position:						
Equity in pooled cash and investments held in City Treasury						
Unrestricted	$ 96,418	348,932	22,282	13,851	481,483	22,312
Restricted	137,555	51,553	-	2,050	191,158	-
Cash and investments held with fiscal agent	110,651	6,290	-	-	116,941	-
Less investments not meeting the definition of cash equivalents	(37,828)	-	-	-	(37,828)	-
Cash and cash equivalents	$ 306,796	406,775	22,282	15,901	751,754	22,312
Noncash noncapital, capital and related financing, and investing activities:						
Change in operating grants receivable	$ (30)	-	-	-	(30)	-
Loss on disposal of capital assets	(481)	-	-	-	(481)	(11)
Capital contributions from developers/ other funds	-	3,432	1,634	-	5,066	41
Amortization of bond discount/premium, and prepaid bond insurance costs	329	236	-	-	565	-
Amortization of deferred inflow/outflow of resources	658	189	-	-	847	-
Increase in capital related payables	316	-	-	-	316	-
Decrease in capital related receivables	811	4,175	-	-	4,986	-
Change in fair value of investments	(52)	1	-	-	(51)	-

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

City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014
($000's)

		Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
ASSETS				
Current assets:				
Equity in pooled cash and investments held				
in City Treasury	$	-	431	791
Cash and investments		-	32,837	-
Investments of retirement plans:				
Investments, excluding securities lending collateral:				
Fixed income		705,027	-	-
Collective short-term investments		174,658	-	-
Absolute return		784,308	-	-
Global equity		1,659,732	-	-
Private equity		352,969	-	-
International currency contracts, net		439	-	-
Opportunistic		381,102	-	-
Real assets		1,023,914	-	-
Real estate		355,886	-	-
Securities lending cash collateral investment pool		51,155	-	-
Total investments of retirement systems		5,489,190	-	-
Receivables:				
Accrued investment income		6,110	-	2
Employee contributions		2,929	-	-
Employer contributions		5,493	-	-
Due from the City of San José		-	271	-
Other		3,706	536	-
Restricted cash and investments held with fiscal agent		-	140,274	-
Total current assets		5,507,428	174,349	793
Noncurrent assets:				
Advances to the City of San José		-	472	-
Accrued interest		-	5,743	-
Loans receivable, net		-	24,632	-
Deposits		-	155	-
Property held for resale		-	22,474	-
Capital assets:				
Nondepreciable		-	87,840	-
Depreciable, net		-	148,276	-
Total noncurrent assets		-	289,592	-
Total assets		5,507,428	463,941	793
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refundings of debt	$	-	33,298	

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

City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014
($000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
LIABILITIES			
Current liabilities:			
Due to brokers	$ 5,039	-	-
Accrued interest payable	-	39,043	-
Pass through payable to the County of Santa Clara	-	51,545	-
Unearned revenue	-	61	-
Securities lending collateral, due to borrowers	51,670	-	-
Other liabilities	2,624	4,667	793
Total current liabilities	59,333	95,316	793
Long-term liabilities:			
Due within one year	-	195,835	-
Due in more than one year	-	2,085,298	-
Total noncurrent liabilities	-	2,281,133	-
Total liabilities	59,333	2,376,449	793
NET POSITION			
Held in trust for:			
Employees' pension benefits	5,155,410	-	
Employees' postemployment healthcare benefits	292,685	-	
Redevelopment dissolution and other purposes	-	(1,879,210)	
Total net position (deficit)	$ 5,448,095	(1,879,210)	

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

City of San José
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014
($000's)

ADDITIONS	**Pension Trust Funds**	**Private Purpose Trust Funds**
Redevelopment property tax revenues	$ -	184,819
Investment income:		
Interest	58,685	818
Dividends	46,230	-
Net rental income	3,821	615
Net change in fair value of plan investments	625,022	-
Investment expenses	(24,411)	-
Total investment income (loss)	709,347	1,433
Securities lending income:		
Securities lending income	878	-
Securities lending rebates and expenses	(227)	-
Total securities lending income	651	-
Contributions:		
Employer	267,692	-
Employees	67,879	-
Total contributions	335,571	-
Other	-	3,686
Total additions	1,045,569	189,938
DEDUCTIONS		
General and administrative	7,192	5,562
Project expenses	-	2,727
Pass through amounts to the County of Santa Clara	-	19,752
Depreciation	-	5,680
Interest on debt	-	98,477
Health insurance premiums	50,434	-
Refunds of contributions	3,194	-
Retirement and other benefits:		
Death benefits	18,583	-
Retirement benefits	301,556	-
Total deductions	380,959	132,198
Change in net position	664,610	57,740
Net position held in trust for pension, postemployment healthcare benefits and other purposes:		
Beginning of year	4,783,485	(1,936,950)
End of year	$ 5,448,095	(1,879,210)

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

INDEX TO THE NOTES

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of San José, California (the "City"), was chartered on March 25, 1850, and has operated under a Council–Manager form of government since 1916. The City has defined its reporting entity in accordance with generally accepted accounting principles ("GAAP") in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body's financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship, if it appoints a voting majority of an organization's governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. Based upon the application of these criteria, the following is a brief description of each component unit included within the City's reporting entity. All such component units have been "blended" (or in the case of the Successor Agency to the Redevelopment Agency of the City of San José reported as a fiduciary fund) as though they are part of the primary government because the component unit's governing body is substantially the same as the City's primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

- **Successor Agency to the Redevelopment Agency of the City of San José** – The Successor Agency to the Redevelopment Agency of the City of San José ("SARA") was created to serve as a custodian for the assets and to wind down the affairs of the former Redevelopment Agency of the City of José ("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 Area, the Santa Clara Water District.

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

- **San José – Santa Clara Clean Water Financing Authority** – The San José **–** Santa Clara Clean Water Financing Authority (the "Clean Water Financing Authority") was created pursuant to a Joint Exercise of Powers Agreement between the City and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San

José – Santa Clara Water Pollution Control Plant (the "Plant"). The Clean Water Financing Authority is governed by a five-member Board of Directors, three are members of the San José City Council and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara 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 Agency. The Financing Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City and is authorized to issue bonds for this purpose. The Financing Authority is governed by an 11-member Governing Board, which consists of the members of the City Council.

- **San José Diridon Development Authority** – The San José Diridon Development Authority (the "Diridon Authority") was created in March 2011 by a Joint Exercise of Powers Agreement between the City and the Agency. The Diridon Authority was created for the purposes of overseeing the development of properties within the Diridon area of the City, and is authorized to issue bonds for this purpose. The Diridon Authority is governed by an 11-member Governing Board, which consists of the members of the City Council. The Diridon Authority did not have any activity in fiscal year 2013-14.

Separate financial reports for City departments and component units for the fiscal year 2013-14, containing additional information and more detailed information regarding financial position, changes in financial position, and, where applicable, cash flows, are available from the City's Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

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

B. Financial Statement Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each business-type activity of the City and each function of the City's governmental activities. Direct expenses are those that are specifically associated with a business-type activity or governmental function and; therefore, are clearly identifiable to a particular activity or function.

Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs, and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are instead presented as general revenues.

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

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

The City reports the following major governmental funds:

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

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

The City also reports the following types of funds:

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

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

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

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

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

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

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

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

D. Use of Estimates

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

E. New Pronouncements

During the year ended June 30, 2014, the City implemented the following Governmental Accounting Standards Board ("GASB") Statements:

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment 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, *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. This statement did not have any effect on the City's financial statements.

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate and increased investment activity disclosures. The implementation of GASB Statement No. 67 enhanced the City's pension disclosures as described in Note IV.A.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees and to enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. This statement did not have any effect on the City's financial statements.

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

In June 2012, the GASB issued 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 statement relates to accounting and financial reporting and does 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 financial statements. The statement would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement No. 68 is effective for the City's fiscal year ending June 30, 2015.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement is intended to improve accounting and financial reporting for state and local government's combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale.

The new standard provides guidance for:

- Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations;

- Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operations;
- Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and
- Reporting the disposal of government operations that have been transferred or sold.

Application of Statement No. 69 is effective for the City's fiscal year ending June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The provisions of this statement are required to be applied simultaneously with the provisions of Statement No. 68. Application of Statement No. 71 is effective for the City's fiscal year ending June 30, 2015.

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

1. Cash and Cash Equivalents

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

2. Equity in Pooled Cash and Investments Held in City Treasury

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

3. Deposits and Investments

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

Pooled Cash and Investments held in City Treasury. The City reports its investments held in City Treasury at fair value. The fair value is based on quoted market information obtained from fiscal agents or other sources. Income from some investments is assigned to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the year ended June 30, 2014, the total investment income from these investments assigned and transferred to the General Fund was approximately $392,000.

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

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

4. Inventories

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

5. Special Assessment Districts

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

6. Advances and Deposits

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

7. Other Assets

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

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

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

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

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

9. Restricted Assets

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

10. Capital Assets

Capital assets include land, buildings, improvements, vehicles and equipment, infrastructure, and all other tangible and intangible assets that are used in operations and that have initial useful lives in excess of one year. Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide statement of net position, the proprietary funds' statement of net position, and the private-purpose trust fund's statement of fiduciary net position. Capital assets are defined as assets with an initial individual cost of more than $5,000 for general capital assets and $100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term when the lease does not transfer ownership or include a bargain purchase option or the estimated useful life of the asset and is included in depreciation and amortization.

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

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

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

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

Vacation, sick leave, compensatory time, and related benefits are accrued as determined by the 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 ("IAFF"), may accumulate vacation hours up to 400 hours for employees on a 40-hour workweek and 576 hours for employees on a 56-hour workweek.

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

Employees hired on or after September 30, 2012, into classifications represented by the following bargaining units are not eligible for a sick leave payout: Association of Building, Mechanical, and Electrical Inspectors ("ABMEI"); the Association of Engineers and Architects, IFPTE Local 21 ("AEA"); the Association of Legal Professionals of San José ("ALP"); the Association of Maintenance Supervisory Personnel, IFPTE Local 21 ("AMSP"); the City Association of Management Personnel, IFPTE Local 21 ("CAMP"); employees represented by the Confidential Employees' Organization, AFSCME Local 101 ("CEO"); the International Brotherhood of Electrical Workers, Local No. 332 ("IBEW"); the International Union of Operating Engineers, Local No. 3 ("OE#3"); the Municipal Employees' Federation, AFSCME Local 101 ("MEF"). Employees hired on or after July 7, 2013, into classifications represented by the SJPOA and unrepresented management employees ("Unit 99"), are not eligible for a sick leave payout.

Employees hired on or before September 29, 2012, into classifications represented by the ABMEI, AEA, ALP, AMSP, CAMP, CEO, IBEW, MEF, OE#3, and Unit 99, are eligible for a sick leave payout based on the employee's sick leave balance and hourly rate as of June 22, 2013. Employees in these bargaining units may continue to accrue sick leave after June 22, 2013, but such accrued sick leave may not be used for sick leave payout purposes. In addition, an employee may receive pay increases subsequent to June 22, 2013, but the employee's sick leave payout will be based on their rate of pay as of June 22, 2013. If an employee reduces their sick leave balance below what it was as of June 22, 2013, such employee will not be able to restore their sick leave balance for sick leave payout purposes.

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

As noted above, employees hired on or after September 30, 2012 into classifications represented by ABMEI, AEA, ALP, AMSP, CAMP, CEO, IBEW, MEF, OE#3, and Unit 99 are not eligible for a sick leave payout. Employees hired on or after July 7, 2013 into classifications represented by the SJPOA are not eligible for a sick leave payout.

Negotiations between the City and IAFF regarding sick leave payout for current and future employees are currently ongoing.

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 noncurrent 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. Deferred Outflows/Inflows of Resources

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

15. Net Position

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

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

- *Restricted Net Position* – This category represents net position that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the government-wide statement of net position reported restricted net position of $889,631,000 in governmental activities and $125,345,000 in business-type activities. Of these amounts $321,916,000 and $58,071,000, respectively are restricted by enabling legislation.

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

16. Fund Balances

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

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

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

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

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

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

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

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

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

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

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

The City's net assessed valuation for the year ended June 30, 2014, was approximately $132.5 billion, an increase of approximately 8.8% from the previous year. The City's tax rate was approximately $0.184 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, 2014, the City's portion of the capital and operating costs was approximately 82.5% and the City's interest in the net assets of the Plant was approximately 84.1%.

II. Stewardship, Compliance, and Accountability

A. Deficit Net Position

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show on an annual basis that it 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 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, 2014, SARA has a deficit of $1,879,641,000, which will be eliminated with future redevelopment property tax revenues distributed from the Redevelopment Property Tax Trust Fund administered by the County's Auditor-Controller.

B. Deficit Unrestricted Net Position – Governmental Activities

At June 30, 2014, the City reports a deficit unrestricted net position in its Statement of Net Position – governmental activities in the amount of $206,396,000. 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 (see Note IV.A).

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2014, total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

			Fiduciary Funds			
	Governmental Activities	Business-Type Activities	Pension Trust	Private Purpose Trust	Agency	Carrying Value
Equity in pooled cash and investments	$ 780,471	$ 481,483	$ -	$ 431	$ 791	$ 1,263,176
Other cash and investments	-	-	-	32,837	-	32,837
Restricted assets:						
Equity in pooled cash and investments	52,681	191,158	-	-	-	243,839
Cash and investments with fiscal agents	152,809	116,941	-	140,274	-	410,024
Other cash and investments	4,878	-	-	-	-	4,878
Investments of retirement systems	-	-	5,489,190	-	-	5,489,190
Total deposits and investments	$ 990,839	$ 789,582	$ 5,489,190	$ 173,542	$ 791	$ 7,443,944
Deposits						$ 6,920
Investments						7,437,024
Total deposits and investments						$ 7,443,944

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

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

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

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

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

1. Governmental and Business-Type Activities

Interest Rate Risk. Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, debt investments with fixed coupons for longer periods are subject to more variability in their value as a result of changing interest rates. The City manages its exposure to interest rate risk by capping the average weighted maturity of the investment portfolio at two years. Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed 5 years.

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2014, was approximately 532 days.

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

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

At June 30, 2014, the City's pooled and fiscal agent investments in LAIF was approximately $270,711,000 and the SARA's investments in LAIF was approximately $36,817,000. The weighted average maturity of LAIF was 232 days at June 30, 2014. The total amount recorded by all public agencies in LAIF at June 30, 2014 was approximately $21.1 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). PMIA has a total of approximately $64.8 billion and of that amount, 98.14% was invested in non-derivative financial products and 1.86% 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 September 19, 2014, 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, 2014:

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% *
California Local Agency Investment Fund	None	State Treasurer Limit	None
Money Market Mutual Funds	None	20%	10%
Municipal Bonds - Category 1 (City)	5 years	10% *	5% *
Municipal Bonds - Category 2 (State of CA)	5 years	5% *	5% *
Municipal Bonds - Category 3 (CA Issuers)	5 years	5% *	5% *
Municipal Bonds - Category 4 (Other 49 States)	5 years	5% *	5% *
Investment Agreements	None	None	None
Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO)	5 years	10%*	None
Asset Backed Securities (ABS)	5 years	5% *	None

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

Other restrictions on investments are summarized as follows:

- *Purchases of United States government agency securities are limited to issues of Federal Farm Credit Banks, 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. 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") of $10,000,000 may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Depositories must have 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 numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years of experience investing* in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of $500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S.

Government Agency backed securities permitted under the Policy and must be maintained at no less than $1.00 per share.

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

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

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

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

The amendments to the investment policy, adopted on September 19, 2014, are as follows:

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

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

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

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

The following schedule indicates the interest rate risk, credit quality risk and concentration of credit risk of the City's investments, as of June 30, 2014 (dollars in thousands). The credit ratings listed are for Moody's and S&P, respectively.

		Maturity				
Type of Investment	Credit Rating	Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	Carrying Value
Pooled investments in the City Treasury:						
Treasury Notes	Aaa / AA+	$ -	$ -	$ -	$ 25,984	$ 25,984
Federal Farm Credit Banks	Aaa / AA+	-	30,016	25,036	203,764	258,816
Federal Home Loan Banks	Aaa / AA+	10,000	24,579	39,010	134,732	208,321
Federal Home Loan Banks - Callable	Aaa / AA+	-	-	-	14,857	14,857
Federal Home Loan Banks - Discount	Aaa / AA+	22,000	856	-	-	22,856
Federal Home Loan Mortgage Corporation	Aaa / AA+	-	30,052	-	95,032	125,084
Federal Home Loan Mortgage Corporation - Callable	Aaa / AA+	-	-	-	123,185	123,185
Federal Home Loan Mortgage Corporation - Discount	Aaa / AA+	-	43,994	-	-	43,994
Federal National Mortgage Association	Aaa / AA+	-	25,059	-	154,255	179,314
Federal National Mortgage Association - Callable	Aaa / AA+	-	-	-	60,630	60,630
Federal National Mortgage Association - Discount	Aaa / AA+	72,600	19,999	-	-	92,599
Commercial paper - Discount	P-1 / A-1	36,000	136,955	17,964	-	190,919
Negotiable certificate of deposit	P-1 / A-1	63,000	-	-	-	63,000
Money market mutual funds	Aaa-mf	29,859	-	-	-	29,859
California local agency investment fund	Not Rated	-	-	84,500	-	84,500
Total pooled investments in the City Treasury		233,459	311,510	166,510	812,439	1,523,918
Investments with fiscal agents:						
Federal Home Loan Banks - Discount	P-1 / A-1+	37,828	7,670	-	-	45,498
Commercial paper	P-1 / A-1+	-	1,794	-	-	1,794
Money market mutual funds	Aaa-mf/AAAm	17,302	-	-	-	17,302
California local agency investment fund	Not Rated	-	-	186,211	-	186,211
Total investments with fiscal agents		55,130	9,464	186,211	-	250,805
Total Citywide investments (excluding Retirement Systems)		$ 288,589	$ 320,974	$ 352,721	$ 812,439	1,774,723
Trust Funds:						
Total investments in Retirement Systems (See page 63)						5,489,190
Total investments in the SARA (See page 129)						173,111
Total investments						$ 7,437,024

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name. As of June 30, 2014, the City's deposits were collateralized at 110%. All investments in the City Treasury were in the City's name. Neither deposits nor investments held by the City were subject to custodial credit risk.

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

As of June 30, 2014, 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	16.98%
Federal Home Loan Banks	16.14%
Federal Home Loan Mortgage Corporation	19.18%
Federal National Mortgage Association	21.82%

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, 2014:

Special Assessment Districts:	
Federal Home Loan Banks	21.81%
Airport:	
Federal Home Loan Banks	34.13%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2014, the City's investment policy does not permit investments in the pool to hold foreign currency as such the investments in the City's investment pool were not subject to foreign currency risk.

2. Retirement Systems

Investment Policies – The City's Municipal Code delegates authority to the Boards of Administration of PFDRP and FCERS (the "Retirement Boards") to invest monies of the respective plans as provided in the Municipal Code. The Retirement Boards have adopted detailed investment guidelines consistent with the limitations set forth in the Municipal Code. At June 30, 2014, the Retirement Systems' investment target asset allocations are as follows:

	PFDRP - Pension		
Asset Class	**Minimum**	**Target**	**Maximum**
Global and private equity	25%	37%	50%
Fixed income	15%	25%	35%
Inflation-linked assets	12%	17%	25%
Absolute return strategies	10%	20%	30%
Cash	0%	1%	5%

	FCERS - Pension		
Asset Class	**Minimum**	**Target**	**Maximum**
Equity and real estate	38%	45%	52%
Fixed income	5%	10%	20%
Absolute return strategies	20%	25%	30%
Real assets	15%	20%	25%

	PFDRP - Postemployment Healthcare		
Asset Class	**Minimum**	**Target**	**Maximum**
Global equity	25%	43%	50%
Fixed income	5%	15%	25%
Inflation-linked assets	12%	22%	25%
Absolute return strategies	0%	20%	25%
Cash	0%	0%	5%

	FCERS - Postemployment Healthcare		
Asset Class	**Minimum**	**Target**	**Maximum**
Global equity	53%	59%	65%
Fixed income	23%	28%	33%
Real assets	8%	13%	18%

As of June 30, 2014, PFDRP's separate real estate properties include: office buildings in O'Fallon, MO and San José, CA. As of June 30, 2014, the office building in O'Fallon, MO had a mortgage payable with a fair value of $8,419,000.

At June 30, 2014, the Retirement Systems held the following investments (dollars in thousands):

	PFDRP	FCERS	Total
Securities and other:			
Fixed income:			
Domestic fixed income	$ 486,489	$ 218,456	$ 704,945
Collective short term investments	138,241	36,417	174,658
International fixed income	82	-	82
Total fixed income	624,812	254,873	879,685
Absolute return	405,189	379,119	784,308
Global equity	913,746	745,986	1,659,732
Private equity	251,832	101,137	352,969
Forward international currency contracts	63	376	439
Opportunistic investments	257,106	123,996	381,102
Real assets	573,060	450,854	1,023,914
Real estate	232,725	123,161	355,886
Securities lending cash collateral investment pool	51,155	-	51,155
Total investments	$ 3,309,688	$ 2,179,502	$ 5,489,190

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

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

The following tables provide the segmented time distribution for fixed income investments based on expected maturity as of June 30, 2014, (dollars in thousands):

PFDRP

	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years	**Total Fair Value**	**Total Cost**
Domestic fixed income:								
Asset backed securities	$ -	$ -	$ -	$ -	$ -	$ 89,724	$ 89,724	$ 86,453
Bank loans	-	-	-	-	-	53,138	53,138	50,000
Corporate Bonds	-	-	1	67,522	118,057	-	185,580	182,983
FNMA	-	-	-	-	-	-	-	(14)
Guaranteed Investment Contracts	-	-	-	-	-	158,047	158,047	153,389
Total domestic fixed income	-	-	1	67,522	118,057	300,909	486,489	472,811
Collective short-term investments	138,241	-	-	-	-	-	138,241	131,475
International fixed income	-	-	-	-	-	82	82	58
Total fixed income	$ 138,241	$ -	$ 1	$ 67,522	$ 118,057	$ 300,991	$ 624,812	$ 604,344

FCERS

	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years	**Total Fair Value**	**Total Cost**
Domestic fixed income:								
Guaranteed investment contracts	$ -	$ -	$ -	$ -	$ 95,181	$ -	$ 95,181	$ 94,967
U.S. TIPS	-	-	21,281	101,994	-	-	123,275	122,906
Total domestic fixed income	-	-	21,281	101,994	95,181	-	218,456	217,873
Collective short-term investments	36,417	-	-	-	-	-	36,417	36,417
Total fixed income	$ 36,417	$ -	$ 21,281	$ 101,994	$ 95,181	$ -	$ 254,873	$ 254,290

Custodial Credit Risk – The Retirement Systems do not have a policy regarding custodial credit risk. As of June 30, 2014, 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 – The Retirement Systems' investment policies allow for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated. Investment managers may, as part of their investment strategy, invest in securities where the issuer's ability or willingness to pay is limited. At times, these debt securities may be converted into other debt, equity, or hybrid securities that have different risk and return characteristics than the securities initially purchased. The Retirement Systems may hedge against the possible adverse effects of currency fluctuations on the Retirement Systems' portfolios of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

The following table provides information as of June 30, 2014 concerning credit risk of fixed income investments (dollars in thousands):

	PFDRP		**FCERS**	
S&P quality rating	**Fair Value**	**Fair value as a % of fixed income investments**	**Fair Value**	**Fair value as a % of fixed income investments**
Not rated	$ 624,812	100.0%	$ 254,873	100.0%

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

The following tables provide information as of June 30, 2014, concerning the fair value of investments and foreign currency risk (dollars in thousands):

PFDRP

Currency Name	Cash	Private Equity	Equity	Real Estate	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	$ 15	$ -	$ 21,629	$ -	$ (8)	$ 21,636
British Pound Sterling	22	-	64,837	(37)	33	64,855
Canadian Dollar	(51)	-	39,647	-	(26)	39,570
Chilean Peso	-	-	2	-	-	2
Danish Krone	-	-	8,121	-	-	8,121
Euro Currency	222	-	83,457	2,245	63	85,987
Hong Kong Dollar	-	-	8,093	-	-	8,093
Israeli New Shekel	-	-	1,283	-	-	1,283
Japanese Yen	179	-	62,354	191	2	62,726
New Zealand Dollar	-	-	566	-	-	566
Norwegian Krone	-	-	4,457	-	-	4,457
Singapore Dollar	-	-	3,403	-	-	3,403
South Korean Won	-	-	3,465	-	-	3,465
Swedish Krona	17	-	12,835	-	(1)	12,851
Swiss Franc	-	-	27,047	-	-	27,047
Total	$ 404	$ -	$ 341,196	$ 2,399	$ 63	$ 344,062

FCERS

Currency Name	Cash	Private Equity	Equity	Real Assets	Pending Foreign Currency Exchanges	Total Exposure
Australian Dollar	$ (62)	$ -	$ 8,411	$ 12,758	$ 15	$ 21,122
Canadian Dollar	114	-	4,445	30,516	71	35,146
Danish Krone	-	-	5,846	-	-	5,846
Euro Currency	675	8,773	40,469	19,285	152	69,354
Hong Kong Dollar	-	-	3,193	7,149	-	10,342
Hungarian Forint	-	-	-	48	-	48
Indian Rupee	-	-	-	513	(7)	506
Israeli New Shekel	-	-	910	711	-	1,621
Japanese Yen	479	-	30,451	3,745	18	34,693
Malaysian Ringgit	-	-	-	1,659	-	1,659
Mexican Peso	-	-	-	638	-	638
Moroccan Dirham	-	-	-	17	-	17
New Zealand Dollar	-	-	775	447	-	1,222
Norwegian Krone	-	-	3,924	1,977	-	5,901
Peruvian Nuevo Sol	-	-	-	65	-	65
Philippine Peso	-	-	-	22	-	22
Polish Zloty	-	-	-	470	-	470
Pound Sterling	136	-	48,679	30,677	126	79,618
Singapore Dollar	-	-	2,404	1,423	-	3,827
South African Rand	-	-	-	1,537	-	1,537
South Korean Won	-	-	6,188	267	-	6,455
Swedish Krona	(3)	-	4,340	61	1	4,399
Swiss Franc	156	-	15,839	4,757	-	20,752
Thailand Baht	-	-	-	256	-	256
Total	$ 1,495	$ 8,773	$ 175,874	$ 118,998	$ 376	$ 305,516

Concentration of Credit Risk – The Retirement Systems' investment policies specify that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. PFDRP's investment policy states that no single investment management firm shall be authorized to manage more than 15% of PFDRP's assets without Board approval with the exception of passive management which can manage no more than 25% of PFDRP's assets without Board approval. FCERS investment policy states that in addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. Both PFDRP and FCERS investment policies state that assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm unless receiving prior Board approval. As of June 30, 2014, the Retirement Systems did not hold investments in any one issuer, excluding U.S. Government guaranteed investments that represented 5% or more of the total Retirement Systems' net position or total investments.

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

The fair value of derivative investments that are not exchange traded, such as swaps and rights, is determined by the Retirement Systems' custodian 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, 2014. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts for a portion of derivative instruments outstanding as of June 30, 2014, 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, 2014 Classification	Amount	Fair Value at June 30, 2014 Classification	Amount	Notional Amount
International currency forwards	Investment income	$ 827	International currency contracts, net	$ 63	$ 44,090
Futures long/short (domestic and foreign)	Investment income	4,579	Fixed income (domestic and foreign)	-	34,685
Index futures long/short (domestic and foreign)	Investment income	12,855	Equity income (domestic and foreign)	-	167
Rights	Investment income	245	Global equity	-	2
Total derivative instruments		$ 18,506		$ 63	

FCERS

Investment Derivative Instruments	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2014 Classification	Amount	Fair Value at June 30, 2014 Classification	Amount	Notional Amount
Total return swaps	Investment income	$ 16,027	Real assets	$ -	$ -
International currency forwards	Investment income	9	International currency contracts, net	376	44,522
Future options bought/written	Investment income	(11,494)	Fixed income - collective short-term investments	-	30,551
Rights / Warrants	Investment income	-	Global equity	7	28
Total derivative instruments		$ 4,542		$ 383	

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded) and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2014:

Counterparty Credit Risk – The Retirement Systems are exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The Retirement Systems' investments are exposed to credit risk on derivative instruments that are in asset positions. The Retirement Systems' 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, 2014, PFDRP held rights with a fair value of approximately $0 with notional shares of 2 held by unrated counterparties. As of June 30, 2014, total commitments in forward currency contracts to purchase and sell international currencies were $44,090,000 and $44,090,000, respectively, with fair values of $44,350,000 and $44,287,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2014, FCERS held total commitments in forward currency contracts to purchase and sell international currencies of $44,522,000 and $44,522,000 respectively, with fair values of $44,944,000 and $44,568,000, respectively, held by counterparties with an S&P rating of at least A and above.

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, 2014, 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.

The following tables provide information as of June 30, 2014, concerning the fair value of forward currency contracts and foreign currency risk (dollars in thousands):

	International Currency Contracts, Net		
Currency Name	PFDRP	FCERS	Total
Australian Dollar	$ (8)	$ 15	$ 7
British Pound Sterling	33	126	159
Canadian Dollar	(26)	71	45
Euro Currency	63	152	215
Indian Rupee	-	(7)	(7)
Japanese Yen	2	18	20
Swedish Krona	(1)	1	-
Total	$ 63	$ 376	$ 439

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

In exchange for participation in the collateral pool and the lent securities, PFDRP would be compensated, and during the period 2003 through 2014 the program earned approximately $15,000,000 in securities lending income.

Due to the 2008 financial crisis certain assets in the securities lending pool that PFDRP participated in became impaired resulting in PRDRP's Custodian bifurcating the collateral pool in 2010. The collateral pool was separated into a liquid pool which would maintain $1.00 per share Net Asset Value ("NAV") and a lower quality, duration pool ("Quality D Pool") with a floating NAV. On August 7, 2014, the PFDRP Board voted to exit the State Street securities lending program due to lower anticipated earnings as PFDRP shifted a large portion of assets from separately managed accounts enrolled in the securities lending program to commingled accounts that cannot be enrolled in the program. In order to exit the securities lending program, PFDRP will incur an approximate loss of $550,000 due to the NAV of the Quality D Pool being below $1.00 at the time of redemption.

As of June 30, 2014, PFDRP had no exposure to borrower credit risk related to the securities lending transactions as State Street is responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit PFDRP's account with the market value of such unreturned lent securities if the lent securities are not returned by the borrower.

As of June 30, 2014, the PFDRP cash collateral pool for the duration and liquidity pools totaled $703,000,000 and $12.2 billion, respectively. The weighted average maturities for the duration and liquidity pools were 41.80 and 37.40 days, respectively. The cash collateral duration pool included asset backed securities (99.22%) and other securities (0.78%). The liquidity pool included asset backed securities (13.08%), certificates of deposit (45.66%), bank notes (5.78%), commercial paper (7.24%), repurchase agreements (23.16%) and other securities (5.08%).

As of June 30, 2014, the underlying securities loaned by PFDRP as a whole amounted to approximately $55,109,000. The cash collateral and the non-cash collateral totaled $51,670,000 and $4,699,000, respectively, at carrying cost. PFDRP's share of the cash collateral pool at June 30, 2014 was at $1.0001 or $34,065,000 and $0.9706 or $17,090,000 for the liquidity and duration pools, respectively, on a mark to market basis. The net asset value ("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 $0.9706 of the duration cash collateral pool results in an unrealized loss of approximately $518,000 for PFDRP. PFDRP's investment in the liquidity and duration cash collateral investment pools are presented in the statement of fiduciary net position at their respective NAV or $51,155,000. The unrealized loss of $514,000 for the liquidity and duration pool is reflected in the securities lending income earnings line of the statement of changes in fiduciary net position. PFDRP is exposed to market risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the fair value of the assets held by the cash collateral pool.

The following table provides information on PFDRP's securities lent and collateral received as of June 30, 2014 (dollars in thousands):

Type of Investment Lent		
For Cash Collateral:		
Domestic equity securities	$	48,233
International equity securities		2,177
Total Lent for Cash Collateral		50,410
For Non-Cash Collateral:		
Domestic equity securities		4,699
Total Securities Lent	$	55,109
Type of Collateral Received		
Cash Collateral *	$	51,155
Non-Cash Collateral:		
For lent domestic equity securities		4,699
Total Collateral Received	$	55,854

* Amount represents the mark-to-market value of the cash collateral pool at a 100.00% for the liquidity portfolio and 97.06% for the duration portfolio for fiscal year 2013-14.

B. Receivables, Net of Allowances

At June 30, 2014, receivables of the City's major individual funds and nonmajor funds taken in aggregate, including the applicable allowance for uncollectible accounts are as follows (dollars in thousands):

Receivables – Governmental Activities:	General Fund	Housing Activities	Low & Moderate Income Housing Asset	Special Assessment Districts	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Taxes	$ 38,918	$ -	$ -	$ -	$ 6,526	$ -	$ 45,444
Accrued interest	304	87	1,377	13	1,843	21	3,645
Grants	2,851	2,952	-	-	8,630	-	14,433
Special assessments	-	-	-	45,310	-	-	45,310
Other	33,439	106	112	1,394	20,848	429	56,328
Less: allowance for uncollectibles	(18,678)	(3)	-	-	(3,478)	(42)	(22,201)
Total receivables, net	$ 56,834	$ 3,142	$ 1,489	$ 46,717	$ 34,369	$ 408	$ 142,959

Receivables – Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	$ 9,687	$ 3,849	$ 3,690	$ 423	$ 17,649
Accrued interest	239	398	26	16	679
Grants	215	47	-	-	262
Less: allowance for uncollectibles	(344)	(593)	(455)	(63)	(1,455)
Total receivables, net	$ 9,797	$ 3,701	$ 3,261	$ 376	$ 17,135

Special assessment receivables in the amount of $45,310,000 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, 2014 is as follows (dollars in thousands):

Type of Loan	General Fund	Housing Activities	Low & Moderate Income Housing Asset	Nonmajor Governmental Funds	Total Governmental Activities
Housing Program Developer, rehabilitation, second mortgage and relocation loans	$ -	$ -	$ 554,386	$ -	$ 554,386
Loans funded by federal grants	-	70,415	-	7,256	77,671
Economic development, real estate developer and other loans	1,491	42,783	-	-	44,274
Less: allowance for uncollectibles	-	(47,042)	(300,847)	(3,195)	(351,084)
Total loans, net	$ 1,491	$ 66,156	$ 253,539	$ 4,061	$ 325,247

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

Typical loans and related terms are summarized as follows:

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

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

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

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

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

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

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and Low and Moderate Income Housing Asset Fund loans receivable as of June 30, 2014.

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, 2014. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2014, amounts committed to extend credit under normal lending agreements totaled approximately $533,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2014 (dollars in thousands):

	Balance July 1, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 400,642	$ 14,079	$ -	$ -	$ 414,721
Construction in progress	161,122	53,794	1,610	(159,441)	53,865
Total capital assets, not being depreciated	561,764	67,873	1,610	(159,441)	468,586
Capital assets, being depreciated:					
Buildings	1,342,781	285	38	139,490	1,482,518
Improvements, other than buildings	209,235	1,174	-	8,324	218,733
Infrastructure	11,375,523	9,276	-	11,627	11,396,426
Vehicles and equipment	108,045	6,675	3,799	-	110,921
Furnitures and fixtures	26,507	623	-	-	27,130
Property under capital leases	13,379	-	675	-	12,704
Total capital assets, being depreciated	13,075,470	18,033	4,512	159,441	13,248,432
Less accumulated depreciation for:					
Buildings	408,762	37,945	38	-	446,669
Improvements, other than buildings	23,030	5,469	-	-	28,499
Infrastructure	6,858,743	307,288	-	-	7,166,031
Vehicles and equipment	89,578	6,672	3,685	-	92,565
Furnitures and fixtures	21,197	2,665	-	-	23,862
Property under capital leases	13,077	193	675	-	12,595
Total accumulated depreciation	7,414,387	360,232	4,398	-	7,770,221
Total capital assets, being depreciated, net	5,661,083	(342,199)	114	159,441	5,478,211
Governmental activities capital assets, net	$ 6,222,847	$ (274,326)	$ 1,724	$ -	$ 5,946,797
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 134,926	$ -	$ -	$ -	$ 134,926
Intangible assets	12,882	-	-	-	12,882
Construction in progress	29,544	17,459	430	(26,236)	20,337
Total capital assets, not being depreciated	177,352	17,459	430	(26,236)	168,145
Capital assets, being depreciated:					
Buildings	1,638,084	7	14	(8,502)	1,629,575
Improvements, other than buildings	1,109,722	15,794	-	14,028	1,139,544
Vehicles and equipment	230,663	2,658	14,246	20,710	239,785
Property under capital leases	13,406	-	6,522	-	6,884
Total capital assets, being depreciated	2,991,875	18,459	20,782	26,236	3,015,788
Less accumulated depreciation for:					
Buildings	408,714	42,689	14	-	451,389
Improvements, other than buildings	495,595	29,057	-	-	524,652
Vehicles and equipment	146,381	12,831	13,765	-	145,447
Property under capital leases	12,107	132	6,522	-	5,717
Total accumulated depreciation	1,062,797	84,709	20,301	-	1,127,205
Total capital assets, being depreciated, net	1,929,078	(66,250)	481	26,236	1,888,583
Business-type activities capital assets, net	$ 2,106,430	$ (48,791)	$ 911	$ -	$ 2,056,728

2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the fiscal year ended June 30, 2014 is as follows (dollars in thousands):

Governmental activities:		
General government	$	12,363
Public safety		6,642
Capital maintenance		311,068
Community services		27,509
Capital assets held by City's internal service funds		2,650
Total depreciation expense - governmental activities	$	360,232
Business-type activities:		
Norman Y. Mineta San José International Airport	$	53,698
Wastewater Treatment System		26,596
Municipal Water System		2,454
Parking System		1,961
Total depreciation expense - business-type activities	$	84,709

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, 2014.

4. Construction Commitments

Commitments outstanding as of June 30, 2014, related to governmental and business-type activities construction in progress totaled approximately $30,029,000 and $59,848,000, 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:

<u>Governmental Activities</u>

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 2019. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund and the Nonmajor Governmental Funds under these operating lease agreements for the fiscal year ended June 30, 2014 amounted to approximately $1,794,000 and $182,000, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2014, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Govermental Activities
2015	$ 1,509	$ 98	$ 1,607
2016	1,086	-	1,086
2017	361	-	361
2018	187	-	187
2019	202	-	202
Totals	$ 3,345	$ 98	$ 3,443

Business-Type Activities

Airport Gas-Powered Buses. In May 2012, the City entered into an amended operating lease and maintenance agreement for ten compressed natural gas powered buses for the Airport. The term of the agreement ends May 31, 2017. Rental expense for the Airport buses for the year ended June 30, 2014 was approximately $1,320,000.

Future Minimum Payments. The future minimum payments anticipated under these commitments for the 10 buses, as of June 30, 2014, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Operating Leases
2015	$ 953
2016	956
2017	880
Total	$ 2,789

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 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 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. During the fiscal year ended June 30, 2014, the City received approximately $5,738,000 from the Manager. As of June 30, 2014, leased assets had a total historic cost of approximately $118,114,000 and accumulated depreciation of approximately $56,492,000.

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, 2014, the Airport's revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by approximately $31,640,000. The surplus for fiscal year ended June 30, 2014 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2016.

Other Leases. In December 2013, the City entered into a ground lease and operating agreement with Signature Flight Support Corporation (Signature), which will construct a full-service, fixed based facility on 29 acres of the Airport's west side. The term of the agreement is for 50 years from December 11, 2013 to December 11, 2063. Signature will pay interim ground rental equal to 50% of the base ground rental until the earlier of (i) the first day of the twenty-fifth full calendar month from the effective date or (ii) the date a certificate of occupancy is issued for the use and occupancy of the leasehold improvements, whichever is earlier. At such date the certificate of occupancy is issued, or commencing with the twenty-fifth month after effective date, whichever is earlier, and continuing throughout the term, Signature shall pay base ground rental of $2.06 per square foot per year based upon the actual square footage of premises occupied. The base ground rental is subject to a consumer price index increase annually and by appraisal every five years. Rental revenues from the ground lease with Signature was $736,000 for the fiscal year ended June 30, 2014.

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. As of June 30, 2014, the terms of these operating leases range from one month to 24 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 $76,594,000 for the fiscal year ended June 30, 2014.

The future minimum rentals to be received from the operating leases, as of June 30, 2014, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Amount
2015	$ 89,564
2016	96,227
2017	97,020
2018	35,807
2019	35,971
2020-2024	67,945
2025-2029	43,501
2030-2034	42,974
2035-2039	39,825
2040-2044	25,261
2045-2049	28,445
2050-2054	32,031
2055-2059	36,068
2060-2063	36,358
Total	$ 706,997

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. As of June 30, 2014, leased assets had historic costs of approximately $1,019,400,000 and accumulated depreciation of approximately $151,928,000.

F. Long-Term Debt and Other Obligations

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the City as of June 30, 2014 (dollars in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments ($ millions)	Balance June 30, 2014
Governmental Activities							
City of San José							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	$ 71,000	06/06/2001	09/01/2031	5.00-5.13%	2.37	$ 42,570
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	4.00-5.00%	3.87	73,520
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.00-5.00%	3.96	83,105
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	4.00-4.50%	1.54-1.55	33,980
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.51-3.52	80,830
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-5.50%	3.00	72,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10-1.11	27,575
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-5.00%	0.30	7,800
							421,380
HUD Section 108 Note (FMC)	Economic Development	25,810	02/10/2005	08/01/2024	Variable	0.15-2.08	14,706
City of San José Financing Authority							
Lease Revenue Bonds:							
Series 2001F (Convention Center)	Refunding	186,150	07/01/2001	09/01/2022	5.00%	10.04-14.73	110,300
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	4.00-4.70%	1.15-1.61	13,400
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.10-5.00%	0.00-17.44	56,125
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.13-4.75%	1.22-2.22	28,665
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	2.59-3.90	28,920
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/01/2025	Variable	0.56-1.26	10,575
Series 2008E-2 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/01/2025	Variable	0.56-1.26	10,565
Series 2008F (Taxable) (Land Acquisition)	Refunding	67,195	06/11/2008	06/01/2034	Variable	1.87-4.81	62,105
Series 2011A (Conventional Center)	Convention Center	30,985	04/12/2011	05/01/2042	3.00-5.75%	0.00-2.17	30,985
Series 2013A (Civic Center Project)	Refunding	305,535	05/28/2013	06/01/2039	3.00-5.00%	0.00-21.30	305,535
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.00-1.91	30,445
Revenue Bonds:							
Series 2001A (4th & San Fernando Garage)	Parking Facility	48,675	04/10/2001	09/01/2026	4.38%	1.82-3.20	31,695
							730,230
Special Assessment Bonds with Limited Government Commitment							
Special Assessment Bonds							
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.40-5.90%	1.24-2.03	16,055
Series 24R (2002 Consolidated Refunding)	Consolidated Refunding	13,940	07/03/2002	09/02/2015	4.36-4.38%	0.82-1.07	1,880
Special Tax Bonds							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.60-5.70%	0.19-0.30	2,150
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	5.40-6.00%	0.51-0.87	6,855
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	5.80-6.65%	0.33-0.95	10,765
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	4.40-5.30%	0.61-0.94	7,605
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	1.68-7.71	107,025
							152,335
Total Governmental Activities - Bonds and Notes Payable							**$ 1,318,651**
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%	0.00-10.06	$ 45,710
Series 2004C (AMT)	Airport Facilities	75,730	06/24/2004	03/01/2026	4.63-5.25%	1.00-10.59	69,730
Series 2004D	Airport Facilities	34,270	06/24/2004	03/01/2028	5.00%	9.96-12.56	34,270
Series 2007A (AMT)	Airport Facilities	545,755	09/13/2007	03/01/2047	5.00-6.00%	5.69-73.50	539,975
Series 2007B	Airport Facilities	179,260	09/13/2007	03/01/2037	4.25-5.00%	2.34-28.80	177,015
Series 2011A-1 (AMT)	Refunding	150,405	07/28/2011	03/01/2034	3.00-5.75%	0.00-21.12	139,900
Series 2011A-2	Refunding	86,380	07/28/2011	03/01/2034	3.50-5.25%	0.00-12.22	80,390
Series 2011B	Refunding	271,820	12/14/2011	03/01/2041	3.32-5.75%	0.50-27.33	264,085
Series 2012A (Non-AMT)	Airport Facilities	49,140	11/08/2012	03/01/2018	1.53%	8.20-8.59	33,605
							1,384,680
Wastewater Treatment System							
Cleanwater Financing Authority							
Revenue Bonds:							
Series 2005A	Refunding	54,020	10/05/2005	11/15/2016	3.75-5.00%	5.13-5.80	16,445
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	3.00-3.50%	0.00-5.41	21,420
							37,865
State of California - Revolving Fund Loan	Wastewater Facilities	73,566	06/24/1997	05/01/2019	Various	1.77-4.35	18,720
							56,585
Total Business-Type Activities - Bonds and Loan Payable							**$ 1,441,265**
Grand Total							**$ 2,759,916**

2. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions for which non-compliance would adversely affect its ability to pay debt service. During the course of the fiscal year, the City identified several noncompliant issues with the continuing disclosure requirements related to notices of certain events and corrective action, where appropriate, has been taken.

3. Legal Debt Limit and Margin

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2013-2014 tax roll was $137.0 billion, which results in a total debt limit of $20.6 billion. As of June 30, 2014, the City had $421,380,000 of General Obligation bonds outstanding which represents approximately 2.1% of the General Obligation bonds' debt limit.

4. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service ("IRS") at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the City's tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, 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 statement of net position in the amount of $33,000.

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, 2014, the City has recorded approximately $45,310,000 of deferred inflows of resources and related special assessments receivables in the Special Assessment Districts Fund. These balances consist primarily of property tax assessments and/or special taxes to be collected in the future by the County of Santa Clara for future debt service of the special assessment districts and the community facilities districts.

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

6. Conduit Debt

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with IRS requirements in order to meet the tax-exempt status, the owner is required to set aside a certain percentage of all units built for low to moderate-income households. The bonds are payable solely from payments made on the related secured loans. These housing bonds have maturity dates that are due at various dates through January 1, 2047. As of June 30, 2014, the outstanding conduit multi-family housing revenue bonds issued by the City aggregated to approximately $494,938,000.

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

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

Included in long-term debt is $123,080,000 of variable-rate lease revenue bonds, comprised of four series (Series 2008C, Series 2008D, Series 2008E and Series 2008F) issued by the Financing Authority. The Financing Authority issued these bonds to provide variable-rate exposure to the debt portfolio and to provide additional flexibility with respect to restructuring or redeeming the debt issued for certain projects. The source of repayment for each of these series is from lease payments from the City to the Financing Authority for the City's lease of the Dolce Hayes Mansion (Series 2008C and Series 2008D), the Ice Centre (Series 2008E) and real property located at 1125 Coleman Avenue in San José (Series 2008F).

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

The principal balances of the Financing Authority's variable-rate bonds as of June 30, 2014 are as follows (dollars in thousands):

	Privately-Placed Bonds				
	Balance June 30, 2014	Purchaser	Agreement Expiration	Fixed Fee/ Spread	Interest Index Rate
City of San José Financing Authority:					
Lease Revenue Bonds:					
Series 2008C (Hayes Mansion)	$ 10,915	U.S. Bank, N.A.	12/18/2016	0.530%	SIFMA (Weekly)
Series 2008D (Taxable) (Hayes Mansion)	28,920	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008E (Taxable) (Ice Centre)	21,140	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008F (Taxable) (Land Acquisition)	62,105	Bank of America, N.A.	6/26/2017	0.575%	1-Month LIBOR
Total variable rate lease revenue bonds	$ 123,080				

Prior to the execution of the continuing covenant agreements on December 18, 2013 (for the Series 2008C/D/E Bonds) and June 26, 2014 (for the Series 2008F bonds), the variable-rate lease revenue bonds were publicly-marketed "demand" bonds supported by separate letters of credit and payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. Concurrent with the private placement of these bonds, the applicable letter of credit for each series was cancelled and the bonds are no longer remarketed on the open market.

The Financing Authority is required to pay a fixed fee, or spread, ranging from 0.530% to 0.575% (as noted above) based on the terms of the applicable continuing covenant agreement. Per the terms of each of the continuing covenant agreements, the spread is subject to increase in the event that the long-tern unenhanced ratings of the Financing Authority's lease revenue bonds are downgraded. The applicable interest index rate plus the fixed fee comprise the combined interest rate that is applied to outstanding principal and billed to the Financing Authority monthly. As of June 30, 2014, the continuing covenant agreements for the Series 2008C/D/E bonds had an expiration date of December 18, 2016 and the continuing covenant agreement for the Series 2008F bonds had an expiration date of June 26, 2017.

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

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

8. Summary of Changes in Long-term Obligations

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2014 are as follows (dollars in thousands):

	July 1, 2013	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2014	Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	$ 441,025	$ -	$ (19,645)	$ 421,380	$ 19,645
HUD Section 108 loan	14,706	-	-	14,706	-
San José Financing Authority					
Lease revenue bonds	604,155	-	(15,920)	588,235	13,850
Lease revenue bonds with reimbursement agreement	119,870	-	(9,570)	110,300	10,040
Revenue bonds with pledge agreement	33,435	-	(1,740)	31,695	1,815
Special assessment and special tax bonds with limited governmental commitment	156,545	-	(4,210)	152,335	5,620
Total long-term debt payable	1,369,736	-	(51,085)	1,318,651	50,970
Issuance premiums/discounts:					
For issuance premiums	52,230	-	(2,059)	50,171	2,059
For issuance discounts	(2,522)	-	89	(2,433)	(89)
Total issuance premiums/discounts	49,708	-	(1,970)	47,738	1,970
Total long-term debt payable, net of issuance premiums/discounts	1,419,444	-	(53,055)	1,366,389	52,940
Other long-term obligations:					
Hayes Mansion construction loan	1,200	-	-	1,200	-
Lease-purchase agreement	-	19,286	-	19,286	113
Arbitrage liability	33	-	-	33	-
Accrued vacation, sick leave and compensatory time	60,866	37,433	(31,611)	66,688	35,786
Accrued landfill postclosure costs	6,975	-	(465)	6,510	465
Estimated liability for self-insurance	133,786	29,183	(26,407)	136,562	21,048
Net other postemployment benefits (OPEB) obligation	358,238	34,857	-	393,095	-
Pollution remediation obligation	821	-	(235)	586	-
NMTC financing obligation	18,069	2,015	-	20,084	407
Total other long-term obligations	579,988	122,774	(58,718)	644,044	57,819
Governmental activities long-term obligations	$ 1,999,432	$ 122,774	$ (111,773)	$ 2,010,433	$ 110,759

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, 2014, 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, 2014 is approximately $642,537,000, with the final payment due on September 1, 2039.

The City did not issue any GO bonds in fiscal year 2014. 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 issuance of this final series will depend upon the expenditure and encumbrance needs of the various projects to be financed.

Lease Revenue/Revenue Bonds are issued by the Financing Authority primarily to finance various capital improvements and, with the exception of the 2001A Bonds, the financed capital improvements are to be leased to the City and are secured by lease revenue from "lessee" departments in the General Fund, Nonmajor Governmental Funds, and the SARA. The lease revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Total principal and interest remaining on these bonds as of June 30, 2014 are approximately $1,124,099,000, with the final payment due on May 1, 2042.

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

- **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 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 Agency and the Financing Authority. However, the City records debt payments pursuant to the annual debt service schedule, which results in a timing difference in the amount of $1,815,000 for balances outstanding as of June 30, 2014. At June 30, 2014, the Financing Authority's bonds payable is $31,695,000, whereas the corresponding receivable from the SARA is $29,880,000. During the fiscal year ended June 30, 2014, the Financing Authority received a total of $3,363,000 in payments from the SARA and recorded debt payment according to the debt service schedule for the Series 2001A bonds.

  Due to SARA's cash flow deficiencies to make the annual pledge agreement payment in fiscal year ended June 30, 2014, the City's Parking System advanced $3,363,000 to the SARA to make the payment under the Agency Pledge Agreement to the Financing Authority (see Note III.G.3).

- **Lease Revenue Bonds with Reimbursement Agreement.** In connection with the issuance of the 2001F Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement, which was assumed by the SARA, under which the SARA is obligated to use redevelopment property tax or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Series 2001F bonds (tax-exempt) mature in 2022 and have an outstanding balance of $110,300,000 as of June 30, 2014. During the fiscal year ended June 30, 2014, the Financing Authority received a total of $15,324,000 in payments from the SARA and recorded the debt service payment according to the debt payment schedule for the Series 2001F bonds.

Due to SARA's cash flow deficiencies to make the annual payment on its reimbursement agreement, the City's General Fund advanced $9,834,000 to the SARA to assist with the payment of the Reimbursement Agreement to the Financing Authority (see Note III.G.3).

Special Assessment and Special Tax Bonds are issued by the City to finance public improvements in special assessment or tax districts established by the City and are secured by assessments or special taxes levied on properties located within the special districts. The assessments and special taxes, as applicable, are calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. Total principal and interest remaining on the bonds as of June 30, 2014 is approximately $293,248,000, with the final payment due on May 1, 2042.

Other Long-Term Obligation payments are primarily made from general revenues recorded in the General Fund, except for payments related to the City's New Market Tax Credit financing obligation, which will be paid from rental payments received from subleasing certain rental spaces of the San José Environmental Innovation Center and the Hayes Mansion Construction loan, which will be paid from the nonmajor special revenue funds, Integrated Waste Management fund, and Community Facility Revenue, respectively.

Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2014 are as follows (dollars in thousands):

	July 1, 2013	Obligations and Net Increases	Retirements, and Net Decreases	June 30, 2014	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San José International Airport:					
Revenue bonds	$ 1,406,955	$ -	$ (22,275)	$ 1,384,680	$ 23,450
Issuance premiums/discounts:					
For issuance premiums	2,927	-	(63)	2,864	65
For issuance discounts	(11,549)	-	43	(11,506)	(55)
Clean Water Financing Authority:					
Revenue bonds	43,185	-	(5,320)	37,865	5,520
Issuance premiums/discounts:					
For issuance premiums	1,296	-	(236)	1,060	236
State of California - Revolving Fund Loan	22,769	-	(4,049)	18,720	4,123
Accrued vacation, sick leave and compensatory time	5,533	4,740	(3,529)	6,744	4,428
Estimated liability for self-insurance	4,635	2,602	(1,273)	5,964	1,227
Net other postemployment benefits (OPEB) obligation	35,523	5,858	-	41,381	-
Pollution remediation obligation	1,758	-	(1,044)	714	714
Business-type long-term obligations	$ 1,513,032	$ 13,200	$ (37,746)	$ 1,488,486	$ 39,708

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Airport's Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Airport's Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and monies derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in fiscal year 2014 totaled approximately $136,555,000 which is comprised of $61,397,000 of net general airport revenues and $75,157,000 of other available funds. Bond debt service payable from general airport revenues in fiscal year 2014 totaled approximately $69,320,000, which is net of $25,747,000 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, 2014 is approximately $2.7 billion, with the final payment due on March 1, 2047.

Ambac Assurance Corporation ("Ambac Assurance"), a subsidiary of Ambac Financial Group, Inc. ("Ambac Financial") and formerly known as Ambac Indemnity Corporation, 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 2001A, Series 2011A-1, Series 2011A-2 and 2012A Airport Revenue Bonds. The Ambac Assurance surety bond expires on March 1, 2018 and the National Public Finance Guarantee Corporation ("NPFG") 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 terminate or expire, 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. The City may also be required to make a deposit of cash or another qualified reserve facility in order to maintain the required reserve in the general account in the case of non-payment under, or cancellation, of either surety bond, including as a result of the liquidation of Ambac Assurance or NPFG. See Note III.F.10. regarding Ambac Financial's filing for bankruptcy protection and other proceedings.

San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds are issued primarily to finance the construction of capital improvements at the Plant and the City has pledged its net systems revenues as security for its obligations under the improvement agreement to make base payments and additional payments with respect to the revenue bonds. The net system revenues available to pay debt service in the fiscal year ended June 30, 2014 totaled approximately $55,845,000. Bond debt service, plus debt service on the State Revolving Fund Loan, payable from net system revenues in the fiscal year 2013-14 totaled approximately $11,416,000. The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service. The City's allocable percentage of annual debt service is currently 100%. Total principal and interest remaining on (1) the bonds as of June 30, 2014 is approximately $43,104,000, with the final payment due on November 15, 2020 and (2) the loan as of June 30, 2014 is approximately $19,660,000, with the final payment due on May 1, 2019.

9. Annual Requirements to Maturity

The annual requirements to amortize all bonds and loans outstanding as of June 30, 2014 are as follows (dollars in thousands):

	Governmental Activities					
	City of San José General Obligation Bonds and HUD Loan [1]		City of San José Financing Authority Bonds [1,2,3]		Special Assessment & Tax Bonds with Limited Governmental Commitment	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 19,645	$ 19,694	$ 25,705	$ 29,938	$ 5,620	$ 9,021
2016	19,650	18,815	27,755	29,015	5,610	8,747
2017	19,804	17,907	30,195	27,976	5,035	8,476
2018	21,129	17,017	32,615	26,850	5,305	8,204
2019	21,214	16,129	36,390	25,549	5,580	7,918
2020 - 2024	107,612	66,772	183,940	105,274	32,525	34,585
2025 - 2029	100,502	42,983	128,910	75,567	18,575	27,398
2030 - 2034	89,640	19,195	127,700	50,885	24,095	20,872
2035 - 2039	36,590	3,084	130,880	22,095	28,245	12,806
2040 - 2044	300	8	6,140	720	21,745	2,886
Total	$ 436,086	$ 221,604	$ 730,230	$ 393,869	$ 152,335	$ 140,913

	Business-Type Activities			
	Airport Revenue Bonds [3]		Wastewater Treatment System Revenue Bonds and Loans	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest
2015	$ 23,450	$ 73,923	$ 9,643	$ 1,736
2016	24,520	73,104	9,993	1,414
2017	25,605	72,284	10,130	1,122
2018	26,860	71,323	9,498	847
2019	25,280	70,271	6,737	591
2020 - 2024	153,080	330,143	10,585	468
2025 - 2029	213,735	284,766	-	-
2030 - 2034	376,390	214,503	-	-
2035 - 2039	400,085	89,387	-	-
2040 - 2044	88,435	20,183	-	-
2045 - 2049	27,240	3,332	-	-
Total	$ 1,384,680	$ 1,303,219	$ 56,586	$ 6,178

[1] Projected interest payments for variable rate debt are based on the following rates in effect on June 30, 2014:
- HUD Loan (0.42735%)
- Financing Authority Lease Revenue Bonds: Series 2008C (0.59%), Series 2008D (0.681%), Series 2008E (0.681%), and Series 2008F (0.73%)

[2] Includes fixed spread/fee in addition to index rate in effect on June 30, 2014. Does not include projection of future spreads/fees or expenses.

[3] Does not include commercial paper notes.

For governmental and business-type activities, the specific year for payment of estimated liabilities for the Hayes Mansion construction loan, 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. Ambac Assurance Surety Bonds Held in Bond Revenue Funds

Ambac Assurance, a subsidiary of Ambac Financial, issued a reserve fund surety bond that is on deposit in the General Account of the Bond Reserve Fund, securing the Series 2001A, Series 2011A-1, Series 2011A-2, and Series 2012A Airport Revenue Bonds. According to the Master Trust Agreement for these bonds, in the event that such surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve (as defined in the Master Trust Agreement), the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

Ambac Assurance also issued a reserve fund surety bond that is on deposit in the reserve fund established for the City of San José Financing Authority Revenue Bonds, Series 2001A (4^{th} 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.

On May 1, 2013, Ambac Financial emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. Ambac Assurance remains subject to rehabilitation proceedings undertaken by the Wisconsin Office of the Commissioner of Insurance. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.

11. New Debt Issuances and Short-Term Debt Activities

<u>**Governmental Activities**</u>

Lease-Purchase Agreement (Energy Conservation Equipment)

On May 20, 2014, the City Council authorized the execution of a master equipment lease-purchase agreement (the "Agreement") with Banc of America Public Capital Corp (the "Bank") under which the City may enter into separate schedules for the acquisition, purchase, financing, and leasing of energy conservation equipment to be installed at City-owned facilities in a principal amount not to exceed $30,000,000 with the Bank or one its affiliates (collectively, the "Lessor"). The schedules are referred to as "Leases". The financing was secured as a result of the Energy Services Agreement that the City entered into with Chevron Energy Solutions to design the projects and procure the equipment to be acquired and installed.

The Agreement provides for the general terms and conditions governing the lease of the improvements. The Leases specify the terms applicable to the specific projects to be financed, including a description of the projects and their location, the method of payment by the Lessor to the City for the acquisition of the equipment, the amount of lease payments and schedule of lease payments by the City to the Lessor, and the terms of the City's prepayment of the lease payments. For a five year period following the execution of the Agreement, the City will have the ability to enter into Leases with the Lessor provided that the City is not in default and that there has been no material change to the City's financial condition as specified in the Agreement.

The Agreement requires that as long as the City has beneficial use of the equipment, the City will take all necessary actions to include the lease payments required under the leases in the annual budget and to make the necessary appropriations. The City's obligation to budget is based on the beneficial use of the equipment regardless of the realization of any utility costs savings. The Leases give the City the right to the use of the equipment for as long as the City meets its financial obligations under the leases.

Each piece of equipment is leased by the City from the Lessor for a period not to exceed its useful life, capped at 20 years. Upon full payment of all amounts owed under a lease, the City will own all equipment free and clear and the Lesssor's security interest in the equipment will cease.

On May 29, 2014, the City and the Lessor executed the Agreement and entered into a $19,286,000 taxable Lease to finance the acquisition and installation of energy conservation equipment at City-owned facilities including community centers, pools, joint community centers/libraries, the South Service Yard, the Museum of Art, and for the replacement of streetlights. The total blended interest rate for the 20-year taxable Lease was 5.01%, and interest rates ranged from 3.21% for improvements with 5-year useful lives to 6.01% for improvements with 20-year useful lives.

Future commitments for capital leases for the energy conservation equipment having remaining terms in excess of one year as of June 30, 2014, were as follows:

	Lease-Purcahse Agreement	
Fiscal Year Ending June 30,	Principal	Interest
2015	$ 113	$ 972
2016	1,224	946
2017	1,286	884
2018	1,352	819
2019	1,420	750
2020 - 2024	7,932	2,624
2025 - 2029	5,267	641
2030 - 2034	692	92
Total	$ 19,286	$ 7,728

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

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

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

The Financing Authority issues the CP Notes under State law pursuant to an Amended and Restated Trust Agreement between the Financing Authority and Wells Fargo Bank, National Association (as amended and supplemented, the "Trust Agreement") and an Amended and Restated Issuing and Paying Agent Agreement between the Financing Authority and Wells Fargo Bank, National Association. Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The City has leased to the Financing Authority various City-owned facilities pursuant to a Site Lease, as amended (the "Site Lease"). The Financing Authority subleased these same facilities back to the City pursuant to a Sublease, as amended (the "Sublease") in exchange for the rental payments, which support repayment of the CP Notes. The facilities subject to the Site and Sublease (pursuant to the Fourth Amendments to the Site Lease and to the Sublease, both dated February 1, 2013, which substituted leased assets) are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, and the South San José Police Substation (the "Pledged Properties"). During fiscal year 2013-14, as required by the Letter of Credits and Reimbursement Agreements, efforts began to temporarily add a facility or facilities to the Site Lease and Sublease until the South San José Police Substation becomes operational and is fully utilized for its intended purpose. The City and the Banks agreed to temporarily add the San José Tech Museum, a more "essential" property due to its full utilization and beneficial use, to the Site Lease and Sublease as additional security for the Banks. It is anticipated that this transaction will be finalized in fiscal year 2014-15.

The annual commitment fee payable to each Bank equals 1.30% per annum of the daily average Stated Amount of the Letter of Credit in effect from time to time for the period from February 28, 2013 to and including the Letter of Credit Expiration Date; provided, however, that in the event that the Financing Authority's long-term unenhanced lease revenue bond ratings are downgraded as specified in the Letter of Credit and Reimbursement Agreements with each Bank, the annual commitment fee shall increase as specified in the agreement with the applicable Bank.

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

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

As of June 30, 2014, $31,238,000 of tax-exempt commercial paper notes was outstanding at an interest rate of 0.08% and $15,165,000 of taxable commercial paper notes was outstanding at an interest rate of 0.20%. The changes in commercial paper notes during the fiscal year ended June 30, 2014 are as follows (dollars in thousands):

July 1, 2013	Additions	Deletions	June 30, 2014
$42,796	$10,000	$6,393	$46,403

2013 Tax and Revenue Anticipation Note

The City issued a short-term note (the "2013 Note") to facilitate the prefunding of employer retirement contributions in fiscal year 2013-14. The $100,000,000 note was purchased by Bank of America, N.A. on July 1, 2013 at an interest rate of 1-month LIBOR plus 0.35%. Security for repayment of the 2013 Note was a pledge of the City's fiscal year 2013-14 secured property tax plus all other legally available General Fund revenues available to the City, if required. The City fully repaid the 2013 Note on February 10, 2014.

Business-Type Activities

Airport Commercial Paper Notes Payable

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

As of June 30, 2013, the Subordinated Commercial Paper Notes was supported by a $75,000,000 letter of credit ("LOC") provided by Wells Fargo Bank, N.A. ("WFB"). The LOC provided by WFB was scheduled to expire on March 13, 2014.

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

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

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated Commercial Paper Notes be issued, that the City reimburse Barclays immediately for draws under the letter of credit and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the

Reimbursement Agreement include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated Commercial Paper Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Bonds (other than where the Bonds shall continue to be rated by any two of Moody's, Fitch, or S&P), or downgrades by any of Moody's, Fitch or S&P of its ratings on the Bonds below "Baa2," "BBB" and "BBB," respectively for a period of 120 consecutive calendar days. All amounts payable by the City to Barclays under the Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is subordinate to the lien of the Bonds.

In connection with the LOCs issued by WFB and Barclays, the City entered into separate fee letters with each bank to specify the facility fee rate and other charges payable by the Airport with respect to the respective LOCs. The facility fee rate under both fee letters was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the applicable LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the Reimbursement Agreement. The facility fee rate in effect is .0425% as of June 30, 2014.

The change in Airport commercial paper notes payable during fiscal year 2014 is as follows (dollars in thousands):

July 1, 2013	Deletions	June 30, 2014	Interest Rate
$45,380	$4,221	$41,159	0.08% - 0.28%

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 $6,510,000 related to the closed landfills is recorded in the government-wide financial statements as of June 30, 2014. 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 2014, 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, 2013 to October 1, 2014 is provided below:

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

During fiscal year 2014, for the policy period of October 1, 2013 to October 1, 2014, the City maintained an airport liability policy covering the Airport, including operation of vehicles on premises, which provide a $200,000,000 combined single limit for bodily injury and property damage subject to a deductible of $0 each occurrence and annual aggregate, with a sublimit of $50,000,000 each occurrence and in the annual aggregate for personal injury, and a sublimit of $100,000,000 each occurrence and in the annual aggregate for war liability. A separate automobile policy provided coverage for the off-premise operations of Airport vehicles including shuttle bus fleets with a limit of $1,000,000 per occurrence, combined single limit for bodily injury and property damage, and no deductible. Physical damage coverage was available for the Airport Shuttle Bus Fleet and is subject to a $10,000 comprehensive and $25,000 collision deductible. As part of general support services, the City charges the Airport for the cost of liability and property insurance coverage. Settled claims have not exceeded the City's commercial insurance coverage in any of the past three years.

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

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2014. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated.

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

Liability as of June 30, 2012	$ 142,716
Claims and changes in estimates during 2013	18,833
Claims payments	(23,128)
Liability as of June 30, 2013	138,421
Claims and changes in estimates during 2014	31,785
Claims payments	(27,680)
Liability as of June 30, 2014	$ 142,526

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.

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 position. The claims loss reserve funds the deductible of up to $250,000 per occurrence to a maximum loss exposure to the City of $3,900,000. The balance of the North Concourse reserve fund as of June 30, 2014 is $930,000.

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

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

The liability under the TAIP OCIP is based upon an estimated payroll of $92,500,000 for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of $8,900,000. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of $8,900,000. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of $6,500,000 was deposited with Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying statement of net position. In August 2013, as part of the annual loss reserve analysis by Chartis, an amount of $1,398,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2014 is $2,517,000.

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

14. Net Other Postemployment Benefits (OPEB) Obligation

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City did not have a net OPEB obligation at transition, July 1, 2007. The PFDRP and FCERS calculated a net OPEB obligation in accordance with GASB 45 as discussed in Note IV A.2. At June 30, 2014, the City recorded net OPEB obligations totaling $434,476,000 in the government-wide financial statements, of which $393,095,000 is in governmental activities and $41,381,000 is in business-type activities.

15. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including five active leaking petroleum storage tank sites: Fire Stations #5 and #16, Las Plumas Warehouse, Family Shelter, and the Airport, as discussed in Note IV.B.1. Although the City has significant experience in estimating these types of cleanups, the calculation of the expected outlays related to this pollution remediation is based on estimates provided by both City engineers and consultants hired by the City. The amount of the estimated pollution remediation liability assumes that there will be no major increases in the cost of providing these cleanup services. As of June 30, 2014, the government-wide statement of net position reported a net pollution remediation obligation in the amount of $586,000 in governmental activities, and $714,000 in business-type activities.

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

In connection with the City's NMTC financing transaction to construct the San José Environmental Innovation Center ("EIC"), the City has a long-term lease obligation for its possession and beneficial use of the EIC facility. This master lease agreement has a 35-year term with a one-time renewal option of 10 years. The City made its first quarterly rent payment of $100,500 in July 2014. Due to a change in estimated liability, an increase in the amount of $2,015,000 was made in the current year to reflect an updated ending balance of $20,084,000. The future minimum lease payments anticipated under the master lease agreement, as of June 30, 2014, are as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2015	$ 407
2016	417
2017	427
2018	438
2019	449
2020-2024	2,421
2025-2029	2,742
2030-2034	3,105
2035-2039	3,515
2040-2044	3,978
2045-2049	2,185
Total	$ 20,084

G. Interfund Transactions

The composition of interfund balances as of June 30, 2014, with explanations of transactions, is as follows (dollars in thousands):

1. Due from/Due to other funds

Receivable Fund	Payable Fund	Amount	
General Fund	Nonmajor Governmental Funds	$ 2,078	(1)
Nonmajor Governmental Funds	General Fund	5,075	(3)
	Nonmajor Governmental Funds	6,035	(2)
	San José Financing Authority Debt Service	234	(2)
Wastewater Treatment System	General Fund	5,074	(3)
		$ 18,496	

(1) $1,571 represents accrual of gas tax transfers, $214 represents loan payment for convention and cultural facilities and $293 represents accrual of construction and conveyance tax transfer
(2) Represents short-term borrowing for working capital
(3) Represents SERAF loan amounts due from the former Agency assumed by the General Fund per the terms of the SERAF loan agreement and payable in fiscal year 2014-15

2. Advances to/Advances from other funds

Receivable Fund	Payable Fund	Amount	
General Fund	San José Financing Authority Debt Service	$ 3,297	(1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	2,500	(2)
	General Fund	8,111	(2)
		$ 13,908	

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

3. Long-term Receivables from SARA

At June 30, 2014, the City's Low and Moderate Income Housing Asset Fund has advances receivable from the SARA as follows (in thousands):

	Amount
SERAF loan principal	$ 64,816
SERAF interest	897
SERAF loan - gross	65,713
Less allowance for collectability	(52,771)
SERAF loan - net	$ 12,942

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

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) with a combined amount of $74,816,000 to make the SERAF payment. Sources of the loan were from the City's Low and Moderate Income Housing Asset Fund ($64,816,000), which was specifically authorized by the legislation, and idle moneys from City special funds ($10,000,000).

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, are invalidated on February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by SARA. As such, the $10,000,000 portion of the SERAF loan was recorded as part of an extraordinary loss in fiscal year 2011-12. In addition, fees and interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of $2,940,000 was also invalidated in fiscal year 2011-12. The City retained the $64,816,000 SERAF loan made from the Low and Moderate Income Housing Asset Fund in fiscal years 2009-10 and 2010-11 and the interest accrued at the LAIF rate associated with this loan in the amount of $897,000 at June 30, 2014. However, the DOF has determined that a significant portion of the SERAF loan in the amount of $52,771,000 should not be reported in the ROPS as an enforceable obligation. The City has recorded a collectability allowance against this amount. The remaining amount of $12,942,000 includes the interest accrued at the LAIF rate associated with this loan in the amount of $126,000 as of June 30, 2014. Under the loan agreement, SARA has the option to make interest payments on an ongoing basis, or to pay accrued interest upon final payment of the SERAF loan in fiscal year 2016.

Management continues to believe, in consultation with legal counsel, that the entire SERAF loan made from the Low and Moderate Income Housing Asset Fund in the amount of $65,736,000 and the interest accrued are valid enforceable obligations payable by SARA under the requirements of the Redevelopment Dissolution Law.

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

As of June 30, 2014, total long-term receivables from SARA are as follows (dollars in thousands):

Description				
Advances receivable from SARA:				
SERAF Loan	$	12,942		
Housing obligations funded by commerical paper proceeds		14,227	(1)	
Other long-term receivables from SARA:				
Revenue bonds with pledge agreement		29,880	(2)	
Lease revenue bonds with reimbursement agreement		110,300	(3)	
2013-2014 reimbursement advance		19,195	(4)	*
Total long-term receivables from SARA	$	186,544		

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

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

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

(4) The long-term receivables relate to advances to SARA under the Reimbursement Advance are as follows: $6,086,000 from the Parking System for the 2001A bond debt service payments and accrued interest; $9,822,000, $1,615,000, $1,356,000 and $316,000 from the General Fund for the 2001F bond debt service payments, ERAF payments, administrative costs for SARA, and various agreements, respectively.

* The amount includes $4,957,000 and $173,000 from the General Fund and the Low and Moderate Income Housing Asset Fund, respectively, for administrative and support service costs. An allowance for collectability was recorded for both amounts.

4. Due to SARA

The State Controller's final Asset Transfer Review requires the City to pay SARA the gross revenue earned from parking and rent from the properties the City transferred back to SARA in fiscal year 2012-13. As of June 30, 2014, the City has recorded a payable due to SARA in the amount of $271,000 related to these revenues that the City collected.

5. Long-term Advances from SARA

The City has a payable and SARA has a receivable related to an Agency advance of a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has long-term receivable of $472,000 due from the City as of June 30, 2014.

6. Transfers in/Transfers out

Transfers are indicative of funding for capital projects, lease payments or debt service and subsidies of various City operations. The following schedules summarize the City's transfer activity for the year ended June 30, 2014 with explanations of transactions (dollars in thousands):

Between governmental and business-type activities:

Transfer from	Transfer to	Amount	
Wastewater Treatment System	Nonmajor Governmental Funds	$ 811	(1)
Municipal Water System	General Fund	259	(2)
	San José Financing Authority Debt Service	518	(3)
	Nonmajor Governmental Funds	52	(4)
Parking System	General Fund	687	(5)
	Nonmajor Governmental Funds	141	(6)
		$ 2,468	

(1) Transfer for City Hall debt service payments
(2) Transfer for the late fee collections from Water Utility customers
(3) Transfer for interest, principal and fees for debt service payments
(4) Transfer for City Hall debt service payments
(5) Transfer of San José Arena parking revenue
(6) Transfer of $67 for City Hall debt service payments and $74 for the Downtown Property and Business Improvement District

Between governmental activities:

Transfer from	Transfer to	Amount	
General Fund	San José Financing Authority Debt Service	$ 1,096	(1)
	Nonmajor Governmental Funds	23,835	(2)
	Internal Service Funds	800	(3)
Housing Activities	Nonmajor Governmental Funds	7	(4)
Low and Moderate Income Housing Asset	Nonmajor Governmental Funds	197	(5)
Special Assessment Districts	General Fund	130	(6)
	San José Financing Authority Debt Service	3,284	(7)
San José Financing Authority Debt Service	Nonmajor Governmental Funds	10,000	(8)
Nonmajor Governmental Funds	General Fund	8,524	(9)
	Nonmajor Governmental Funds	12,164	(10)
	Special Assessment Districts	299	(11)
	San José Financing Authority Debt Service	41,813	(12)
Internal Service Funds	General Fund	184	(13)
	Nonmajor Governmental Funds	96	(14)
		$ 102,429	

(1) Debt service payment of $1,096 for the 2008F bond series
(2) Transfers of $6,552 for City Hall debt service, $40 for loan repayment to Fiber Optics, $17,243 for debt service payments, operations, and subsidies
(3) Transfer to fund vehicle and fleet replacement purchases
(4) Transfer for City Hall debt service payment
(5) Transfer for City Hall debt service payment
(6) Transfer for administrative services
(7) Transfer $1,700 for commercial paper debt service payments and $1,584 for interest, principal and fees for 2011A Bond Series payments
(8) Transfer for the completion of the Convention Center renovation and expansion project through commercial paper issuance
(9) Various transfers for operations, interest earnings, and capital projects
(10) Transfer of $1,348 for City Hall debt service payment and $10,816 for operations, capital projects, and project savings
(11) Transfer for capital maintenance
(12) Transfer of $18,831 for City Hall debt service payments and $22,982 for various debt service payments
(13) Transfer for interest earnings and operations
(14) Transfer for City Hall debt service payment

H. Deferred Inflows of Resources

As of June 30, 2014, total deferred inflows of resources in the governmental funds related to the following unavailable resources (dollars in thousands):

Description		
Housing Activities loan receivable	$	21,352
Low and Moderate Income Housing Asset loan receivable		5,528
Special Assessments receivable		45,310
Community Development Block Grant (CDBG) loan receivable		1,407
Interest on SERAF loan receivable		74
Total deferred inflows of resources	$	73,671

I. Governmental Fund Balances

As of June 30, 2014, total fund balances for the City's major and nonmajor governmental funds are as follows (dollars in thousands):

	General Fund	Housing Activities	Low & Moderate Income Housing Asset	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Advances & Deposits	$ 219	$ -	$ -	$ 5	$ -	$ 72	$ 296
Subtotal	219	-	-	5	-	72	296
Restricted for:							
Affordable Housing	-	80,715	312,904	-	-	-	393,619
Animal Shelter Project	257	-	-	-	-	-	257
Capital Projects and Improvements	19,047	-	-	42,385	-	243,912	305,344
Employment and Training Services	-	-	-	-	-	1,077	1,077
Drug Abuse Prevention and Control	-	-	-	-	-	4,381	4,381
Community Development Services	-	-	-	-	-	3,631	3,631
Crime Prevention and Control	300	-	-	-	-	-	300
Library Services and Facilities	25	-	-	-	-	9,977	10,002
Small Business Loans	-	-	-	-	-	148	148
Parks, Recreation and Neighborhood Development	-	-	-	-	-	81,985	81,985
Underground Utility Projects	-	-	-	-	-	3,792	3,792
Storm Drainage Projects	-	-	-	-	-	43,360	43,360
Supplemental Law Enforcement Services	-	-	-	-	-	14	14
Debt Service	-	-	-	-	13,142	34,618	47,760
Subtotal	19,629	80,715	312,904	42,385	13,142	426,895	895,670
Committed to:							
Building Development Fee Program s	21,696	-	-	-	-	-	21,696
Capital Projects and Improvements	7,058	-	-	-	-	1,076	8,134
Parks, Recreation and Neighborhood Development	-	-	-	-	-	1,903	1,903
Development Enhancements	-	-	-	-	-	389	389
Convention Center, Auditorium, Theaters	-	-	-	-	-	5,980	5,980
Employee Compensation Planning	7,978	-	-	-	-	-	7,978
Fire Development Fee Program	6,435	-	-	-	-	-	6,435
Development Fee Program Technology	4,495	-	-	-	-	-	4,495
Residential Program Administration	-	-	-	-	-	1,430	1,430
Governmental Functions/Services	38,458	-	-	-	-	-	38,458
Police Department Staffing	12,415	-	-	-	-	-	12,415
Community Development Services	2,728	-	-	-	-	5,711	8,439
Fee Supported Programs- Public Works	5,971	-	-	-	-	-	5,971
Salaries and Benefits	8,728	-	-	-	-	-	8,728
Sanitation Projects	29	-	-	-	-	15,290	15,319
Sick Leave Payout Benefits	6,000	-	-	-	-	-	6,000
Subtotal	121,991	-	-	-	-	31,779	153,770
Assigned to:							
Advances to Financing Authority	3,297	-	-	-	-	-	3,297
Advances to SARA	13,109	-	-	-	-	-	13,109
Development Enhancements	-	-	-	-	-	20	20
Community and Culture Projects	-	-	-	-	-	3,953	3,953
Hayes Mansion Operations	-	-	-	-	-	4,364	4,364
Ice Center Operations	-	-	-	-	-	6,945	6,945
Loans to Other Agencies	2,275	-	-	-	-	-	2,275
Capital Projects and Improvements	-	-	-	-	-	43,933	43,933
San Jose Arena Projects	-	-	-	-	-	28	28
Governmental Functions/Services	92,906	-	-	-	-	-	92,906
Subtotal	111,587	-	-	-	-	59,243	170,830
Unassigned	50,638	-	-	-	-	-	50,638
Total Fund Balances	**$ 304,064**	**$ 80,715**	**$ 312,904**	**$ 42,390**	**$ 13,142**	**$ 517,989**	**$ 1,271,204**

City Reserves Policy. The City adopted the Reserves Policy in October 2004. It formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. A contingency reserve fund was established in the General Fund to account for one-time purposes or as part of multi-year financial plan to balance the budget and avoid operating deficits. In addition, cash and emergency reserve funds were established by the City Charter to address known but unspecified expenses and emergency needs. The minimum requirements for each fund were also established accordingly.

The ***Contingency Reserve Fund*** was created to meet unexpected circumstances such as a General Fund revenue shortfall. The policy established a minimum of three percent of the operating budget as the reserve balance. As of June 30, 2014, the contingency amount accounts for $32,500,000 of the unassigned fund balance.

The ***Cash Reserve Fund*** was created for the payment of any authorized expenditures of the City for any fiscal year in anticipation of and before the collection of taxes and other revenues of the City for such fiscal year, and for the payment of authorized expenses of the City for any fiscal year, which became due and payable and must be paid prior to the receipt of tax payments and other revenues for such fiscal year. A reserve shall be built up in said fund from any available sources other than restricted sources in an amount which the Council deems sufficient for said purposes. As of June 30, 2014, the cash reserve amount accounts for $5,600 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, 2014, the emergency reserve amount accounts for $3,400,000 of the unassigned fund balance.

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 with the exception of certain unrepresented employees together cover all full-time and certain part-time employees of the City. The Retirement Systems provide general retirement benefits under single employer Defined Benefit Pension Plans, as well as the Postemployment Healthcare Plans. The Retirement Systems are accounted for in the Pension Trust Funds.

The 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 600, 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 cost-of-living increases as specified by the Municipal Code. The Defined Benefit Pension Plans are administered by the Director of Retirement Services, 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.

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

Both FCERS and PFDRP have different benefit tiers. FCERS has Tier 1, Tier 2 and Tier 2B with the same reduced pension benefits in Tier 2 and Tier 2B as compared to Tier 1, the same retiree healthcare benefits in Tier 1 and Tier 2 and no retiree healthcare and dental benefits for Tier 2B. PFDRP has Tier 1 and Tier 2 for the police members only with reduced pension benefits for Tier 2 police members as compared to Tier 1 members and the same retiree healthcare and dental benefits for both tiers. As of June 30, 2014, there was no Tier 2 for the fire members of the PFDRP.

On August 28, 2012, the City Council adopted an ordinance to provide Tier 2 pension benefits for new FCERS members hired or reinstated 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 regular time worked (including paid leave, but excluding overtime) rather than 1,730 hours of regular time worked and final average compensation based on the highest consecutive 3 years of compensation compared to highest 1 year.

On December 18, 2012, the City Council adopted ordinance No. 29184 that provides unclassified executive management and professional employees in Unit 99 who are first hired on or after January 20, 2013, with a one-time irrevocable election to either participate in a newly created Defined Contribution Plan or become a Tier 2 member in the FCERS.

On June 18, 2013, the City Council adopted an ordinance to provide for a Tier 2 for the police members in PFDRP, effective for employees hired or reinstated on or after August 4, 2013. The new tier includes benefit changes from the existing Police and Fire Plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year (for first 20 years and 4% for years after that) to 2.0% per year; an increase from 50 years to 60 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 90%; pensionable compensation to be based on base salary only rather than on base compensation plus premium pays; members to contribute 50% of the total Normal Cost, any accrued unfunded actuarial liability and administrative costs of the Police and Fire Plan; and final average compensation based on the highest consecutive three years of compensation instead of on the highest one year.

On August 27, 2013, the City Council adopted an ordinance to exclude Tier 2 members hired on or after September 27, 2013 from retiree medical and dental benefits ("Tier 2B") in FCERS but the City shall bear and pay an amount equal to the additional costs incurred by FCERS for that portion of the unfunded liability as determined by the actuary for the FCERS that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for the retiree healthcare defined benefit. With respect to pension benefits and liabilities, references in this note to Tier 2 in the FCERS Pension Plan include Tier 2B.

The current membership in the Defined Benefit Pension Plans as of June 30, 2014, is as follows:

	Police		Fire	
PFDRP	**Tier 1**	**Tier 2**	**Tier 1**	**Totals**
Defined Benefit Pension Plans:				
Retirees and beneficiaries currently receiving benefits*	1,216	-	818	2,034
Terminated and/or vested members not yet receiving benefits	218	22	42	282
Active members	930	67	657	1,654
Total	2,364	89	1,517	3,970

FCERS	**Tier 1**	**Tier 2**	**Tier 2B**	**Totals**
Defined Benefit Pension Plans:				
Retirees and beneficiaries currently receiving benefits*	3,891	-	-	3,891
Terminated and/or vested members not yet receiving benefits**	1,026	45	-	1,071
Active members***	2,593	272	256	3,121
Total	7,510	317	256	8,083

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

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

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

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

2. Funding Policy Under GASB Statement No. 27

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Retirement Boards' actuaries to determine appropriate revision to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future. The last experience studies were performed in 2013 for the PFDRP and in 2011 for the FCERS and the next experience studies are scheduled to be conducted in 2015.

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 the fiscal year ended June 30, 2014 was calculated to be actuarially equivalent to the bi-weekly payments that would otherwise have been the City's required contributions to the pension plans. The Boards of Administration for the PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City at the beginning of the fiscal year.

As noted above, the San José Municipal Code has been amended to set forth Police Tier 2 pension benefits for PFDRP members hired or reinstated on or after August 4, 2013 and FCERS Tier 2 pension benefits for members hired or reinstated on or after September 30, 2012. The new tiers include significant benefit changes from the existing Police and FCERS Tier 1 plans. In addition, the contribution rates for Police and FCERS Tier 2 members are calculated based on a 50/50 split of all costs, including unfunded actuarial accrued liability (UAAL). Currently, Police and FCERS Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the UAAL is generally not shared with the Tier 1 employees. The PFDRP prepayment made by the City on July 1, 2013 was not adjusted when Police Tier 2 became effective.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the fiscal year ended June 30, 2014 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2012, except for the period June 22, 2014, through June 30, 2014, which were based on the June 30, 2013 valuation. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2014, are as follows (dollars in thousands):

	PFDRP					
	City [1]			Participants		
Defined Benefit Pension Plan	**Police Tier 1**	**Police Tier 2**	**Fire**	**Police Tier 1**	**Police Tier 2**	**Fire**
Actuarial Rate:						
06/22/14-06/30/14	72.14%	10.80%	73.48%	11.27%	10.80%	11.65%
07/01/13-06/21/14	65.32%	10.98%	66.79%	11.64%	10.98%	11.72%

	FCERS			
	City [1]		Participants	
Defined Benefit Pension Plan	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**
Actuarial Rate:				
06/22/14-06/30/14	60.25%	5.53%	5.64%	5.53%
07/01/13-06/21/14	50.85%	6.68%	5.97%	6.68%

	Annual Pension Contribution		
Defined Benefit Pension Plan	**City**	**Participants**	**Total**
PFDRP	$ 123,583	$ 21,115	$ 144,698
FCERS	$ 107,544	$ 13,596	$ 121,140

[1] *The actual contribution rates paid by the City for fiscal year ended June 30, 2014 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.*

In fiscal year ended June 30, 2011, the Retirement Systems' Boards approved the 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 payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for the fiscal year ended June 30, 2014 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year.

The City's annual required contribution for PFDRP determined in the June 30, 2012 valuation for the fiscal year ended June 30, 2014 was the greater of $119,561,000 (if paid at the beginning of the fiscal year) or 66.79% for fire members and 65.32% for Police Tier 1 and Tier 2 members of actual payroll for the fiscal year. The total actuarial payroll for Police Tier 1, Police Tier 2 and Fire for the fiscal year was $187,959,000 ($116,454,000 for Police Tier 1, Police Tier 2 members and $71,505,000 for Fire members). The actual payroll for Fire members in the fiscal year of $72,086,000 was more than the actuarial payroll of $71,505,000, so the City paid an additional $394,000 in pension contributions for Fire members over the prepaid required annual contribution of $119,561,000 as of July 1, 2013 for a total of $123,977,000, excluding year end contributions receivable and prior year contribution adjustments.

The City's annual required contribution for FCERS Tier 1 determined in the June 30, 2012 valuation for fiscal year ended June 30, 2014 was the greater of $100,671,000 (if paid at the beginning of the fiscal year) or 50.85% of actual FCERS Tier 1 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual FCERS Tier 1 payroll for the fiscal year of $200,439,000 was less than the actuarial payroll of $205,277,000 resulting in an annual required contribution of $100,671,000 as of July 1, 2013, excluding year end contributions receivable and prior year contribution adjustments. The annual required contribution for FCERS Tier 2 determined in the June 30, 2012 valuation for fiscal year ended June 30, 2014 was the greater of $1,799,000 (if paid at the beginning of the fiscal year) or 6.68% of actual FCERS Tier 2 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual FCERS Tier 2 payroll for the fiscal year of $24,233,000 was less than the actuarial payroll of $27,922,000 resulting in an annual required contribution of $1,799,000 as of July 1, 2013, excluding year end contributions receivable and prior year contribution adjustments.

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	6/30/12	$ 121,009	100%	$ -
	6/30/13	105,234	100%	-
	6/30/14	123,583	100%	-
FCERS	6/30/12	87,082	100%	-
	6/30/13	103,109	100%	-
	6/30/14	107,544	100%	-

(1) These amounts represent the annual pension cost factoring.

4. Funded Status and Funding Progress Under GASB Statement No. 27

PFDRP's Funded Status and Funding Progress. As summarized in the table below, as of June 30, 2013, the most recent actuarial valuation date, PFDRP was 77% funded for pension benefits (a decrease from 80% in the June 30, 2012 valuation) representing the difference between the actuarial value of assets and the actuarial accrued liabilities ("AAL") and resulting in an unfunded actuarial accrued liability ("UAAL") of $806,107,000. The UAAL does not reflect the impact of approximately $17,600,000 of deferred investment gains. Deferred losses of $143,100,000 resulting from unfavorable investment returns in the years ended June 30, 2009 and 2010 are offset by deferred gains of $160,700,000 related to years ended June 30, 2011 and 2013. PFDRP's actuarial valuation uses a five-year smoothing method for investment gains and losses. 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. It is anticipated that future actuarial valuations will recognize the remaining net deferred investment gains of approximately $17,600,000 as described above. Actuarially determined amounts are subject to appropriate revisions as actual results are compared with past expectations and new estimates are made about the future.

As of June 30, 2013, the PFDRP's most recent valuation, the PFDRP's AAL increased by approximately $180,239,000 due primarily to a combination of benefit payments which reduced AAL, offset by an increase in interest and accrual of benefits. No other assumption changes were made. The PFDRP's UAAL increased from $694,253,000 as of June 30, 2012 to $806,107,000 as of June 30, 2013.

The June 30, 2013 valuation reflects the increase in amortization period for changes in methods and assumptions from closed 16-year periods to closed 20-year periods beginning with the valuation date in which they are effective. Actuarial gains and losses and plan changes continue to be amortized as a level percentage of pay assuming a 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise. The equivalent single amortization period for the June 30, 2013 valuation is 13.4 years.

FCERS's Funded Status and Funding Progress. As summarized in the table below, as of the June 30, 2013 actuarial valuation date, FCERS was 59% funded on an actuarial basis for pension benefits. FCERS's UAAL of $1,231,134,000 does not reflect the impact of approximately $21,700,000 of accumulated deferred investment losses resulting primarily from unfavorable investment gains and losses in the years ended June 30, 2012, which are offset by deferred gains related to years 2010, 2011 and 2013. FCERS' actuarial valuation also uses a five-year smoothing method for investment returns. It is anticipated that future actuarial valuations will recognize the remaining net deferred investment losses of approximately $21,700,000 as described above.

The FCERS's UAAL increased from $1,078.0 million as of June 30, 2012 to $1,231.1 million as of June 30, 2013. The increase in the UAAL was primarily due to investment losses as described above, as well as changes in assumptions for wage inflation and discount rate.

The annual required contribution for Tier 1 determined for FCERS in the June 30, 2012 valuation for year ended June 30, 2014, was the greater of $100,671,000 (if paid at the beginning of the fiscal year) or 50.85% of actual payroll for the fiscal year. The actual Tier 1 payroll of FCERS for the fiscal year of $200,439,000 was less than the actuarial payroll of $205,277,000, resulting in an annual contribution of $106,671,000, excluding year-end contributions receivable and prior year contribution adjustments. The annual required contribution for Tier 2 determined for FCERS in the June 30, 2012 valuation for year ended June 30, 2014, was the greater of $1,799,000 (if paid at the beginning of the fiscal year) or 6.68% of actual payroll for the fiscal year. The actual Tier 2 payroll of FCERS for the fiscal year of $24,233,000 was less than the actuarial payroll of $27,922,000, resulting in an annual contribution of $1,799,000, excluding year-end contributions receivable and prior year contribution adjustments.

The June 30, 2013 valuation contains the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over a closed period of 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2013 valuation is 25.8 years.

Defined Benefit Pension Plans' Funded Status and Funding Progress Summary

	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	6/30/13	$ 2,771,924	$ 3,578,031	$ 806,107	77%	$ 184,645	437%
FCERS	6/30/13	1,782,629	3,013,763	1,231,134	59%	225,779	545%

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.

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	
Description	**Method/Assumption**	**Method/Assumption**
Valuation date	June 30, 2013	June 30, 2012
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 13.4 years	Level percentage of pay, closed, layered; equivalent single amortization period 14.0 years
Remaining amortization period	(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 4 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 4 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 actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 5 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 5 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.
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
Actuarial assumptions:		
Assumed rate of return on investments	7.125% per annum (net of investment expenses)	7.25% per annum (net of 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 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years)
(a) Service:	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 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 2 years.	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 2 years.
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2013 actuarial experience analysis	Based upon the June 30, 2011 actuarial experience analysis
Salary increases		
Wage Inflation	2.00% for FY 2015 and 2016, and 3.50% thereafter.	0.00% for FY 2013 and 2014, and 3.50% thereafter.
Merit Increase	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%	Merit component added based on an individual year's of service ranging from 8.00% to 2.25%
Cost of Living Adjustment	Tier 1 – 3% per year Tier 2 – 1.5% per year	Tier 1 – 3% per year

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

Description	Method/Assumption	Method/Assumption
Valuation date	June 30, 2013	June 30, 2012
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. SRBR elimination to be amortized over 19 years.	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. SRBR elimination to be amortized over 20 years.
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Assumed rate of return on investments (net)	7.25% per annum	7.50% per annum
Post retirement 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.	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.
Active service, withdrawal, death, disability service retirement	Tables based on current experience	Tables based on current experience
Salary increases	The base annual rate of salary increase is the wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. The wage inflation rate is assumed to be 2.00% for the next five years and 2.85% thereafter.	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service.
Projected total payroll increases	2.0% for five years and 2.58% thereafter. For the amortization schedule, payroll is assumed to grow 2.43% per year.	3.25%
Cost of Living Adjustment	Tier 1 – 3% per year; Tier 2 – 1.5% per year.	Tier 1 – 3% per year; Tier 2 – fluctuates with actual inflation and capped at 1.5%

6. PFDRP Defined Benefits Pension Plan: Net Pension Liability Under GASB Statement No. 67

The total pension liability as of June 30, 2014, is based on results of an actuarial valuation date of June 30, 2013, and rolled-forward using generally accepted actuarial procedures. The components of the net pension liability of the PFDRP (i.e., the PFDRP's liability determined in accordance with GASB Statement No. 67 less the plan fiduciary net position) as of June 30, 2014, were as follows (dollars in thousands):

Total pension liability	$	3,737,364
Less: PFDRP fiduciary net position		(3,168,173)
Net pension liability	$	569,191
PFDRP fiduciary net position as a percentage of the total pension liability		84.8%

The assumption for the long-term expected rate of return on PFDRP investments of 7.125% was selected by estimating the median nominal rate of return based on long-term capital market assumptions provided by the PFDRP's investment consultant, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return. Best estimates of arithmetic real rates of return for each major asset class included in the PFDRP's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	Asset	Long-Term Expected Real Rate of Return (net of fees)
Global and private equity	37%	6.1%
Fixed income	25%	2.9%
Inflation-linked assets	17%	4.3%
Absolute return strategies	20%	3.1%
Cash	1%	0.5%
Total	100%	
Total Arithmetic Expected Return		**5.4%**
Total Geometric Expected Return		**4.7%**

The discount rate used to measure the total pension liability was 7.125%. It is assumed that PFDRP member contributions and City contributions will be made based on the actuarially determined rates based on the PFDRP Board's funding policy. Based on those assumptions, the PFDRP's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The June 30, 2013 valuation included a change in the expected rate of return from 7.25% to 7.125% and a change in the payroll wage inflation assumption from 0.00% for all years to 2.00% for fiscal year 2015 -2016 and 3.50% thereafter.

In accordance with Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability, calculated using the discount rate of 7.125%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.125%) or 1.00% higher (8.125%) than the current rate:

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

The schedules presented as required supplementary information following the notes to the financial statements present multiyear trend information. The following schedules are presented in order to conform with GASB Statement No. 67 requirements. The Schedule of Employer Contributions for the Defined Benefit Pension Plan presents trend information about the amounts contributed to the plan by the employer in comparison to the actuarially determined contribution (ADC), as well as percent actually made. The Schedule of Changes in the Employer Net Pension Liability shows information about the components of net pension liability and related ratios.

7. FCERS Defined Benefits Pension Plan: Net Pension Liability Under GASB Statement No. 67

The total pension liability as of June 30, 2014, is based on results of an actuarial valuation date of June 30, 2013, and rolled-forward using generally accepted actuarial procedures. The components of the net pension liability of the FCERS (i.e., the FCERS's liability determined in accordance with GASB Statement No. 67 less the plan fiduciary net position) as of June 30, 2014, were as follows (in thousands):

Total pension liability	$	3,115,648
Less: FCERS fiduciary net position		(1,987,237)
Net pension liability	$	1,128,411
FCERS fiduciary net position as a percentage of the total pension liability		63.8%

The assumption for the long-term expected rate of return on FCERS investments of 7.25% was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the FCERS Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return. Best estimates of arithmetic real rates of return for each major asset class included in the FCERS's target asset allocation as of June 30, 2014, are summarized in the following table:

Asset Class	**Asset**	**Long-Term Expected Real Rate of Return (net of fees)**
Equity and real estate	40%	8.2%
Fixed income	15%	2.2%
Absolute return strategies	25%	3.8%
Real assets	20%	5.9%
Total	100%	
Total Arithmetic Expected Return		**5.7%**
Total Geometric Expected Return		**5.1%**

The discount rate used to measure the total pension liability was 7.25%. It is assumed that FCERS member contributions and City contributions will be made based on the actuarially determined rates based on the FCERS Board's funding policy. Based on those assumptions, the FCERS's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The June 30, 2013 valuation included a change in the expected rate of return from 7.50% to 7.25% and a change in the payroll wage inflation assumption from 3.25% for all years to 2.00% for the next five years and 2.85% thereafter.

In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the City, calculated using the discount rate of 7.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.25%) or 1.00% higher (8.25%) than the current rate (in thousands):

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

The schedules presented as required supplementary information following the notes to the financial statements present multiyear trend information. The following schedules are presented in order to conform with GASB Statement No. 67 requirements. The Schedule of Employer Contributions for the Defined Benefit Pension Plan presents trend information about the amounts contributed to the plan by the employer in comparison to the actuarially determined contribution (ADC), as well as percent actually made. The Schedule of Changes in the Employer Net Pension Liability shows information about the components of net pension liability and related ratios.

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 Plans, which includes a Postemployment Healthcare 401(h) Plan, the Police Department Postemployment Healthcare Plan (Section 115 Trust) and the Fire Department Postemployment Healthcare Plan (Section 115 Trust) and the Federated City Employees' Postemployment Healthcare Plan, which includes an Internal Revenue Code (IRC) 401(h) Plan and an IRC 115 Trust. These Postemployment Healthcare Plans cover eligible full-time and certain part-time employees of the City, and are accounted for in the Pension Trust Funds.

The separately issued annual reports of PFDRP and FCERS, together with the City's Municipal Code, provide more detailed information about the Postemployment Healthcare Plans. As stated in Section IV.A.1 of this note, those reports may be obtained from the City of San José 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 Services, an employee, 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, 2014, is as follows:

	Police		Fire	
PFDRP	**Tier 1**	**Tier 2**	**Tier 1**	**Totals**
Postemployment Healthcare Plan:				
Retirees and beneficiaries currently receiving benefits*	1,144	-	779	1,923
Terminated and/or vested members not yet receiving benefits	6	-	3	9
Active members	930	67	657	1,654
Total	2,080	67	1,439	3,586

FCERS	**Tier 1**	**Tier 2**	**Tier 2B**	**Totals**
Postemployment Healthcare Plan:				
Retirees and beneficiaries currently receiving benefits*	3,331	-	-	3,331
Terminated and/or vested members not yet receiving benefits	133	-	-	133
Active members**	2,592	272	-	2,864
Total	6,056	272	-	6,328

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

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

2. OPEB Funding Policy

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

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

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for the fiscal year ended June 30, 2014 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City's required contributions to the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount to be paid by the City at the beginning of the fiscal year.

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Effective June 28, 2009, the 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 a five year period; the fiscal year ended June 30, 2014, was the fifth year of the phase-in. 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; the fiscal year ended June 30, 2014 was the third year of the phase-in for fire members.

In both MOAs, the City and members of the PFDRP agreed 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 members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for members or 11% for the City (excluding the implicit rate subsidy) the parties shall meet and confer on how to address the contribution rates above 10% and 11%.

During the fiscal year ended June 30, 2014, the FCERS's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2013, was prepared by Cheiron, Inc., the FCERS's actuary. The year ended June 30, 2014 was the fifth year of the Memorandum of Agreement (MOA) entered into by the bargaining units representing FCERS members and the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions (ARC) over a five period. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions, in the first four years of the agreement. In the fifth year of the phase-in, the City and active members' contributions for retiree medical benefits will be split evenly and the retiree dental benefits will be split in a ratio of 8 to 3 with the City contributing 8/11 of the total contribution. The year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the MOA, the employees and the City are required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014. However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-15. The June 30, 2013 valuation establishes, for the fiscal year ended June 30, 2015, the City's annual required contribution rate as a percentage of pay to be 23.16% on a GASB

Statement No. 43 compliant basis compared to 9.41% on a phase-in funded basis for Tier 1 and Tier 2 members and 12.66% for Tier 2B members.

The contribution rates in effect and the amounts contributed to the PFDRP and the FCERS for the fiscal year ended June 30, 2014 are as follows (dollars in thousands):

	PFDRP		FCERS			
	City[(1)]	Participants	City Tier 1/Tier 2[(1)]	City Tier 2B[(2)]	Participants Tier 1/Tier 2	Participants Tier 2B[(2)]
Actuarial Rate:						
Postemployment Healthcare Plan:						
06/22/14 - 06/30/14 (police members)	11.00%	10.00%				
06/22/14 - 06/30/14 (fire members)	9.27%	8.49%				
06/22/14 - 06/30/14			9.41%	12.66%	8.76%	0.00%
07/01/13 - 06/21/14 (police members)	10.31%	9.51%				
07/01/13 - 06/21/14 (fire members)	7.96%	7.35%				
07/01/13 - 06/21/14			8.66%	10.59%	8.01%	0.00%

(1) The resolutions adopted by the Retirement Systems' Boards setting the contribution rates for the fiscal year ended June 30, 2014 provide that the City's Budget Office may adjust the employer's contribution rates in order to achieve a minimum dollar contribution for that fiscal year.

(2) The City's FCERS Tier 2B became effective as of September 27, 2013

In fiscal year ended June 30 2011, the Retirement Systems' Boards approved an establishment of a "floor funding method" for payment of the ARC for postemployment healthcare benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ARC as the greater of the annual dollar contribution amount established in the valuation, or the ARC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. Therefore, the resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year June 30, 2014 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year.

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, 2014, were as follows (dollars in thousands):

	PFDRP	FCERS
Annual required contribution	$ 32,798	$ 52,364
Interest on net OPEB obligation	14,056	8,454
Adjustment to annual required contribution	(11,360)	(11,436)
Annual OPEB cost	35,494	49,382
Contributions made	(17,267)	(19,298)
Implicit rate subsidy	(2,863)	(4,733)
Increase in net OPEB obligation	15,364	25,351
Net OPEB obligation – beginning of year	234,259	159,502
Net OPEB obligation – end of year	$ 249,623	$ 184,853

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	6/30/12	$ 65,357	$ 25,935	40%	$ 193,527
	6/30/13	56,712	15,980	28%	234,259
	6/30/14	35,494	20,131	57%	249,623
FCERS	6/30/12	67,404	30,216	45%	126,698
	6/30/13	57,112	24,308	43%	159,502
	6/30/14	49,382	24,031	49%	184,853

4. OPEB Funded Status and Funding Progress

As summarized in the table below, as of June 30, 2013, the most recent actuarial valuation date, PFDRP and FCERS was 11% and 18% funded, respectively, on an actuarial basis for OPEB. Decreases to the UAAL of both of the Postemployment Healthcare Plans were primarily due to changes in claims cost assumptions, the increase in the discount rate, and the change to a four-tier health plan rate structure effective January 1, 2014 for PFDRP and FCERS. The OPEB discount rate increased from 4.40% and 4.80% used in the June 30, 2012 OPEB valuations to 6.00% and 5.30% used in the June 30, 2013 OPEB valuations for PFDRP and FCERS, respectively. PFDRP's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.50%) and the expected return on the PFDRP's invested assets (7.125%) resulting in a blended discount rate of 6.00%. FCERS's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (2.50%) and the expected return on the FCERS's invested assets (7.25%) resulting in a blended discount rate of 5.30%. Changes in claims cost assumptions refers to the changes in expected current and future healthcare claims and expense costs based on the 2013 and 2014 medical premium experience. This also includes the effect of updating the claims cost trend assumption. The specific funding status for each OPEB plan is summarized in the table below, as of the June 30, 2013 valuation date (dollars in thousands):

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	UAAL	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
PFDRP	6/30/2013	$ 75,035	$ 700,525	$ 625,490	11%	$ 184,645	339%
FCERS	6/30/2013	157,695	870,872	713,177	18%	226,098	315%

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

5. OPEB Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The contributions rates for the fiscal year ended June 30, 2014, were based on the actuarial valuation performed as of June 30, 2012, except for the period June 22, 2014 through June 30, 2014, which were based on the June 30, 2013 valuation.

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

PFDRP		
Description	**Method/Assumption**	**Method/Assumption**
Valuation date	June 30, 2013	June 30, 2012**
Actuarial cost method	Entry age normal, level of percent of	Entry age normal, level of percent of
Amortization method for actuarial accrued liabilities	30 years, level percent of pay	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2013, open	30 years as of June 30, 2012, open
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor
Discount rate*	6.00%	4.40%
Projected payroll increases:		
Wage inflation:	2.00% for FY2014 and 2015, and 3.50% thereafter	0.00% for FY2013 and 2014, and 3.50% thereafter
Merit increase:	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%	Merit component added based on an individual year's of service ranging from 8.00% to 2.25%
Healthcare cost trend rate:		
Medical	Future medical inflation assumed to be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65	Future medical inflation assumed to be at a rate of 8.80% to 4.50% per annum graded down over a 14 year period for medical-pre age 65 and 6.63% per annum graded down to 4.50% over a 14 year period for medical-post age 65
Dental	4.00%	4.50%

* 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.

** The June 30, 2012 actuarial valuation of the PFDRP's postemployment healthcare plans did not reflect the new Section 115 subtrusts, the Police Department Postemployment Healthcare Plan or the Fire Department Postemployment Healthcare Plan, as those plans had no financial activity as of the June 30, 2012 valuation.

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

FCERS

Description	**Method/Assumption**	**Method/Assumption**
Valuation date	June 30, 2013	June 30, 2012
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level dollar	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
Assumed rate of return on investments (net)	7.25% per annum	7.50% per annum
Discount rate (net)*	5.30%	4.80%
Wage inflation rate	2.0% for five years and 2.85% thereafter	3.25%
Salary increases	The base annual rate of salary increase is 2.0% wage inflation rate for the first five years and 2.85% thereafter plus a rate increase for merit/longevity for 0 to 15+ ranging from 4.50% to 0.25% at the 15th year of service	The base annual rate of salary increase is 3.25% inflation rate plus a rate increase for merit/longevity for 0 to 15+ ranging from 4.50% to 0.25% at the 15th year of service
Projected payroll increases	2.0% for five years and 2.85% thereafter	3.25%
Healthcare cost trend rate:		
Medical	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.5% to 4.25% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 8.80% to 4.50% per annum graded down over a 15 year period for medical-pre age 65 and 6.63% to 4.50% per annum graded down over a 14 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.0%	Dental inflation is assumed to be 4.50% in the first year and 4% thereafter

* 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.

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 Systems ("CalPERS"), a cost-sharing multiple-employer plan. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Benefits are based on a final average compensation period of 36 months. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS and by City resolution.

The City's CalPERS plan is under the CalPERS Miscellaneous 2% at 55 Risk Pool for classic members. A classic member is an employee in CalPERS prior to January 1, 2013.

Due to the Public Employees' Pension Reform Act of 2013, new hires who are brought into CalPERS membership for the first time on or after January 1, 2013, are considered new members, and they have a new defined benefit formula of 2% at age 62, with an early retirement age of 52 and a maximum benefit factor of 2.5% at age 67. There is a pensionable compensation cap for an annual salary that can be used to calculate final compensation for all new members of $113,700 (2013 Social Security Contribution and Benefit Base) for employees that participate in Social Security or $136,440 (120% of the 2013 Contribution and Benefit Base) for those employees that do not participate in Social Security.

City of San José CalPERS Rates

Plan	Elected Official 2013-14 Rate	City Rate 2013-14
CalPERS Classic Plan	7.00%	17.106%
CalPERS Tier 2 Plan (PEPRA Members)	6.25%	6.25%

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, 2014 was 17.106%. The contractual employee cost sharing is 7.0% plus a fee of $0.93 per bi-weekly pay period for the 1959 Survivor Benefit program. 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, 2014, 2013 and 2012 were $115,000, $115,000 and $121,000, respectively.

B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments. As of June 30, 2014, the Airport was obligated for purchase commitments of approximately $6,800,000 primarily for pavement maintenance, terminal area development, paint/rubber removal vehicle, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber $67,000,000 on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

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

A new joint agreement was entered into by the City and the fuel supplier in November 2009. The fuel supplier was designated as the lead in the remediation efforts. The agreement provides for a 50-50 cost sharing responsibility for actual future costs until successful closure of the site. As of June 30, 2014, the Airport has paid its 50% of the remediation costs totaling $2,024,000. 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.

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

Due to the proximity of the closed City jet fuel farm to the adjacent 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 demolished its fuel farm during fiscal year 2010 and removed its USTs. The City removed its USTs in September 2011. The fuel supplier completed the site's interim remedial action in November 2012 pursuant to the plan, which was approved by the County of Santa Clara (County) in February 2012. The approved plan is a fixed area remedial excavation to remove the secondary source materials beneath and adjacent to the former USTs. In March 2013, four groundwater monitoring wells were installed within the area of excavation to monitor and evaluate the effectiveness of the remedial excavation on water quality. Quarterly monitoring and sampling was done through the fourth quarter of 2013. Following four quarters of monitoring and sampling, the site conditions were evaluated for closure using the framework of the State Water Resources

Control Board Low-Threat Underground Storage Tank Closure Policy, which became effective August 17, 2012. In June 2014, the fuel supplier and the City received a letter from the County granting no further action to the fuel leak investigation and requesting destruction of the monitoring wells.

The Airport has accrued $714,000 as of June 30, 2014 to cover the costs of its portion of the interim remediation system. The fuel supplier will deduct the Airport's share in the remaining remediation costs from the Airport's half of the Plume Fund reimbursement.

Master Plan. In 1997, after extensive planning and environmental studies and reports, the City Council approved a new master plan for the Airport (the "Master Plan"). In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan (the "ALP") displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo and corporate general aviation demand. The Master Plan includes both the substantially complete Phase 1 and the planned Phase 2 of the Airport Development Program, which collectively comprise improvements to the Airport's terminal facilities, roadways, parking facilities and airfield facilities, and includes 1.075 million square feet of passenger terminal facilities comprised of up to 49 gates; parking and garage facilities comprised of up to 16,200 public parking spaces, 2,600 employee parking spaces and 10,000 rental-car parking spaces (including 2,000 ready-return spaces); air cargo facilities; ground transportation, roadway and other access improvements; and runway improvements. In the fall of 2005, and in recognition of how current market conditions were impacting passenger growth, the Airport and its airline tenants reexamined the Master Plan and developed the Terminal Area Improvement Program, a program for implementing the Master Plan by aligning ongoing and planned construction activities with available fiscal resources, taking into account revised passenger growth projections. In June 2006, the City Council approved an amendment to the Master Plan to incorporate the Terminal Area Improvement Program and other Airport Development Program revisions. Funding for Master Plan projects is from several sources, including grants, PFCs, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

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

FAA Audit of Use of Revenue. Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure as described below.

Airport Lease Obligation - In 2005, the City purchased certain real property (referred to as the Airport West Property). The purchase was financed with lease revenue bonds issued by the Financing Authority. Upon acquisition, the City leased the property from the Financing Authority and used a portion for construction laydown needs to support the Terminal Airport Improvement

Program (TAIP). The City agreed to make lease payments from Airport operating revenues. At the time of the acquisition, the City contemplated other potential Airport uses for the property, such as rental car storage, public or employee parking, flight kitchen operations, airport/airline warehouses and compatible non-aviation leaseholds. The City subsequently determined not to use the property for these other potential Airport uses. The City's use of the property for construction laydown needs ceased with the completion of the TAIP on June 30, 2010. The FAA determined that the City could use Airport operating revenues to pay rent only for those portions that the City actually used for Airport construction laydown but not for the remainder of the property not actually used for Airport purposes. The City believes there is no basis under applicable federal law for the distinction made by the FAA auditors between rent payments for actual as opposed to planned Airport uses.

Guadalupe Gardens – In 2002, the City Council approved a Master Plan for Guadalupe Gardens, consisting of approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility. The FAA grant agreements required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City's Director of Aviation, the FAA San Francisco Airport District Office ("ADO") approved the City's Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval. Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA auditors determined that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA. Having received official FAA approval of its reuse of the parcels, the City believes it is under no obligation to take any further action to secure further FAA approval of its continuing use of the Guadalupe Gardens.

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

The City continues discussions with the FAA, but cannot predict the final outcome of the audit.

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

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

The remaining two lawsuits filed in May and December 2013 in the Superior Court of the State of California in Santa Clara County, seek to block the Signature project under the California Environmental Quality Act (“CEQA). In both CEQA lawsuits, SJJC Aviation Services alleges that the City violated CEQA by approving the Signature project without adequate environmental review. The Superior Court subsequently consolidated the two CEQA lawsuits, and the hearing on the merits is currently set for September 26, 2014.

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

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

2. San José – Santa Clara Water Pollution Control Plant

For fiscal years 2015-2019, the Five Year capital improvement program includes approximately $13,606,000 for the South Bay Water Recycling ("SBWR") project, a regional water reclamation program to recycle highly treated wastewater for irrigation and industrial uses in the cities of San José, Santa Clara, and Milpitas, California. This program is part of an action plan, developed by the City and other agencies tributary to the Plant and adopted by the Regional Water Quality Control Board ("RWQCB"), to control the amount of effluent discharged by the Plant into San Francisco Bay.

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

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which described the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 million gallons per day and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I non-potable reuse system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated cost for implementing these projects was $127,500,000. In April 2010, the City approved construction of the $14,777,000 Phase 1C facilities including an additional nine miles of pipeline. In July 2012, the City approved the development of SBWR Master Plan estimated to cost $2,400,000 to address future expansion, operation, and maintenance of the system. As of June 30, 2014 an amount of $120,539,000 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. Bay Area Water Supply and Conservation Agency

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

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

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

BAWSCA's annual debt service amount is $24,675,000. The City's annual bond surcharge is estimated to be $747,000 based on all member agencies actual wholesale water use in fiscal year ended June 30, 2012. The annual surcharge for each agency will be based on the actual wholesale water purchase percentage from the last full year for which data is available with an annual reconciliation based on the actual water purchased. A true-up adjustment based on the actual fiscal year ended June 30, 2014 water use will be included in the fiscal year ending June 30, 2016 bond surcharge. The current best projection on the City's annual surcharge for the future is $750,000.

4. New Market Tax Credit

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

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

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

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

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

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

5. Retirement Systems – Unfunded Commitments

As of June 30, 2014, PFDRP had unfunded commitments to contribute capital for real estate investments in the amount of $53,791,000, private equity investments in the amount of $98,271,000 and opportunistic credit investments in the amount of $134,417,000. FCERS had unfunded commitments to contribute capital for private market fund investments in the amount of $60,000,000.

6. Federal Financial Assistance Programs

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

Although the City's grant programs are audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the fiscal year ended June 30, 2014, these programs are still subject to financial and compliance audits by Federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

7. Encumbrances

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to contracts not yet performed and purchase orders not yet filled (executory contracts; and open purchase orders). Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities but, rather, as restricted or committed governmental fund balance. As of June 30, 2014, total governmental fund encumbrance balances for the City are as follows (dollars in thousands):

General Fund	$	40,792
Housing Activities		2,430
Low and Moderate Income Housing Asset		1,218
Special Assessment Districts		100
Nonmajor governmental funds		68,548
Total governmental funds	$	113,088

8. Lawsuits and Other Proceedings Related to Measure B

Significant portions of Measure B are currently subject to legal challenges by bargaining units representing current employees and retirees that were filed in the Santa Clara County Superior Court and consolidated under the caption of San José Police Officers' Association v. City of San José, Board of Administration for Police and Fire Department (the "SJPOA Caption"). Additionally, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board related to Measure B. In connection with the litigation related to Measure B, the City entered into a stipulation to delay implementation of the increased pension contributions from current employees from June 23, 2013 to a date no sooner than July 1, 2015. As of June 30, 2014, the IRS had not approved the VEP referenced above in Note IV A.1.1.

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

The Consolidated Judgment is summarized as follows:

- The 4% increase in employee pension contributions towards the UAL, up to a maximum of 16% (or 50% of the total liability, whichever is less) was found to be invalid as were the alternative plans to which existing employees could elect to opt in the VEP. However, the savings provision specifying a mandatory compensation reduction in lieu of additional employee pension contributions was upheld.
- The disability retirement provisions were upheld.
- The elimination of the SRBR in both Retirement Systems was upheld.
- The minimum contribution toward retiree healthcare was upheld with respect to the inclusion of unfunded liabilities, but the judgment modified Measure B's language to delete the term "minimum of" to reflect that employees are required to only pay 50% of the cost as opposed to a higher percentage.

- The definition of Low Cost Plan as applied to the retiree healthcare benefit was upheld.
- The ability to suspend the retirement COLA provisions for up to five years in a fiscal and service level emergency was found to be invalid.
- The provision related to voter approval of retirement benefit increases and the severability provision were upheld.

Various parties challenging Measure B under the SJPOA Caption have filed notices of appeal of the Consolidated Judgment and the City Council has authorized filing a notice of appeal. The City anticipates that an appellate decision could be rendered in late 2015 or the first half of 2016.

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

On April 15, 2013, the California Attorney General issued an opinion granting the POA's application to bring a *Quo Warranto* action on behalf the People of the State of California alleging that the City violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the ballot in June 2012. The POA filed its complaint in the *Quo Warranto* action on April 29, 2013. The City has filed its answer and the parties currently are engaged in discovery. The City anticipates a trial date in 2015.

With respect to the litigation and other proceedings related to Measure B discussed above and the other litigation related to retirement benefits discussed below, the City cannot predict the outcome or the timeframe in which they will be resolved.

Other Litigation Related to Retirement Benefits

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

The City has been served with the Complaint, and anticipates that it will file a responsive pleading seeking a dismissal of the action on the grounds that the decision in the Measure B litigation, to which the Association was a party, upheld the change in the retiree healthcare benefit.

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

1. Cash and Investments Held by SARA

The SARA's cash and investments consist of the following at June 30, 2014:

Cash and investments	$	32,837
Restricted cash and investments		140,274
Total cash and investments	$	173,111

A summary of SARA's cash and investments at June 30, 2014 is as follows (dollars in thousands):

	Moody's Credit Rating	Maturity (in days) Under 30	31 - 180	181 - 365	Fair Value
Investments:					
State of California Local Agency Investment Fund	Not Rated	$ -	$ -	$ 36,817	$ 36,817
U.S. Treasury Notes	Exempt	-	-	6,017	6,017
Money Market Mutual Fund	Aaa	41	69,332	-	69,373
Commercial Paper	P1	4,500	2,260	-	6,760
Federal Home Loan Bank	Aaa	28,480	-	-	28,480
Subtotal investments		$ 33,021	$ 71,592	$ 42,834	147,447
Certificates of Deposit					4,409
Bank deposits					21,254
Petty Cash					1
Total cash and investments					$ 173,111

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 recorded certain capital assets originally received from the Agency as property held for resale. The SARA plans on selling these properties upon the DOF approval of a Long-Term Property Management Plan ("LRPMP"). The DOF approved the LRPMP in September 2014 as discussed in Note IV.D.3.

The following is a summary of capital assets activity for the year ended June 30, 2014 (dollars in thousands):

	July 1, 2013	Additions	June 30, 2014
Capital assets, not being depreciated:			
Land	$ 86,863	$ -	$ 86,863
Construction in progress	977	-	977
Total capital assets, not being depreciated	87,840	-	87,840
Capital assets, being depreciated:			
Buildings	149,620	-	149,620
Building and other Improvements	23,212	-	23,212
Equipment	1,145	-	1,145
Total capital assets, being depreciated	173,977	-	173,977
Less accumulated depreciation:			
Buildings	14,138	3,731	17,869
Building and other Improvements	4,738	1,949	6,687
Equipment	1,145	-	1,145
Total accumulated depreciation	20,021	5,680	25,701
Total capital assets, being depreciated, net	153,956	(5,680)	148,276
Total capital assets, net	$ 241,796	$ (5,680)	$ 236,116

Parcels of the Agency-owned land with an aggregate book value of $19,231,000 were used to secure the Letters of Credit obtained from JPMorgan Chase Bank (“JPMorgan”) supporting the Agency’s 1996 and 2003 Revenue Variable Bonds. As additional security for the Letters of Credit, the City executed and recorded for the benefit of the JPMorgan a Deed of Trust against the California Theatre. As security for payments due to the County of Santa Clara under the Settlement Agreement executed in March 2011, the Agency also (i) executed and recorded for the benefit of the County Deeds of Trust subordinate to JPMorgan on those same parcels of Agency-owned land (except for the California Theatre), (ii) assigned to the County one-half (1/2) of the Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties, with an aggregate book value of $18,273,000.

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

On October 10, 2013, the SARA Oversight Board approved the return of government purpose assets, with the book value of $95,973,000 at June 30, 2014, to the City. This action has been reviewed and approved by the DOF. As of June 30, 2014, no property has been transferred from SARA to the City. The City expects the transfer to be completed in fiscal year 2014-15.

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, 2014 (dollars in thousands, unless otherwise noted):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2014 Balance
Senior Tax Allocation Bonds (TAB):							
1993 Merged Refunding	Advance refunding	$ 692,075	12/1/1993	8/1/2015	6.00%	$0 - 18,195	$ 18,195
1997 Merged	Merged area project	106,000	3/27/1997	8/1/2028	5.38- 5.63%	$10 - 715	5,155
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	$0 - 7,165	12,920
2002 Merged	Merged area project	350,000	1/24/2002	8/1/2015	4.50%	$0 - 11,290	13,165
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00- 5.00%	$25 - 34,100	127,545
2004 A Merged Refunding	Refunding TABs	281,985	5/27/2004	8/1/2019	4.23- 5.25%	$9,580 - 31,900	142,640
2005 A/B Merged Refunding	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20- 5.00%	$0 - 47,010	156,010
2006 A/B Merged	Merged area project	81,300	11/14/2006	8/1/2035	4.50- 5.56%	$295 - 26,210	80,300
2006 C/D Merged Refunding	Refunding TABs	701,185	12/15/2006	8/1/2032	3.75- 5.00%	$680 - 74,280	697,705
2007 A-T/B Merged	Merged area project	212,930	11/7/2007	8/1/2036	0- 5.10%	$2,275 - 23,970	201,475
2008 A/B Merged	Merged area project	117,295	11/13/2008	8/1/2035	0- 7.00%	$2,600 - 6,700	100,890
1997 Housing, Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75- 5.85%	$385 - 3,670	16,340
2003 Housing, Series J/K	Low-moderate income housing	69,000	7/10/2003	8/1/2029	3.50- 5.25%	$245 - 3,505	35,615
2005 Housing, Series A/B	Low-moderate income housing	129,720	6/30/2005	8/1/2035	0- 5.46%	$0 - 8,300	113,960
2010 Housing, Series A/B	Low-moderate income housing	67,405	4/15/2010	8/1/2035	0- 5.5%	$495 - 6,305	59,320
Total Senior Tax Allocation Bonds							1,781,235
Subordinate Tax Allocation Bonds (TAB):							
1996 Merged Area Revenue, Series A/B	Merged area projects	59,000	6/27/1996	7/1/2026	Variable	$2,400 - 4,000	41,600
2003 Merged Area Revenue, Series A/B	Merged area projects	60,000	8/27/2003	8/1/2032	Variable	$1,500 - 3,900	44,055
2010 Housing, Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	$2,725 - 5,210	83,590
Total Subordinate Tax Allocation Bonds							169,245
Other Long-term Debt:							
Pledge Agreement - Revenue Bonds 2001A	4th/ San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.13- 5.25%	$1,815 - 3,205	29,880
Reimbursement Agreement -							
Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	4.40-5.00%	$10,040 - 14,730	110,300
CSCDA 2005 ERAF Loan	Fund the State's ERAF Program	19,085	4/27/2005	8/1/2015	4.77- 5.01%	$2,355	2,355
CSCDA 2006 ERAF Loan	Fund the State's ERAF Program	14,920	5/3/2006	8/1/2016	5.58- 5.67%	$1,800 - 1,905	3,705
HUD Section 108 Loans	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	$405 - 465	1,305
HUD Section 108 Loans (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	$670 - 1,135	10,600
HUD Section 108 Loans (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	$870 - 1,570	14,272
City of San José (SERAF) Loan	Fund the State's SERAF Payment	64,816	2010-2011	6/30/2015	Variable	$12,873 - 52,499	65,736
City of San José - Commercial paper program	Fund the housing projects	14,227	2010-2012	6/30/2015	Variable	$0 - 14,227	14,227
Other Long-term Obligation - County Pass Through	Pass-through payment	23,562	6/30/2011	6/30/2017	Variable	$4,712	23,562
2012-2013 Reimbursement Advance	Reimbursement	17,175	2012-2013	6/30/2015	0%	$0 - 24,326	24,326
Total Other Long-Term Debt							300,268
Total Long-Term Debt							$ 2,250,748

Senior 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.

As of June 30, 2014, assuming no growth in assessed value throughout the term of each constituent project area and excluding debt service override levies, the total accumulated 80% redevelopment property tax revenue through the period of the bonds would be approximately $2,907,862,000 (Urban Analytics, April 2014). These revenues have been pledged until the year 2036, the final maturity date of the bonds. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2014 is approximately $2,367,818,000. The 80% redevelopment property tax revenue recognized during the year ended June 30, 2014 in the amount of $147,855,000 was transferred to the fiscal agent to cover the annual debt service. The total debt service payments on the Senior TABs amounted to $131,587,000 for the year ended June 30, 2014.

Variable-Rate Demand Bonds (Subordinate)

1996 Merged Area Revenue Bonds – In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B (collectively, the "1996 A/B Bonds), for

$29,500,000 each, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996 Bonds are subordinate to the 1993 Merged Area Refunding Tax Allocation Bonds.

The 1996 A/B Bonds currently have a flexible rate of interest in callable commercial paper mode. The total interest on the 1996 A/B Bonds amounted to $58,000 for the fiscal year ended June 30, 2014. At June 30, 2014, the interest rate was 0.14%.

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

The 2003 A/B Bonds currently have a flexible rate of interest in callable commercial paper mode. The total interest on 2003 A/B Bonds amounted to $92,000 for the fiscal year ended June 30, 2014. As of June 30, 2014, the interest rate was 0.25% for the taxable 2003A Bonds and 0.14% for the 2003B Bonds.

These bonds were issued 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 SARA 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, 2014 are as follows (dollars in thousands):

		Credit Facility Description	
		Provider	Expiration Date
Revenue Bonds:			
Series 1996A (Merged Area)	$ 20,800	JPMorgan Chase Bank, N.A.	3/31/2017
Series 1996B (Merged Area)	20,800	JPMorgan Chase Bank, N.A.	3/31/2017
Series 2003A (Taxable) (Merged Area)	29,055	JPMorgan Chase Bank, N.A.	3/31/2017
Series 2003B (Merged Area)	15,000	JPMorgan Chase Bank, N.A.	3/31/2017
Total variable-rate revenue bonds	$ 85,655		

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

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

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

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

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

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

As of June 30, 2014, assuming no growth in assessed value throughout the term of each constituent project area, the total accumulated 20% tax increment revenue through the period of the bonds would be approximately $772,384,000 (Urban Analytics, April 2014). These revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Senior Housing Set-Aside Tax Allocation Bonds and Subordinate Tax Allocation Bonds as of June 30, 2014 is approximately $472,080,000. The 20% redevelopment property tax revenue recognized during the year ended June 30, 2014 was $36,964,000. The total debt service payments on senior housing bonds set-aside tax allocation bonds amounted to $19,648,000 for the subject reporting period.

Housing Set-Aside Tax Allocation Bonds (Subordinate) – On April 29, 2010, the Agency issued $93,000,000 in Taxable Subordinate Housing Set-Aside Tax Allocation Variable Rate Bonds, Series 2010C (the "2010C Bonds"). The 2010C Bonds were used to (1) refinance the Bank of New York Term Loan and (2) finance and refinance the City's gap loans made 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 and were issued as multi-modal, variable rate bonds with a taxable interest rate that resets weekly. The 2010C Bonds have a single maturity anticipated to be no later than August 1, 2035, but with a scheduled mandatory 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 did not require a credit facility to support the debt service payments until the bank's Mandatory Purchase Date of April 29, 2013, or such other date agreed to in writing by the SARA and Wells Fargo Bank. On August 15, 2012, the SARA and Wells Fargo Bank agreed to forbear from exercising its rights and remedies under the Continuing Covenant Agreement and Fiscal Agent Agreement, due to a Moody's downgrade, through November 15, 2012, and the Forbearance Agreement was subsequently extended three more times to coincide with interim extensions of the Mandatory Purchase Date (see Note IV.D.3).

On September 12, 2013, Wells Fargo Bank and the SARA entered into an Amended and Restated Continuing Covenant Agreement pursuant to which Wells Fargo Bank and the SARA agreed to extend the Mandatory Purchase Date for the 2010C Bonds to April 29, 2016. Pursuant to the amended agreement, the interest rate is equal to the sum of one-month LIBOR plus an applicable spread of 2.60%. At June 30, 2014, the interest rate was 3.36%.

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

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

As of June 30, 2014, the outstanding loans due to HUD totaled to $26,177,000. The notes payable to HUD mature annually through August 2027 and bear interest at 20 basis points above the LIBOR index. The average rate for June 2014 was 0.43%. The HUD loans are secured by several the City (Fairmont Hotel Parking Garage) and SARA owned capital assets (Convention Center - South Hall, José Theatre, and Arena Lot 5A) with an aggregate gross value of $29,793,000 at June 30, 2014, and CDBG grants that were awarded or will be awarded to the City. The loans are being repaid by the City through CDBG funds due to insufficiency of tax increment revenues.

Long Term Reimbursement Advance - In the event 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: agreements associated with the City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center) and City of San José Financing Authority Revenue Bonds, Series 2001A (4th and San Fernando Streets Parking Facility Project); Education Revenue Augmentation Fund ("ERAF") payments; and the SARA annual administrative budget and City support service expenses. In order to establish an obligation for the SARA to repay the City for these advances, on September 26, 2013, the City and the SARA entered into an Amended and Restated Long Term Reimbursement Agreement. Interest to the City is not applied to this obligation. As discussed in Note III.G.3, the City has advanced $24,326,000 as of June 30, 2014 to the SARA for its enforceable obligations and other administrative expenses.

A summary of the changes in long-term debt during as of June 30, 2014 follows (in thousands):

	July 1, 2013	Additions	Reductions	June 30, 2014	Amount Due One Year
Senior Tax allocation bonds:					
1993 Merged Refunding	$ 18,195	$ -	$ -	$ 18,195	$ -
1997 Merged	5,490	-	(335)	5,155	360
1999 Merged	12,920	-	-	12,920	-
2002 Merged	13,165	-	-	13,165	1,875
2003 Merged	127,545	-	-	127,545	895
2004 Merged Refunding	168,575	-	(25,935)	142,640	26,355
2005 Merged Refunding Series A, B	177,570	-	(21,560)	156,010	20,800
2006 Merged Series A-T, B	80,300	-	-	80,300	-
2006 Merged Refunding Series C, D	698,360	-	(655)	697,705	680
2007 Merged Refunding Series A-T, B	203,635	-	(2,160)	201,475	2,275
2008 Merged Series A, B	104,455	-	(3,565)	100,890	3,735
1997 Housing Series E	16,705	-	(365)	16,340	385
2003 Housing Series J	32,595	-	(2,415)	30,180	2,515
2003 Housing Series K	5,675	-	(240)	5,435	245
2005 Housing Series A	10,445	-	-	10,445	-
2005 Housing Series B	106,750	-	(3,235)	103,515	3,385
2010 Housing Series A	56,710	-	-	56,710	-
2010 Housing Series B	4,080	-	(1,470)	2,610	1,525
Subtotal senior tax allocation bonds	1,843,170	-	(61,935)	1,781,235	65,030
Subordinate tax allocation bonds:					
1996 Merged Series A, B	44,000	-	(2,400)	41,600	2,400
2003 Merged Revenue Series A, B	46,355	-	(2,300)	44,055	1,345
2010 Housing Series C	86,175	-	(2,585)	83,590	2,740
Subtotal subordinate tax allocation bonds	176,530	-	(7,285)	169,245	6,485
Other long-term debt:					
4th Street Parking Revenue, Series 2001A	31,695	-	(1,815)	29,880	1,895
2001 Convention Center Series F & G	119,870	-	(9,570)	110,300	10,040
CDCDA CRA/ERAF Loan 2005	4,595	-	(2,240)	2,355	2,355
CDCDA CRA/ERAF Loan 2006	5,410	-	(1,705)	3,705	1,800
HUD Section 108 Loan	1,680	-	(375)	1,305	405
HUD Section 108 Loan (CIM)	11,230	-	(630)	10,600	670
HUD Section 108 Loan (Story & King)	15,097	-	(825)	14,272	872
City of San José - SERAF Loans (Principal)	64,816	-	-	64,816	64,816
City of San José - SERAF Loans (Interest)	739	181	-	920	920
City of San José - Commercial paper program	14,227	-	-	14,227	14,227
County Settlement Obligation	23,562	-	-	23,562	9,424
City of San José - Reimbursement agreement	17,175	18,151	(11,000)	24,326	12,900
Subtotal other long-term debt	310,096	18,332	(28,160)	300,268	120,324
Subtotal long-term debt before unamoritized	2,329,796	18,332	(97,380)	2,250,748	191,839
Issuance premium (discount), net	33,975	-	(3,927)	30,048	3,927
Total long-term debt payable	2,363,771	18,332	(101,307)	2,280,796	195,766
Environmental remediation obligation	337	-	-	337	69
Total Long-term Obligations	$ 2,364,108	$ 18,332	$ (101,307)	$ 2,281,133	$ 195,835

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2014, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Merged Tax Allocation Bonds Principal	Merged Tax Allocation Bonds Interest	Housing Tax Allocation Bonds Principal	Housing Tax Allocation Bonds Interest	Merged Area Revenue Bonds Principal	Merged Area Revenue Bonds Interest	Pledge and Other Agreements Principal	Pledge and Other Agreements Interest
2015	$ 56,975	$ 74,516	$ 10,795	$ 14,349	$ 3,745	$ 204	$ 11,935	$ 6,772
2016	59,880	71,516	11,330	13,872	4,025	339	12,510	6,176
2017	62,920	68,471	11,890	13,352	4,315	444	13,125	5,548
2018	65,905	65,374	12,510	12,803	4,595	534	13,765	4,888
2019	68,205	62,138	13,165	12,223	4,675	608	14,450	4,189
2020-2024	385,725	254,601	75,165	51,139	27,660	2,660	68,135	9,577
2025-2029	428,320	151,140	85,090	31,909	22,140	901	6,260	702
2030-2034	330,460	59,413	68,715	12,684	14,500	35	-	-
2035-2039	97,610	4,649	20,165	924	-	-	-	-
Total	$ 1,556,000	$ 811,818	$ 308,825	$ 163,255	$ 85,655	$ 5,725	$ 140,180	$ 37,852

Year Ending June 30	Obligations with 3rd Parties Principal	Obligations with 3rd Parties Interest	Obligations with the City Principal	Obligations with the City Interest	Total Principal	Total Interest
2015	$ 15,526	$ 443	$ 91,943	$ 920	$ 190,919	$ 97,204
2016	8,672	210	11,426	-	107,843	92,113
2017	6,888	89	-	-	99,138	87,904
2018	6,513	81	-	-	103,288	83,680
2019	1,890	73	-	-	102,385	79,231
2020-2024	11,045	227	-	-	567,730	318,204
2025-2029	5,265	17	-	-	547,075	184,669
2030-2034	-	-	-	-	413,675	72,132
2035-2039	-	-	-	-	117,775	5,573
Total	$ 55,799	$ 1,140	$ 103,369	$ 920	$ 2,249,828	$ 1,020,710

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

4. Commitments and Contingencies Related to SARA

Tax Sharing Agreement with the County of Santa Clara

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

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (the “Amended Agreement”). In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires SARA to transfer funds to the County to pay for such projects (the “Delegated Payment”). Until June 30, 2004, the Delegated Payment was equal to the

County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the SARA's Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) must be paid to the County as the Delegated Payment.

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

During the year ended June 30, 2014, the SARA did not have sufficient redevelopment property tax revenues to make the fiscal year 2013-14 County Pass-Through Payment. Accordingly, the amount of pass-through payments due to the County increased by $19,752,000 in fiscal year 2013-14 and the total amount due to the County at June 30, 2014 is $51,545,000.

2011 Settlement Agreement

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

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

During the year ended June 30, 2014, the SARA did not have sufficient redevelopment property tax revenues to make the June 30, 2014 payment in the amount of $6,773,000.

Litigation Against County Auditor-Controller

The City on its own behalf and as the SARA has filed a lawsuit entitled *City of San José as Successor Agency to the San José Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.* in the Sacramento County Superior Court. The suit seeks to recover special levies include a contribution to the County's employees' retirement program (the "PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District (the "Water District Levy") being withheld by the County from property taxes that were previously considered to be "tax increment" paid directly to the Agency and to determine the priority of the County's pass-through payments under the Amended Agreement. The Sacramento Superior Court agreed with the City and SARA that the portion of the PERS levy attributable to former Redevelopment tax increment should not be withheld from SARA; however, the Court agreed with the County that the pass-through payments are not subordinate to other Agency debt pursuant to the Redevelopment Dissolution Law. The Court did not rule on the Water District Levy. Both the City and County have appealed the Sacramento Superior Court decision. The County has continued to withhold the revenues associated with the special levies pending resolution of the appeal. At June 30, 2014, the County has withheld approximately $20,300,000 from the SARA.

D. Subsequent Events

1. Tax and Revenue Anticipation Note

On July 1, 2014, the City entered into the Note Purchase Agreement with Bank of America, N.A. (the "Bank") under which the Bank agreed to purchase the City's short-term note in the full principal amount of $100,000,000 (the "2014 Note") in accordance with the terms of the Note Purchase Agreement. The transaction was needed for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. Pursuant to the Note Purchase Agreement, the City issued and the Bank purchased the 2014 Note bearing interest at a variable rate based on a LIBOR rate, plus a margin of 0.30% for Bank fees. Under the Note Purchase Agreement, at the City's option on any interest payment date, the City may prepay the 2014 Note in whole or in part, with partial prepayment of principal not less than $5,000,000 and in $1,000,000 increments in excess thereof. Security for repayment of the 2014 Note is a pledge of the City's 2014-2015 secured property tax revenues (excluding property taxes levied for general obligation bonds) and all other legally available General Fund revenues of the City, if required. The 2014 Note has a stated maturity of June 30, 2015.

2. Refunding of Airport Revenue Bonds

On October 7, 2014, the City issued City of San José Airport Revenue Refunding Bonds, Series 2014A, Series 2014B, and Series 2014C, in an aggregate principal amount of $125,645,000 to refund all of the outstanding City of San José Airport Revenue Bonds, Series 2001A, Series 2004C, and Series 2004D, and to pay costs of issuing such Bonds. The Series 2014A, Series 2014B, Series 2014C were issued with interest rates ranging from 1 percent to 5 percent and will mature in March 2026, March 2028 and March 2031, respectively. The refunding generated approximately $20,800,000 net present value savings for the Airport.

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

Long Range Property Management Plan

On February 13, 2014, the Oversight Board approved the SARA's Long Range Property Management Plan ("LRPMP"). The LRPMP was submitted to the State Department of Finance ("DOF") on February 25, 2014, for review and approval. Between March and August 2014, DOF requested, and SARA provided, additional information in support of the LRPMP, including copies of deeds, development agreements, revenue participation agreements and loan documentation. On September 8, 2014, the DOF approved the LRPMP, whereby the SARA will initiate the sale of non-governmental purpose properties to pay lien holders in fiscal year 2014-15.

4. Retirement Systems

On July 9, 2014, the City obtained a private letter ruling from the Internal Revenue Service on the tax qualification of the new section 115 trusts established for the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan. The PFDRP Board is currently working with the City to determine when employee contributions to the 115 trusts for the Police Department Postemployment Healthcare Plan and the Fire Department Postemployment Healthcare Plan may commence.

On October 2014, the City Council approved to extend the 0.75% incremental increase limitation of pensionable pay to the contribution rates to the FCERS Postemployment Healthcare Plan for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-15.

5. Proposed Decisions in Cases Before the Public Employment Relations Board

As noted in Note IV.B.8, various bargaining units have filed unfair practice charges against the City with the State Public Employment Relations Board ("PERB") related to the placement of Measure B on the June 2012 ballot. These charges were issued pursuant to State regulations governing PERB procedures. Under these provisions, the bargaining unit, an individual, or the employer may file unfair labor practice charges with PERB, and PERB is required to issue a complaint "if the charge…is sufficient to establish a prima facie case." PERB accepts the allegations of the charging party as true in determining whether to issue the complaint and there is no factual determination by PERB of the accuracy or validity of the allegations prior to the issuance of a complaint. Following the issuance of a complaint, the subject of the complaint files an answer and the matter is assigned to an administrative law judge for a hearing and proposed decision. Both parties have the right to appeal the administrative law judge's decision to the PERB Board, and the right to seek subsequent appellate review in the Court of Appeals and California Supreme Court. In addition to the two cases described below related to Measure B, two other cases remain pending before an administrative law judge.

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

The proposed decisions will become final if not appealed to the PERB Board within 20 days of the date of service if an extension is not sought or granted. The City Council has not determined whether or not to appeal these decisions. The City cannot predict the outcome of these matters or the time frame in which they will be resolved. Further, the City cannot predict whether Local 230, Local 21 or any other affected party will pursue judicial remedies to enforce the proposed decisions if not overturned on appeal.

Required Supplementary Information

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Taxes:							
Property	$ 220,850	223,000	645	223,645	-	223,645	
Sales	167,710	173,760	(348)	173,412	-	173,412	
Utility	112,495	114,395	91	114,486	-	114,486	
State of California in-lieu	475	475	(41)	434	-	434	
Franchise	43,923	43,353	2,396	45,749	-	45,749	
Business Tax	42,435	43,735	1,766	45,501	-	45,501	
Other	10,600	11,800	73	11,873	-	11,873	
Licenses, permits and fines	56,140	64,280	2,546	66,826	-	66,826	
Intergovernmental	13,721	18,240	711	18,951	-	18,951	
Charges for current services	36,523	41,662	1,144	42,806	-	42,806	
Investment income	4,190	3,115	(64)	3,051	744	3,795	(1)
Other revenues	31,690	33,004	17,696	50,700	(11,239)	39,461	(4)
Total revenues	740,752	770,819	26,614	797,433	(10,495)	786,938	
EXPENDITURES							
Current:							
General government	129,123	115,967	(19,928)	96,039	(20,480)	75,559	(2)
Public safety	490,733	473,955	(9,355)	464,600	(2,413)	462,187	(2)
Community services	110,072	115,686	(5,446)	110,240	(2,728)	107,512	(2)
Sanitation	1,588	1,493	(423)	1,070	(29)	1,041	(2)
Capital maintenance	129,960	128,992	(38,041)	90,951	(26,106)	64,845	(2)
Capital outlay	-	3,685	-	3,685	-	3,685	(2)
Debt service:							
Principal	3,468	146	(146)	-	-	-	
Interest	474	474	-	474	25	499	(3)
Total expenditures	865,418	840,398	(73,339)	767,059	(51,731)	715,328	
Excess (deficiency) of revenues over expenditures	(124,666)	(69,579)	99,953	30,374	41,236	71,610	
OTHER FINANCING SOURCES (USES)							
Capital lease financing proceeds	-	127,063	(127,063)	-	-	-	
Proceeds from capital lease financing	8,731	9,557	9,729	19,286	-	19,286	
Proceeds from sale of capital assets	1,320	2,320	(99)	2,221	-	2,221	
Transfers in	-	22,085	(12,301)	9,784	-	9,784	
Transfers out	(25,649)	(26,005)	274	(25,731)	-	(25,731)	
Total other financing sources (uses)	(15,598)	135,020	(129,460)	5,560	-	5,560	
Net change in fund balance	(140,264)	65,441	(29,507)	35,934	41,236	77,170	
Fund balance - beginning	218,433	218,433	-	218,433	8,461	226,894	
Beginning encumbrance	-	-	-	19,650	(19,650)	-	
Fund balance - ending	$ 78,169	283,874	(29,507)	274,017	30,047	304,064	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.
(3) Interest expense associated with assumption of SERAF loan.
(4) Repayments of advances to SARA for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

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

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Intergovernmental	$ 12,497	12,497	(3,175)	9,322	-	9,322	
Investment income	4,041	4,041	(2,435)	1,606	87	1,693	(1)
Other revenues	13,272	13,272	398	13,670	(3,286)	10,384	(3)
Total revenues	29,810	29,810	(5,212)	24,598	(3,199)	21,399	
EXPENDITURES							
Current:							
Community services	43,983	44,679	(29,492)	15,187	(6,647)	8,540	(2), (3)
Total expenditures	43,983	44,679	(29,492)	15,187	(6,647)	8,540	
Excess (deficiency) of revenues over expenditures	(14,173)	(14,869)	24,280	9,411	3,448	12,859	
OTHER FINANCING SOURCES (USES)							
Transfers out	(16)	(7)	-	(7)	-	(7)	
Total other financing sources (uses)	(16)	(7)	-	(7)	-	(7)	
Net change in fund balance	(14,189)	(14,876)	24,280	9,404	3,448	12,852	
Fund balance - beginning	1,156	1,156	-	1,156	66,707	67,863	
Liquidation of prior year encumbrances	19,813	19,813	-	19,813	(19,813)	-	(4)
Beginning encumbrance	-	-	-	577	(577)	-	
Fund balance - ending	$ 6,780	6,093	24,280	30,950	49,765	80,715	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.
(3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.
(4) Closure of sub-fund resulted in a liquidation of prior year encumbrances.

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2014

Low and Moderate Income Housing Asset Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
($000's)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Intergovernmental	-	-	31	31	-	31	
Investment income	$ 6,930	6,930	3,575	10,505	1,481	11,986	(1)
Other revenues	239	239	4,859	5,098	(5,019)	79	(3)
Total revenues	7,169	7,169	8,465	15,634	(3,538)	12,096	
EXPENDITURES							
Current:							
Community services	13,382	19,842	(11,487)	8,355	(6,623)	1,732	(2), (3)
Excess (deficiency) of revenues over expenditures	(6,213)	(12,673)	19,952	7,279	3,085	10,364	
OTHER FINANCING SOURCES (USES)							
Transfers out	(454)	(197)	-	(197)	-	(197)	
Total other financing sources (uses)	(454)	(197)	-	(197)	-	(197)	
Net change in fund balance	(6,667)	(12,870)	19,952	7,082	3,085	10,167	
Fund balance - beginning	20,257	20,257	-	20,257	282,480	302,737	
Beginning encumbrance	-	-	-	1,122	(1,122)	-	
Fund balance - ending	$ 13,590	7,387	19,952	28,461	284,443	312,904	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.
(3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

Schedules of 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 AAL	Funded Ratio	Annual Covered Payroll (3)	Unfunded AAL as a Percentage of Covered Payroll
6/30/11	$ 2,685,721	$ 3,196,007	$ 510,286	84%	$ 190,726	268%
6/30/12	2,703,539	3,397,792	694,253	80%	187,959	369%
6/30/13	2,771,924	3,578,031	806,107	77%	184,645	437%

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
6/30/11	$ 1,788,660	$ 2,770,227	$ 981,567	65%	$ 228,936	429%
6/30/12	1,762,973	2,841,000	1,078,027	62%	225,859	477%
6/30/13	1,782,629	3,013,763	1,231,134	59%	225,779	545%

(1) Fiscal year ended June 30, 2011 excludes supplemental retiree benefit reserve. Fiscal years ended June 30, 2012 and June 30, 2013 exclude accounts payable, postemployment healthcare plan assets.
(2) Excludes postemployment healthcare liability.
(3) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.

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 (1)	Unfunded AAL as a Percentage of Covered Payroll
6/30/11	$ 60,709	$ 1,003,795	$ 943,087	6%	$ 190,726	494%
6/30/12	66,385	997,321	930,936	7%	187,959	495%
6/30/13	75,035	700,525	625,490	11%	184,645	339%

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 (1)	Unfunded AAL as a Percentage of Covered Payroll
6/30/11	$ 135,454	$ 1,145,359	$ 1,009,905	12%	$ 228,936	441%
6/30/12	137,798	1,096,620	958,822	13%	225,859	425%
6/30/13	157,695	870,872	713,177	18%	226,098	315%

(1) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.

Schedules of Employer Contributions – Defined Benefit Pension Plans

PFDRP Schedule of Employer Contributions*
(Dollar Amounts in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 123,583	$ 105,234	$ 121,009	$ 77,918	$ 52,315	$ 53,103	$ 56,372	$ 51,192	$ 50,002	$ 48,253
Contributions in relation to the actuarially determined contributions	123,583	105,234	121,009	77,918	52,315	53,103	56,372	51,192	50,002	48,253
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 180,083	$ 184,645	$ 187,959	$ 190,726	$ 239,571	$ 243,196	$ 241,781	$ 209,025	$ 198,131	$ 210,018
Contributions as a percentage of covered-employee payroll	68.63%	56.99%	64.38%	40.85%	21.84%	21.84%	23.32%	24.49%	25.24%	22.98%

FCERS Schedule of Employer Contributions*
(Dollar Amounts in Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 107,544	$ 103,109	$ 87,082	$ 59,180	$ 54,566	$ 57,020	$ 54,958	$ 51,004	$ 41,267	$ 41,552
Contributions in relation to the actuarially determined contributions	107,544	103,109	87,082	59,180	54,566	57,020	54,958	51,004	41,267	41,552
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 228,361	$ 225,779	$ 225,859	$ 228,936	$ 275,869	$ 308,697	**	$ 291,405	**	$ 286,446
Contributions as a percentage of covered-employee payroll	47.09%	45.67%	38.56%	25.85%	19.78%	18.47%		17.50%		14.51%

* The actuarially determined employer contributions (ADC) provided above are based on the Board adopted contribution rates adjusted for the timing of actual contributions including year-end contributions receivable and prior year contribution adjustments. In addition, in fiscal year ended June 30, 2011, the ADC has been reduced to reflect the additional employee contributions pursuant to MOAs with certain bargaining units.

** Actuarial valuations have been performed biennially through June 30, 2007. Effective June 30, 2009, the plan transitioned to annual actuarial valuations.

Notes to the Schedules of Employer Contributions – Defined Benefit Pension Plans

Information regarding the methods and assumptions used to determine contribution rates for the past 10 years can be found in the Retirement Systems' June 30, 2014 Comprehensive Annual Financial Reports. A copy of these reports may be obtained by contacting the City of San José Department of Retirement Services, 1737 North First Street, Suite 600, San José, CA, 95112 or can be found at the City of San José Department of Retirement Services website at http://www.sjretirement.com.

Schedule of Changes in the Employer's Net Pension Liability-Defined Benefit Pension Plans

	2014	
Total pension liability	**PFDRP**	**FCERS**
Service cost	$ 75,030	$ 43,334
Interest (includes interest on service cost)	251,700	214,487
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(167,397)	(155,936)
Net change in total pension liability	$ 159,333	$ 101,885
Total pension liability - beginning	$ 3,578,031	$ 3,013,763
Total pension liability - ending	$ 3,737,364	$ 3,115,648
Plan fiduciary net position		
Contibutions - employer	$ 123,583	$ 107,544
Contibutions - member	21,115	13,596
Net investment income	404,978	263,688
Benefit payments, including refunds of member contributions	(167,397)	(155,936)
Administrative expense	(3,631)	(3,201)
Net change in plan fiduciary net position	$ 378,648	$ 225,691
Plan fiduciary net position - beginning	$ 2,789,525	$ 1,761,546
Plan fiduciary net position - ending	$ 3,168,173	$ 1,987,237
Net pension liability - ending	$ 569,191	$ 1,128,411
Plan fiduciary net position as a percentage of the total pension liability	84.77%	63.78%
Covered employee payroll	$ 184,645	$ 225,779
Net pension liability as a percentage of covered employee payroll	308.26%	499.79%

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

Schedule of Investment Returns-Defined Benefit Pension Plans

	PFDRP	FCERS
Annual money-weighted rate of return, net of investment expense	13.5%	7.5%

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2014. Additional years will be displayed as they occur.

I. Budgetary Information

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation.

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, nonpersonal) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department. The City's legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within the Comprehensive Annual Financial Report itself. As a result, the City prepares a separate report to demonstrate compliance with its legal level of budgetary control.

Annual budgets are prepared for the General Fund and all Special Revenue Funds. Capital project budgets are based on a project time frame rather than a fiscal year time frame. Debt Service Funds appropriations were adopted by the Council when the formal bond resolutions were approved. Therefore, Capital Project Funds and Debt Service Funds are not reported on budgetary basis.

II. Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States ("GAAP") basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process ("budgetary basis") to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on GAAP basis until the equipment, supplies or services are received.
- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When loan repayments are received, they are recorded as reductions to receivables on a GAAP basis, but are recognized as revenues on a budgetary basis.
- Net decreases were made to certain GAAP basis loans receivable to reflect carrying amounts at a discounted present value and allowances for bad debts. The discount is treated as an expenditure on a GAAP basis and is not included in the budgetary basis financial statements. In addition, the allowance for bad debts is not included in the budgetary basis financial schedules, but is an expenditure on a GAAP basis.
- Certain advances to the SARA are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these advances are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When repayments are received, they are recorded as reductions to advances to the SARA on a GAAP basis, but are recognized as revenues on a budgetary basis.

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial schedules.

- The Community Facility Revenue non-major special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial schedules.

- Certain line of credit transactions are recognized as expenditures in the budgetary basis financial schedules but are recorded as an asset in the GAAP basis financial statements. When the outside agency draws down on the line of credit, the City records an asset, advances to other agencies, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules. When the outside agency pays down the line of credit, the City records a reduction to its assets in the GAAP basis financial statements and revenues on the budgetary basis financial schedules.

- Certain grant revenues received in advance are recognized on the budgetary basis financial schedules, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

III. Budget Revisions

On September 9, 2014, the City Council approved certain fiscal year 2014 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedules of revenues, expenditures, and changes in fund balances - budget and actual reflect such budget revisions.

Combining Nonmajor Governmental Funds

City of San José
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014
($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	$	325,918	-	95,962	421,880
Receivables (net of allowance for uncollectibles)		29,544	138	4,687	34,369
Due from other funds		7,367	-	3,977	11,344
Loans receivable (net)		4,061	-	-	4,061
Advances and deposits		34	-	38	72
Restricted assets:					
Equity in pooled cash and investments held in City Treasury		-	34,480	106	34,586
Cash and investments held with fiscal agent		-	-	49,461	49,461
Other cash and investments		4,878	-	-	4,878
Advances to other funds		10,611	-	-	10,611
Total assets	$	382,413	34,618	154,231	571,262
LIABILITIES					
Accounts payable	$	17,805	-	890	18,695
Accrued salaries, wages, and payroll taxes		2,147	-	249	2,396
Due to other funds		4,370	-	3,743	8,113
Unearned revenue		14,289	-	-	14,289
Advances, deposits, and reimbursable credits		4,527	-	-	4,527
Advances from other funds		2,500	-	-	2,500
Other liabilities		1,272	-	-	1,272
Total liabilities		46,910	-	4,882	51,792
DEFERRED INFLOWS OF RESOURCES		1,481	-	-	1,481
FUND BALANCES					
Nonspendable		34	-	38	72
Restricted		286,829	34,618	105,448	426,895
Committed		31,779	-	-	31,779
Assigned		15,380	-	43,863	59,243
Total fund balances		334,022	34,618	149,349	517,989
Total liabilities, deferred inflows of resources and fund balances	$	382,413	34,618	154,231	571,262

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014
($000's)

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes and special assessments	$ 93,641	39,510	29,250	162,401
Intergovernmental	43,973	-	24,119	68,092
Charges for current services	185,067	-	8,992	194,059
Rent	28,678	-	-	28,678
Investment income	2,356	264	739	3,359
Other revenues	4,602	-	3,954	8,556
Total revenues	358,317	39,774	67,054	465,145
EXPENDITURES				
Current:				
General government	14,836	-	-	14,836
Public safety	2,485	-	-	2,485
Community services	60,405	-	-	60,405
Sanitation	141,725	-	-	141,725
Capital maintenance	74,793	-	29,993	104,786
Capital outlay	50,531	-	7,530	58,061
Debt service:				
Principal	-	19,645	-	19,645
Interest and fiscal charges	-	20,501	-	20,501
Total expenditures	344,775	40,146	37,523	422,444
Excess (deficiency) of revenues over (under) expenditures	13,542	(372)	29,531	42,701
OTHER FINANCING SOURCES (USES)				
Transfers in	36,971	9,130	1,202	47,303
Transfers out	(38,647)	(18,831)	(5,322)	(62,800)
Total other financing sources (uses)	(1,676)	(9,701)	(4,120)	(15,497)
Net change in fund balances	11,866	(10,073)	25,411	27,204
Fund balances - beginning	322,156	44,691	123,938	490,785
Fund balances - ending	$ 334,022	34,618	149,349	517,989

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CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Nonmajor Special Revenue Funds

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014
($000's)

		Prusch Memorial Park (Fund 131)	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	$	389	3,947	-	26
Receivables (net of allowance for uncollectibles)		-	24	3,034	2
Due from other funds		-	-	-	-
Loans receivable (net)		-	-	-	-
Advances and deposits		-	-	-	-
Restricted assets:					
Other cash and investments		-	-	-	-
Advances to other funds		-	-	-	-
Total assets	$	389	3,971	3,034	28
LIABILITIES					
Accounts payable	$	-	14	504	-
Accrued salaries, wages and payroll taxes		-	4	62	-
Due to other funds		-	-	1,391	-
Unearned revenue		-	-	-	-
Advances, deposits and reimbursable credits		-	-	-	-
Advances from other funds		-	-	-	-
Other liabilities		-	-	-	-
Total liabilities		-	18	1,957	-
DEFERRED INFLOWS OF RESOURCES		-	-	-	-
FUND BALANCES					
Nonspendable		-	-	-	-
Restricted		-	-	1,077	-
Committed		389	-	-	
Assigned		-	3,953	-	28
Total fund balances		389	3,953	1,077	28
Total liabilities, deferred inflows of resources and fund balances	$	389	3,971	3,034	28

Special Assessment Maintenance Districts (Funds 302, 310, 351-369, 371-374, 376, 379)	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)
20,003	70	68,761	84,403	-	
233	-	89	3,341	717	854
-	-	3,045	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,833	-	-
-	-	10,611	-	-	-
20,236	70	82,506	89,577	717	854
177	-	419	1,746	-	-
26	-	58	172	-	-
-	-	-	294	717	854
108	-	-	1,833	-	-
-	-	-	-	-	-
-	-	-	2,500	-	-
-	-	-	-	-	-
311	-	477	6,545	717	854
-	-	44	-	-	-
-	-	-	-	-	-
19,925	-	81,985	83,032	-	-
-	-	-	-	-	-
-	70	-	-	-	-
19,925	70	81,985	83,032	-	-
20,236	70	82,506	89,577	717	854

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014
($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	$	511	1,427	3,501	993
Receivables (net of allowance for uncollectibles)		1	2	295	1
Due from other funds		-	-	-	-
Loans receivable (net)		-	-	-	-
Advances and deposits		-	-	-	-
Restricted assets:					
Other cash and investments		-	-	-	-
Advances to other funds		-	-	-	-
Total assets	$	512	1,429	3,796	994
LIABILITIES					
Accounts payable	$	22	75	-	-
Accrued salaries, wages and payroll taxes		-	-	4	-
Due to other funds		-	-	-	-
Unearned revenue		-	1,340	-	-
Advances, deposits and reimbursable credits		-	-	-	-
Advances from other funds		-	-	-	-
Other liabilities		-	-	-	-
Total liabilities		22	1,415	4	-
DEFERRED INFLOWS OF RESOURCES		-	-	-	-
FUND BALANCES					
Nonspendable		-	-	-	-
Restricted		490	14	3,792	994
Committed		-	-	-	-
Assigned		-	-	-	-
Total fund balances		490	14	3,792	994
Total liabilities, deferred inflows of resources and fund balances	$	512	1,429	3,796	994

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)	Building and Structures Construction Tax (Fund 429)
10,089	3,383	1,428	1,075	11,157	27,223	33,096
9	4	2	1	508	10,884	1,347
-	-	-	-	2,030	-	2,292
-	-	-	-	-	-	-
-	-	-	-	-	-	3
-	-	-	-	-	-	-
-	-	-	-	-	-	-
10,098	3,387	1,430	1,076	13,695	38,107	36,738
41	-	-	-	161	11,630	1,092
80	-	-	-	1,030	222	136
-	-	-	-	-	-	-
-	-	-	-	-	7,603	-
-	-	-	-	1,165	3,362	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
121	-	-	-	2,356	22,817	1,228
-	-	-	-	30	-	-
-	-	-	-	-	-	3
9,977	3,387	-	-	-	-	35,507
-	-	1,430	1,076	-	15,290	-
-	-	-	-	11,309	-	-
9,977	3,387	1,430	1,076	11,309	15,290	35,510
10,098	3,387	1,430	1,076	13,695	38,107	36,738

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014
($000's)

		Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)
ASSETS					
Equity in pooled cash and investments held in City Treasury	$	-	-	76	43,917
Receivables (net of allowance for uncollectibles)		-	2,407	-	381
Due from other funds		-	-	-	-
Loans receivable (net)		20	3,969	72	-
Advances and deposits		-	-	-	-
Restricted assets:					
Other cash and investments		-	5	-	-
Advances to other funds		-	-	-	-
Total assets	$	20	6,381	148	44,298
LIABILITIES					
Accounts payable	$	-	393	-	1,158
Accrued salaries, wages and payroll taxes		-	50	-	270
Due to other funds		-	900	-	-
Unearned revenue		-	-	-	-
Advances, deposits and reimbursable credits		-	-	-	-
Advances from other funds		-	-	-	-
Other liabilities		-	-	-	-
Total liabilities		-	1,343	-	1,428
DEFERRED INFLOWS OF RESOURCES		-	1,407	-	-
FUND BALANCES					
Nonspendable		-	-	-	-
Restricted		-	3,631	148	42,870
Committed		-	-	-	-
Assigned		20	-	-	-
Total fund balances		20	3,631	148	42,870
Total liabilities, deferred inflows of resources and fund balances	$	20	6,381	148	44,298

Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Byrne Memorial Justice (Funds 474, 477)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Funds 536, 481)	Total
3,450	1,350	302	570	4,771	325,918
2,299	26	-	1	3,082	29,544
-	-	-	-	-	7,367
-	-	-	-	-	4,061
-	-	-	-	31	34
-	-	-	-	3,040	4,878
-	-	-	-	-	10,611
5,749	1,376	302	571	10,924	382,413
6	16	80	28	243	17,805
32	-	-	-	1	2,147
-	-	-	-	214	4,370
-	-	222	-	3,183	14,289
-	-	-	-	-	4,527
-	-	-	-	-	2,500
-	-	-	-	1,272	1,272
38	16	302	28	4,913	46,910
-	-	-	-	-	1,481
-	-	-	-	31	34
-	-	-	-	-	286,829
5,711	1,360	-	543	5,980	31,779
-	-	-	-	-	15,380
5,711	1,360	-	543	6,011	334,022
5,749	1,376	302	571	10,924	382,413

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2014
($000's)

		Prusch Memorial Park (Fund 131)	Gift Trust (Fund 139)	Workforce Investment Act (Funds 290-294, 299)	San José Arena Enhancement (Fund 301)
REVENUES					
Taxes and special assessments	$	-	-	-	-
Intergovernmental		-	-	9,986	-
Charges for current services		-	-	-	-
Rent		78	-	-	-
Investment income		3	30	-	7
Other revenues		-	581	-	48
Total revenues		81	611	9,986	55
EXPENDITURES					
Current:					
General government		-	-	-	-
Public safety		-	-	-	-
Community services		49	800	9,994	-
Sanitation		-	-	-	-
Capital maintenance		-	-	-	-
Capital outlay		-	-	-	-
Total expenditures		49	800	9,994	-
Excess (deficiency) of revenues over (under) expenditures		32	(189)	(8)	55
OTHER FINANCING SOURCES (USES)					
Transfers in		-	-	-	1,991
Transfers out		-	-	-	(2,019)
Total other financing sources (uses)		-	-	-	(28)
Net change in fund balances		32	(189)	(8)	27
Fund balances - beginning		357	4,142	1,085	1
Fund balances - ending	$	389	3,953	1,077	28

Special Assessment Maintenance Districts (Funds 302, 310, 351-369, 371-374, 376, 379)	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)
9,443	-	-	35,491	-	-
-	-	978	443	7,396	10,400
-	-	8,826	45	-	-
-	-	-	-	-	-
136	-	653	649	-	-
105	2	-	2,842	-	-
9,684	2	10,457	39,470	7,396	10,400
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
9,806	-	4,971	22,792	7,396	10,400
55	-	19,214	6,153	-	-
9,861	-	24,185	28,945	7,396	10,400
(177)	2	(13,728)	10,525	-	-
927	3	-	1,481	-	-
-	-	(659)	(7,964)	-	-
927	3	(659)	(6,483)	-	-
750	5	(14,387)	4,042	-	-
19,175	65	96,372	78,990	-	-
19,925	70	81,985	83,032	-	-

(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, 2014
($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		-	1,783	1,524	-
Charges for current services		141	-	-	-
Rent		-	-	-	-
Investment income		7	15	22	9
Other revenues		-	-	-	278
Total revenues		148	1,798	1,546	287
EXPENDITURES					
Current:					
General government		-	-	-	-
Public safety		-	1,765	-	304
Community services		-	-	-	-
Sanitation		-	-	-	-
Capital maintenance		222	-	388	-
Capital outlay		-	24	-	-
Total expenditures		222	1,789	388	304
Excess (deficiency) of revenues over (under) expenditures		(74)	9	1,158	(17)
OTHER FINANCING SOURCES (USES)					
Transfers in		-	-	-	-
Transfers out		(4)	-	(6)	-
Total other financing sources (uses)		(4)	-	(6)	-
Net change in fund balances		(78)	9	1,152	(17)
Fund balances - beginning		568	5	2,640	1,011
Fund balances - ending	$	490	14	3,792	994

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)	Building and Structures Construction Tax (Fund 429)
7,915	-	467	-	-	-	22,513
-	-	-	-	-	42	3,834
-	-	-	24	13,333	126,678	-
-	-	-	-	2,641	-	-
61	25	9	8	67	113	212
-	313	-	-	-	95	23
7,976	338	476	32	16,041	126,928	26,582
-	-	-	-	13,984	-	-
-	187	-	-	-	-	-
3,774	-	-	-	-	-	-
-	-	-	-	-	121,255	-
2,935	-	22	25	319	-	5,614
-	-	-	-	-	103	8,969
6,709	187	22	25	14,303	121,358	14,583
1,267	151	454	7	1,738	5,570	11,999
-	-	-	-	12,109	-	-
(13)	-	(6)	(1)	(12,509)	(3,216)	(157)
(13)	-	(6)	(1)	(400)	(3,216)	(157)
1,254	151	448	6	1,338	2,354	11,842
8,723	3,236	982	1,070	9,971	12,936	23,668
9,977	3,387	1,430	1,076	11,309	15,290	35,510

(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, 2014
($000's)

		Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)
REVENUES					
Taxes and special assessments	$	-	-	-	-
Intergovernmental		-	7,357	1	-
Charges for current services		-	-	-	32,211
Rent		-	-	-	-
Investment income		2	-	-	262
Other revenues		-	-	5	111
Total revenues		2	7,357	6	32,584
EXPENDITURES					
Current:					
General government		852	-	-	-
Public safety		-	-	-	-
Community services		-	6,213	-	-
Sanitation		-	-	-	20,470
Capital maintenance		-	973	-	3,802
Capital outlay		-	-	-	4,031
Total expenditures		852	7,186	-	28,303
Excess (deficiency) of revenues over (under) expenditures		(850)	171	6	4,281
OTHER FINANCING SOURCES (USES)					
Transfers in		-	-	-	-
Transfers out		-	-	-	(333)
Total other financing sources (uses)		-	-	-	(333)
Net change in fund balances		(850)	171	6	3,948
Fund balances - beginning		870	3,460	142	38,922
Fund balances - ending	$	20	3,631	148	42,870

Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Byrne Memorial Justice (Funds 474,477)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Funds 536, 481)	Total
17,812	-	-	-	-	93,641
-	-	229	-	-	43,973
-	798	-	477	2,534	185,067
-	-	-	-	25,959	28,678
32	10	-	5	19	2,356
83	-	-	37	79	4,602
17,927	808	229	519	28,591	358,317
-	-	-	-	-	14,836
-	-	229	-	-	2,485
8,589	-	-	-	30,986	60,405
-	-	-	-	-	141,725
-	360	-	534	4,234	74,793
-	57	-	-	11,925	50,531
8,589	417	229	534	47,145	344,775
9,338	391	-	(15)	(18,554)	13,542
-	-	-	2,000	18,460	36,971
(8,460)	(226)	-	(1,900)	(1,174)	(38,647)
(8,460)	(226)	-	100	17,286	(1,676)
878	165	-	85	(1,268)	11,866
4,833	1,195	-	458	7,279	322,156
5,711	1,360	-	543	6,011	334,022

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, 2014
($000's)

	Prusch Memorial Park (Fund 131)			Gift Trust (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	79	78	(1)	-	-	-
Investment income	1	2	1	-	17	17
Other revenues	-	-	-	612	581	(31)
Total revenues	80	80	-	612	598	(14)
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	93	49	(44)	4,307	813	(3,494)
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	93	49	(44)	4,307	813	(3,494)
Excess (deficiency) of revenues over (under) expenditures	(13)	31	44	(3,695)	(215)	3,480
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in fund balances	$ (13)	31	44	(3,695)	(215)	3,480
Fund balances - beginning		360			4,033	
Prior year encumbrances		-			36	
Fund balances - ending		$ 391			$ 3,854	

Workforce Investment Act (Funds 290-294, 299)			San José Arena Enhancement (Fund 301)			Special Assessment Maintenance Districts (Funds 302, 310, 351-369, 371-374, 376, 379)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	9,451	9,443	(8)
13,984	9,986	(3,998)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	4	7	3	-	136	136
-	-	-	49	48	(1)	-	105	105
13,984	9,986	(3,998)	53	55	2	9,451	9,684	233
-	-	-	-	-	-	-		-
-	-	-	-	-	-	-		-
13,303	9,994	(3,309)	-	-	-	-		-
-	-	-	-	-	-	-		-
-	-	-	-	-	-	13,435	10,281	(3,154)
-	-	-	-	-	-	55	55	-
13,303	9,994	(3,309)	-	-	-	13,490	10,336	(3,154)
681	(8)	(689)	53	55	2	(4,039)	(652)	3,387
-	-	-	1,991	1,991	-	934	927	(7)
-	-	-	(2,020)	(2,019)	1	-	-	-
-	-	-	(29)	(28)	1	934	927	(7)
681	(8)	(689)	24	27	3	(3,105)	275	3,380
	1,084			1			18,596	
	-			-			635	
	$ 1,076			$ 28			$ 19,506	

(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, 2014
($000's)

	Ng Shing Gung Capital Maintenance (Fund 303)			Subdivision Park Trust (Fund 375)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	978	978
Charges for current services	-	-	-	1,296	8,826	7,530
Rent	-	-	-	-	-	-
Investment income	-	-	-	-	363	363
Other revenues	-	2	2	-	-	-
Total revenues	-	2	2	1,296	10,167	8,871
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	39,866	9,717	(30,149)
Capital outlay	-	-	-	19,214	19,214	-
Total expenditures	-	-	-	59,080	28,931	(30,149)
Excess (deficiency) of revenues over (under) expenditures	-	2	2	(57,784)	(18,764)	39,020
OTHER FINANCING SOURCES (USES)						
Transfers in	-	3	3	-	-	-
Transfers out	-	-	-	(659)	(659)	-
Total other financing sources (uses)	-	3	3	(659)	(659)	-
Net change in fund balances	$ -	5	5	(58,443)	(19,423)	39,020
Fund balances - beginning		65			79,652	
Prior year encumbrances		-			3,372	
Fund balances - ending		$ 70			$ 63,601	

	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)
	34,068	35,491	1,423	-	-	-	-	-	-
	2,247	443	(1,804)	7,300	7,396	96	8,050	10,400	2,350
	-	45	45	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	197	362	165	-	-	-	-	-	-
	2,297	2,842	545	-	-	-	-	-	-
	38,809	39,183	374	7,300	7,396	96	8,050	10,400	2,350
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	59,025	30,110	(28,915)	7,300	7,396	96	8,050	10,400	2,350
	6,153	6,153	-	-	-	-	-	-	-
	65,178	36,263	(28,915)	7,300	7,396	96	8,050	10,400	2,350
	(26,369)	2,920	29,289	-	-	-	-	-	-
	(1,472)	1,481	2,953	-	-	-	-	-	-
	(8,000)	(7,964)	36	-	-	-	-	-	-
	(9,472)	(6,483)	2,989	-	-	-	-	-	-
	(35,841)	(3,563)	32,278	-	-	-	-	-	-
		78,700			-			-	
		3,049			-			-	
		$ 78,186			$ -			$ -	

(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, 2014
($000's)

	Storm Drainage Fee (Funds 413, 427)			Supplemental Local Law Enforcement (Fund 414)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	$ -	-	-	-	-	-
Intergovernmental	-	-	-	1,739	1,734	(5)
Charges for current services	160	141	(19)	-	-	-
Rent	-	-	-	-	-	-
Investment income	-	7	7	-	9	9
Other revenues	-	-	-	-	-	-
Total revenues	160	148	(12)	1,739	1,743	4
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	2,542	2,053	(489)
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	480	396	(84)	-	-	-
Capital outlay	-	-	-	24	24	-
Total expenditures	480	396	(84)	2,566	2,077	(489)
Excess (deficiency) of revenues over (under) expenditures	(320)	(248)	72	(827)	(334)	493
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(5)	(4)	1	-	-	-
Total other financing sources (uses)	(5)	(4)	1	-	-	-
Net change in fund balances	$ (325)	(252)	73	(827)	(334)	493
Fund balances - beginning		531			942	
Prior year encumbrances		39			458	
Fund balances - ending		$ 318			$ 1,066	

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)
-	-	-	-	-	-	7,907	7,915	8
1,504	1,524	20	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	14	14	3	5	2	-	37	37
-	-	-	50	278	228	-	-	-
1,504	1,538	34	53	283	230	7,907	7,952	45
-	-	-	-	-	-	-	-	-
-	-	-	746	304	(442)	-	-	-
-	-	-	-	-	-	5,095	3,789	(1,306)
-	-	-	-	-	-	-	-	-
634	388	(246)	-	-	-	3,749	3,081	(668)
-	-	-	-	-	-	-	-	-
634	388	(246)	746	304	(442)	8,844	6,870	(1,974)
870	1,150	280	(693)	(21)	672	(937)	1,082	2,019
-	-	-	-	-	-	-	-	-
(6)	(6)	-	-	-	-	(13)	(13)	-
(6)	(6)	-	-	-	-	(13)	(13)	-
864	1,144	280	(693)	(21)	672	(950)	1,069	2,019
	2,648			1,015			8,669	
	-			-			76	
	$ 3,792			$ 994			$ 9,814	

(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, 2014
($000's)

	Federal Drug Forfeiture (Fund 419)			Residential Construction Tax Contribution (Fund 420)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	$ -	-	-	434	467	33
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Investment income	5	15	10	-	5	5
Other revenues	150	313	163	-	-	-
Total revenues	155	328	173	434	472	38
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	937	187	(750)	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	282	22	(260)
Capital outlay	-	-	-	-	-	-
Total expenditures	937	187	(750)	282	22	(260)
Excess (deficiency) of revenues over (under) expenditures	(782)	141	923	152	450	298
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(8)	(6)	2
Total other financing sources (uses)	-	-	-	(8)	(6)	2
Net change in fund balances	$ (782)	141	923	144	444	300
Fund balances - beginning		3,246			985	
Prior year encumbrances		-			-	
Fund balances - ending		$ 3,387			$ 1,429	

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)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	47	42	(5)
-	24	24	-	-	-	130,731	126,678	(4,053)
-	-	-	3,055	2,641	(414)	-	-	-
4	4	-	37	40	3	69	113	44
-	-	-	1,003	1,003	-	-	-	-
4	28	24	4,095	3,684	(411)	130,847	126,833	(4,014)
-	-	-	4,715	1,469	(3,246)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	129,488	123,270	(6,218)
147	119	(28)	319	319	-	-	-	-
-	-	-	-	-	-	103	103	-
147	119	(28)	5,034	1,788	(3,246)	129,591	123,373	(6,218)
(143)	(91)	52	(939)	1,896	2,835	1,256	3,460	2,204
-	-	-	12,109	12,109	-	-	-	-
(1)	(1)	-	(17,696)	(17,709)	(13)	(3,216)	(3,216)	-
(1)	(1)	-	(5,587)	(5,600)	(13)	(3,216)	(3,216)	-
(144)	(92)	52	(6,526)	(3,704)	2,822	(1,960)	244	2,204
	1,028			625			7,585	
	45			-			5,235	
	$ 981			$ (3,079)			$ 13,064	

(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, 2014
($000's)

	Building and Structures Construction Tax (Fund 429)			Development Enhancement (Fund 439)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	$ 20,823	22,513	1,690	-	-	-
Intergovernmental	7,949	3,834	(4,115)	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Investment income	46	123	77	-	-	-
Other revenues	-	23	23	-	-	-
Total revenues	28,818	26,493	(2,325)	-	-	-
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	33,716	10,196	(23,520)	-	-	-
Capital outlay	8,969	8,969	-	-	-	-
Total expenditures	42,685	19,165	(23,520)	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(13,867)	7,328	21,195	-	-	-
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(157)	(157)	-	-	-	-
Total other financing sources (uses)	(157)	(157)	-	-	-	-
Net change in fund balances	(14,024)	7,171	21,195	-	-	-
Fund balances - beginning		16,216			1	
Prior year encumbrances		7,530			-	
Fund balances - ending		$ 30,917			$ 1	

Community Development Block Grant (Funds 441, 304)			Economic Development Administration Loans (Fund 444)			Storm Drainage Service Use Charge (Funds 446, 469)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
8,591	9,536	945	6	8	2	-	-	-
-	-	-	-	-	-	32,026	32,211	185
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,913	153	(1,760)
-	-	-	-	-	-	-	111	111
8,591	9,536	945	6	8	2	33,939	32,475	(1,464)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
7,719	6,673	(1,046)	75	1	(74)	-	-	-
-	-	-	-	-	-	23,980	21,883	(2,097)
3,176	1,398	(1,778)	-	-	-	17,473	5,712	(11,761)
-	-	-	-	-	-	4,031	4,031	-
10,895	8,071	(2,824)	75	1	(74)	45,484	31,626	(13,858)
(2,304)	1,465	3,769	(69)	7	76	(11,545)	849	12,394
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(333)	(333)	-
-	-	-	-	-	-	(333)	(333)	-
(2,304)	1,465	3,769	(69)	7	76	(11,878)	516	12,394
	7,317			76			35,061	
	489			-			3,958	
	$ 9,271			$ 83			$ 39,535	

(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, 2014
($000's)

	Transient Occupancy Tax (Fund 461)			Lake Cunningham (Fund 462)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	$ 15,906	17,812	1,906	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	786	798	12
Rent	-	-	-	-	-	-
Investment income	-	16	16	2	6	4
Other revenues	-	83	83	-	-	-
Total revenues	15,906	17,911	2,005	788	804	16
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	10,765	8,752	(2,013)	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	1,224	586	(638)
Capital outlay	-	-	-	57	57	-
Total expenditures	10,765	8,752	(2,013)	1,281	643	(638)
Excess (deficiency) of revenues over (under) expenditures	5,141	9,159	4,018	(493)	161	654
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(8,460)	(8,460)	-	(226)	(226)	-
Total other financing sources (uses)	(8,460)	(8,460)	-	(226)	(226)	-
Net change in fund balances	(3,319)	699	4,018	$ (719)	(65)	654
Fund balances - beginning		4,729			1,140	
Prior year encumbrances		120			59	
Fund balances - ending		$ 5,548			$ 1,134	

Edward Byrne Memorial Justice (Funds 474,477)			Municipal Golf Courses (Fund 518)			Convention and Cultural Facilities (Funds 536, 481)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	229	229	-	-	-	-	-	-
-	-	-	556	477	(79)	-	2,534	2,534
-	-	-	-	-	-	28,245	25,959	(2,286)
-	-	-	-	3	3	-	8	8
-	-	-	-	37	37	-	79	79
-	229	229	556	517	(39)	28,245	28,580	335
-	-	-	-	-	-	-	-	-
450	229	(221)	-	-	-	-	-	-
-	-	-	-	-	-	32,032	31,003	(1,029)
-	-	-	-	-	-	-	-	-
-	-	-	603	534	(69)	5,255	4,234	(1,021)
-	-	-	-	-	-	11,925	11,925	-
450	229	(221)	603	534	(69)	49,212	47,162	(2,050)
(450)	-	450	(47)	(17)	30	(20,967)	(18,582)	2,385
-	-	-	2,000	2,000	-	18,460	18,460	-
-	-	-	(1,900)	(1,900)	-	(1,174)	(1,174)	-
-	-	-	100	100	-	17,286	17,286	-
(450)	-	450	53	83	30	(3,681)	(1,296)	2,385
	266			460			6,606	
	74			-			682	
	$ 340			$ 543			$ 5,992	

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Nonmajor Debt Service Funds

City of San José
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2014
($000's)

		GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
ASSETS				
Receivables (net of allowances for uncollectibles)	$	138	-	138
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		34,365	115	34,480
Total assets	$	34,503	115	34,618
FUND BALANCES				
Restricted for debt service		34,503	115	34,618
Total fund balances	$	34,503	115	34,618

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2014
($000's)

		GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
REVENUES				
Property taxes	$	39,510	-	39,510
Investment income		176	88	264
Total revenues		39,686	88	39,774
EXPENDITURES				
Debt service:				
Principal		19,645	-	19,645
Interest and fiscal charges		20,499	2	20,501
Total expenditures		40,144	2	40,146
Excess (deficiency) of revenues over(under) expenditures		(458)	86	(372)
OTHER FINANCING SOURCES (USES)				
Transfers in		-	9,130	9,130
Transfers out		-	(18,831)	(18,831)
Total other financing sources (uses)		-	(9,701)	(9,701)
Net change in fund balances		(458)	(9,615)	(10,073)
Fund balances - beginning		34,961	9,730	44,691
Fund balances - ending	$	34,503	115	34,618

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Nonmajor Capital Project Funds

City of San José
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2014
($000's)

		Capital Improvements (Funds 408, 424, 476)	Civic Center (Fund 425)	RDA Capital Projects (Fund 450)	Construction Excise Tax (Funds 309, 348,349,464 465,470,478-480)
ASSETS					
Equity in pooled cash and investments held in City Treasury	$	482	73	-	93,064
Receivables (net of allowance for uncollectibles)		1	-	-	4,684
Due from other funds		-	-	-	3,743
Advances and deposits		4	-	-	34
Restricted assets:					
Equity in pooled cash and investments held in City Treasury		-	-	-	106
Cash and investments held with fiscal agent		-	-	-	-
Total assets	$	487	73	-	101,631
LIABILITIES					
Accounts payable	$	33	56	-	560
Accrued salaries, wages and payroll taxes		-	-	-	234
Due to other funds		-	-	-	-
Total liabilities		33	56	-	794
FUND BALANCES					
Nonspendable		4	-	-	34
Restricted		450	17	-	56,940
Assigned		-	-	-	43,863
Total fund balances		454	17	-	100,837
Total liabilities and fund balances	$	487	73	-	101,631

	Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Neighborhood Security Bond Projects (Fund 475)	San José Financing Authority (Funds 858-859)	Total
	2,269	-	74	-	95,962
	2	-	-	-	4,687
	-	-	-	234	3,977
	-	-	-	-	38
	-	-	-	-	106
	29,234	14,298	5,880	49	49,461
	31,505	14,298	5,954	283	154,231
	80	157	4	-	890
	8	5	2	-	249
	-	3,743	-	-	3,743
	88	3,905	6	-	4,882
	-	-	-	-	38
	31,417	10,393	5,948	283	105,448
	-	-	-	-	43,863
	31,417	10,393	5,948	283	149,349
	31,505	14,298	5,954	283	154,231

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the Year Ended June 30, 2014
($000's)

	Capital Improvements (Funds 408, 424, 476)	Civic Center (Fund 425)	RDA Capital Projects (Fund 450)	Construction Excise Tax (Funds 309, 348,349,464 465,470,478-480)
REVENUES				
Taxes	$ -	-	-	29,250
Intergovernmental	-	-	-	24,119
Charges for current services	-	-	-	8,992
Investment income	4	1	-	592
Other revenues	33	-	-	3,911
Total revenues	37	1	-	66,864
EXPENDITURES				
Current:				
Capital maintenance	33	126	5	29,790
Capital outlay	-	-	-	3,245
Total expenditures	33	126	5	33,035
Excess (deficiency) of revenues over (under) expenditures	4	(125)	(5)	33,829
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(2)	-	-	(2,268)
Total other financing sources (uses)	(2)	-	-	(2,268)
Net change in fund balances	2	(125)	(5)	31,561
Fund balances - beginning	452	142	5	69,276
Fund balances - ending	$ 454	17	-	100,837

Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Neighborhood Security Bond Projects (Fund 475)	San José Financing Authority (Funds 858-859)	Total
-	-	-	-	29,250
-	-	-	-	24,119
-	-	-	-	8,992
91	34	16	1	739
-	10	-	-	3,954
91	44	16	1	67,054
-	-	39	-	29,993
1,487	1,860	938	-	7,530
1,487	1,860	977	-	37,523
(1,396)	(1,816)	(961)	1	29,531
-	587	615	-	1,202
-	(587)	(615)	(1,850)	(5,322)
-	-	-	(1,850)	(4,120)
(1,396)	(1,816)	(961)	(1,849)	25,411
32,813	12,209	6,909	2,132	123,938
31,417	10,393	5,948	283	149,349

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Internal Service Funds

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

City of San José
Combining Statement of Fund Net Position
Internal Service Funds
June 30, 2014
($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	$	4,992	11,453	5,867	22,312
Receivables (net of allowance for uncollectibles)		5	328	75	408
Inventories		-	-	1,081	1,081
Total current assets		4,997	11,781	7,023	23,801
Capital assets (net of accumulated depreciation):					
Depreciable		-	-	6,099	6,099
Total assets		4,997	11,781	13,122	29,900
LIABILITIES					
Current liabilities:					
Accounts payable		25	1,334	553	1,912
Accrued liabilities		198	169	136	503
Total current liabilities		223	1,503	689	2,415
Noncurrent liabilities:					
Accrued vacation, sick leave and compensatory time		2,359	45	727	3,131
Total liabilities		2,582	1,548	1,416	5,546
NET POSITION					
Net investment in capital assets		-	-	6,099	6,099
Restricted for capital projects and other agreements		56	19	2,609	2,684
Unrestricted		2,359	10,214	2,998	15,571
Total net position	$	2,415	10,233	11,706	24,354

City of San José
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2014
($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	$ 14,970	77,407	21,093	113,470
OPERATING EXPENSES				
Operations and maintenance	13,382	81,795	19,805	114,982
Depreciation and amortization	-	-	2,650	2,650
Total operating expenses	13,382	81,795	22,455	117,632
Operating income (loss)	1,588	(4,388)	(1,362)	(4,162)
NONOPERATING REVENUES (EXPENSES)				
Investment income	23	137	78	238
Loss on disposal of capital assets	-	-	(11)	(11)
Net nonoperating revenues	23	137	67	227
Income (loss) before transfers	1,611	(4,251)	(1,295)	(3,935)
Capital contributions	-	-	41	41
Transfers in	-	-	800	800
Transfers out	-	(59)	(221)	(280)
Changes in net position	1,611	(4,310)	(675)	(3,374)
Net position - beginning	804	14,543	12,381	27,728
Net position - ending	$ 2,415	10,233	11,706	24,354

City of San José
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014
($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	$	14,968	77,323	21,077	113,368
Cash payment to suppliers of goods and services		(1,875)	(78,474)	(10,972)	(91,321)
Cash payment to employees for services		(11,231)	(2,277)	(6,601)	(20,109)
Net cash provided by (used in) operating activities		1,862	(3,428)	3,504	1,938
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer from other funds		-	-	800	800
Transfer to other funds		-	(59)	(221)	(280)
Net cash provided by (used in) noncapital financing activities		-	(59)	579	520
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets		-	-	(2,566)	(2,566)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income on investments		23	137	78	238
Net change in cash and cash equivalents		1,885	(3,350)	1,595	130
Cash and cash equivalents - beginning		3,107	14,803	4,272	22,182
Cash and cash equivalents - ending	$	4,992	11,453	5,867	22,312
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	**$**	1,588	(4,388)	(1,362)	(4,162)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization		-	-	2,650	2,650
Decrease (increase) in:					
Accounts receivable		(2)	(83)	(16)	(101)
Inventories		-	-	2,603	2,603
Increase (decrease) in:					
Accounts payable and accrued liabilities		48	1,029	(509)	568
Accrued vacation, sick leave and compensatory time		228	14	138	380
Total adjustments		274	960	4,866	6,100
Net cash provided by (used in) operating activities	$	1,862	(3,428)	3,504	1,938
Noncash noncapital, capital and related financing, and investing activities:					
Loss on disposal of capital assets	$	-	-	(11)	(11)
Capital contributions from other funds	$	-	-	41	41

Trust and Agency Funds

City of San José
Combining Statement of Pension Net Position
Pension Trust Funds
June 30, 2014
($000's)

ASSETS		**Federated City Employees' Retirement System**	**Police and Fire Plan**	**Total**
Investments, excluding securities lending collateral	$	2,179,502	3,258,533	5,438,035
Securities lending cash collateral investment pool		-	51,155	51,155
Receivables (net of allowance for uncollectibles):				
Accrued investment income		2,404	3,706	6,110
Employee contributions		2,078	851	2,929
Employer contributions		1,514	3,979	5,493
Brokers and others		998	2,708	3,706
Total assets		2,186,496	3,320,932	5,507,428
LIABILITIES				
Due to brokers		3,013	2,026	5,039
Securities lending collateral, due to borrowers		-	51,670	51,670
Other liabilities		1,203	1,421	2,624
Total liabilities		4,216	55,117	59,333
NET POSITION HELD IN TRUST FUND FOR:				
Employees' pension benefits		1,987,237	3,168,173	5,155,410
Employees' postemployment healthcare benefits		195,043	97,642	292,685
Net position held in trust for pension and postemployment healthcare benefits	$	2,182,280	3,265,815	5,448,095

City of San José
Combining Statement of Changes in Pension Net Position
Pension Trust Funds
For the Year Ended June 30, 2014
($000's)

	Federated City Employees' Retirement System	Police and Fire Plan	Total
ADDITIONS			
Investment income:			
Interest	$ 18,092	40,593	58,685
Dividends	13,627	32,603	46,230
Net rental income	-	3,821	3,821
Net appreciation in fair value of plan investments	271,105	353,917	625,022
Investment expenses	(10,399)	(14,012)	(24,411)
Securities lending activities:			
Securities lending income	-	878	878
Securities lending rebates and expenses	-	(227)	(227)
Contributions:			
Employer	126,842	140,850	267,692
Employees	31,090	36,789	67,879
Total additions	450,357	595,212	1,045,569
DEDUCTIONS			
General and administrative	3,458	3,734	7,192
Health insurance premiums	27,924	22,510	50,434
Refund of contributions	2,170	1,024	3,194
Retirement and other benefits:			
Death benefits	9,845	8,738	18,583
Retirement benefits	143,921	157,635	301,556
Total deductions	187,318	193,641	380,959
Change in net position	263,039	401,571	664,610
Net position held in trust for pension and postemployment healthcare benefits			
Beginning of year	1,919,241	2,864,244	4,783,485
End of year	$ 2,182,280	3,265,815	5,448,095

City of San José
Combining Statement of Defined Benefit
and Postemployment Healthcare Plan Net Position
Federated City Employees' Retirement System
June 30, 2014
($000's)

		Defined Benefit Pension Plan		Postemployment Healthcare Plan		
		Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust	Total
ASSETS						
Investments at fair value:						
Investments	$	1,437,683	548,246	109,607	83,966	2,179,502
Receivables (net of allowance for uncollectibles):						
Accrued investment income		1,715	557	132	-	2,404
Employee contributions		1,618	69	-	391	2,078
Employer contributions		-	1,040	-	474	1,514
Brokers and others		228	65	705	-	998
Total assets		1,441,244	549,977	110,444	84,831	2,186,496
LIABILITIES						
Due to brokers		2,165	682	166	-	3,013
Other liabilities		823	314	63	3	1,203
Total liabilities		2,988	996	229	3	4,216
NET POSITION HELD IN TRUST FOR:						
Employees' pension benefits		1,438,256	548,981	-	-	1,987,237
Employees' postemployment healthcare benefits		-	-	110,215	84,828	195,043
Net position held in trust for pension and postemployment healthcare benefits	$	1,438,256	548,981	110,215	84,828	2,182,280

City of San José
Combining Statement of Defined Benefit and Postemployment Healthcare
Changes in Plan Net Position
Federated City Employees' Retirement System
For the Year Ended June 30, 2014
($000's)

		Defined Benefit Pension Plan		Postemployment Healthcare Plan		
		Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust	Total
ADDITIONS						
Investment income:						
Interest	$	12,531	4,532	1,029	-	18,092
Dividends		8,119	2,935	666	1,907	13,627
Net appreciation in fair value of plan investments		180,475	64,863	14,815	10,952	271,105
Investment expenses		(7,191)	(2,576)	(590)	(42)	(10,399)
Contributions:						
Employer		62,960	44,584	-	19,298	126,842
Employees		10,574	3,022	8,482	9,012	31,090
Total additions		267,468	117,360	24,402	41,127	450,357
DEDUCTIONS						
General and administrative		2,432	769	200	57	3,458
Health insurance premiums		-	-	27,924	-	27,924
Refund of contributions		1,853	317	-	-	2,170
Retirement and other benefits:						
Death benefits		5,891	3,954	-	-	9,845
Retirement benefits		111,395	32,526	-	-	143,921
Total deductions		121,571	37,566	28,124	57	187,318
Change in net position		145,897	79,794	(3,722)	41,070	263,039
Net position held in trust for pension and postemployment healthcare benefits						
Beginning of year		1,292,359	469,187	113,937	43,758	1,919,241
End of year	$	1,438,256	548,981	110,215	84,828	2,182,280

City of San José
Combining Statement of
Defined Benefit and Postemployment Healthcare Plan Net Position
Police and Fire Department Retirement Plan
June 30, 2014
($000's)

		Defined Benefit Pension Plan		Postemployment Healthcare Plan			
		Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust - Police	IRS Code Section 115 Trust - Fire	Total
ASSETS							
Investments at fair value:							
Investments, excluding securities lending collateral	$	2,033,813	1,128,828	57,865	26,239	11,788	3,258,533
Securities lending cash collateral investment pool		32,302	17,920	933	-	-	51,155
Receivables (net of allowance for uncollectibles):							
Accrued investment income		2,618	1,012	76	-	-	3,706
Employee contributions		336	152	363	-	-	851
Employer contributions		1,936	1,541		326	176	3,979
Brokers and others		2,242	(444)	910	-	-	2,708
Total assets		2,073,247	1,149,009	60,147	26,565	11,964	3,320,932
LIABILITIES							
Due to brokers		2,427	(471)	70	-	-	2,026
Securities lending collateral, due to borrowers		32,627	18,101	942	-	-	51,670
Other liabilities		875	524	25	(4)	1	1,421
Total liabilities		35,929	18,154	1,037	(4)	1	55,117
NET POSITION HELD IN TRUST FOR:							
Employees' pension benefits		2,037,318	1,130,855	-	-	-	3,168,173
Employees' postemployment healthcare benefits		-	-	59,110	26,569	11,963	97,642
Net position held in trust for pension and postemployment healthcare benefits	$	2,037,318	1,130,855	59,110	26,569	11,963	3,265,815

City of San José
Combining Statement of Defined Benefit and Postemployment Healthcare
Changes in Plan Net Position
Police and Fire Department Retirement Plan
For the Year Ended June 30, 2014
($000's)

	Defined Benefit Pension Plan		**Postemployment Healthcare Plan**			
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust - Police	IRS Code Section 115 Trust - Fire	Total
ADDITIONS						
Investment income:						
Interest	$ 25,670	14,143	780	-	-	40,593
Dividends	20,087	11,050	611	590	265	32,603
Net rental income	2,415	1,333	73	-	-	3,821
Net appreciation in fair value of plan investments	221,604	121,748	6,734	2,643	1,188	353,917
Investment expenses	(8,848)	(4,862)	(269)	(23)	(10)	(14,012)
Securities lending activities:						
Securities lending income	561	300	17	-	-	878
Securities lending rebates and expenses	(144)	(79)	(4)	-	-	(227)
Contributions:						
Employer	69,920	53,663	-	11,712	5,555	140,850
Employees	14,468	6,647	15,674	-	-	36,789
Total additions	345,733	203,943	23,616	14,922	6,998	595,212
DEDUCTIONS						
General and administrative	2,400	1,231	73	15	15	3,734
Health insurance premiums	-	-	22,510	-	-	22,510
Refund of contributions	814	210	-	-	-	1,024
Retirement and other benefits:						
Death benefits	4,983	3,755	-	-	-	8,738
Retirement benefits	118,338	39,297	-	-	-	157,635
Total deductions	126,535	44,493	22,583	15	15	193,641
Change in net position	219,198	159,450	1,033	14,907	6,983	401,571
Net position held in trust for pension and postemployment healthcare benefits						
Beginning of year	1,818,120	971,405	58,077	11,662	4,980	2,864,244
End of year	$ 2,037,318	1,130,855	59,110	26,569	11,963	3,265,815

City of San José
Combining Statement of Fiduciary Net Position
Private Purpose Trust Funds
June 30, 2014
($000's)

	James Lick	Successor Agency to the Redevelopment Agency	Total
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	$ 431	-	431
Cash and investments	-	32,837	32,837
Receivables (net of allowance for uncollectibles):			
Due from the City of San José	-	271	271
Other	-	536	536
Restricted cash and investments	-	140,274	140,274
Total current assets	431	173,918	174,349
Noncurrent assets:			
Advances to the City of San José	-	472	472
Accrued interest	-	5,743	5,743
Loans receivable, net	-	24,632	24,632
Deposits	-	155	155
Property held for resale	-	22,474	22,474
Capital assets:			
Nondepreciable	-	87,840	87,840
Depreciable, net	-	148,276	148,276
Total noncurrent assets	-	289,592	289,592
Total assets	431	463,510	463,941
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	-	33,298	33,298
LIABILITIES			
Current liabilities:			
Accrued interest payable	-	39,043	39,043
Pass-through payable to the County of Santa Clara	-	51,545	51,545
Unearned revenue	-	61	61
Other liabilities	-	4,667	4,667
Total current liabilties	-	95,316	95,316
Long-term liabilities:			
Due within one year	-	195,835	195,835
Due in more than one year	-	2,085,298	2,085,298
Total noncurrent liabilities	-	2,281,133	2,281,133
Total liabilities	-	2,376,449	2,376,449
NET POSITION (DEFICIT)			
Held in trust for:			
Redevelopment dissolution and other purposes	431	(1,879,641)	(1,879,210)
Total net position (deficit)	$ 431	(1,879,641)	(1,879,210)

City of San José
Combining Statement of Changes in Fiduciary Net Position
Private Purpose Trust Funds
For the Year Ended June 30, 2014
($000's)

		James Lick	Successor Agency to the Redevelopment Agency	Total
ADDITIONS				
Redevelopment property tax revenues	$	-	184,819	184,819
Investment earnings		79	739	818
Net rental income		-	615	615
Other		-	3,686	3,686
Total additions		79	189,859	189,938
DEDUCTIONS				
General and administrative		-	5,562	5,562
Project expenses		-	2,727	2,727
Pass through amounts to the County of Santa Clara		-	19,752	19,752
Depreciation		-	5,680	5,680
Interest on debt		-	98,477	98,477
Total deductions		-	132,198	132,198
Change in net position		79	57,661	57,740
NET POSITION HELD IN TRUST				
Beginning of year		352	(1,937,302)	(1,936,950)
End of year	$	431	(1,879,641)	(1,879,210)

City of San José
Statement of Changes in Assets and Liabilities
Agency Fund
For The Year Ended June 30, 2014
($000's)

Arena Capital Reserve (Fund 459)		Beginning Balance	Additions	Deletions	Ending Balance
ASSETS					
Equity in pooled cash and investments held in City Treasury	$	2,026	821	2,056	791
Receivables:					
Accrued interest		2	2	2	2
Total assets		2,028	823	2,058	793
LIABILITIES					
Other liabilities		2,028	816	2,051	793
Total liabilities	$	2,028	816	2,051	793

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, transfers of assets and long-term debt of the former Agency to SARA affected the ratios of outstanding debt for the governmental activities in Schedules IX and X.

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

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 POSITION (NET ASSETS) BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
($000's)

SCHEDULE I

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013 [3]	2014
Governmental activities										
Net investment in capital assets	$ 5,755,755	$ 5,402,375	$ 5,193,578	$ 4,769,191	$ 4,400,552	$ 4,201,672	$ 3,810,801	$ 5,350,666	$ 5,012,359	$ 4,769,632
Restricted	380,102	735,931	501,391	662,863	654,124	527,931	622,241	939,509	864,808	889,631
Unrestricted	181,646	(107,947)	79,524	95,863	32,914	(53,494)	(129,419)	(197,298)	(217,340)	(206,396)
Total governmental activities net position (net assets)	$ 6,317,503	$ 6,030,359	$ 5,774,493	$ 5,527,917	$ 5,087,590	$ 4,676,109	$ 4,303,623	$ 6,092,877	$ 5,659,827	$ 5,452,867
Business-type activities										
Net investment in capital assets	$ 672,893	$ 689,045	$ 750,334	$ 823,223	$ 885,744	$ 926,638	$ 889,674	$ 859,392	$ 817,594	$ 779,015
Restricted	178,548	187,370	158,992	160,153	103,694 [1]	120,510	122,534	128,361	124,753	125,345
Unrestricted	335,016	350,079	339,562	281,494	339,254	307,209	332,633	329,047	359,035	406,663
Total business-type activities net position (net assets)	$ 1,186,457	$ 1,226,494	$ 1,248,888	$ 1,264,870	$ 1,328,692	$ 1,354,357	$ 1,344,841	$ 1,316,800	$ 1,301,382	$ 1,311,023
Primary government										
Net investment in capital assets	$ 6,428,648	$ 6,091,420	$ 5,943,912	$ 5,592,414	$ 5,286,296	$ 5,128,310	$ 4,700,475	$ 6,210,058 [2]	$ 5,829,953	$ 5,548,647
Restricted	558,650	923,301	660,383	823,016	757,818	648,441	744,775	1,067,870	989,561	1,014,976
Unrestricted	516,662	242,132	419,086	377,357	372,168	253,715	203,214	131,749	141,695	200,267
Total primary government net position (net assets)	$ 7,503,960	$ 7,256,853	$ 7,023,381	$ 6,792,787	$ 6,416,282	$ 6,030,466	$ 5,648,464	$ 7,409,677	$ 6,961,209	$ 6,763,890

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 net investment in capital assets as of June 30, 2012, was primarily due to long-term obligations of the former Agency totaling $2.313 billion that were transferred to SARA

(3) Due to the GASB 65 implementation during the year ended June 30, 2013, net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as of June 30, 2013. Prior to July 1, 2012, net assets represent the difference between assets and liabilities. The City did not retroactively restate the net position related to the implementation of GASB 65.

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

	2005	2006	2007	2008	2009	2010	2011	2012 (1)	2013	2014
Expenses										
Governmental activities:										
General government	$ 108,070	$ 180,633	$ 120,362	$ 142,886	$ 172,077	$ 137,159	$ 148,515	$ 111,996	$ 133,330	$ 119,299
Public safety	326,029	351,331	393,449	476,570	463,196	457,892	487,659	490,442	489,572	493,544
Community services	210,936	220,719	276,343	211,511	276,396	260,835	254,481	247,518	214,770	207,967
Sanitation	89,159	91,353	99,720	113,525	122,705	130,343	129,138	135,543	160,860	146,058
Capital maintenance	502,586	514,025	528,727	569,636	595,547	588,382	515,909	473,674	475,995	484,260
Interest and fiscal charges	136,955	144,444	154,135	170,852	166,672	161,734	163,280	123,696	64,467	60,852
Total governmental activities expenses	1,373,735	1,502,505	1,572,736	1,684,980	1,796,593	1,736,345	1,698,982	1,582,869	1,538,994	1,511,980
Business-type activities:										
Norman Y. Mineta San José										
International Airport	122,882	125,770	139,623	153,927	140,641	171,976	195,867	200,380	199,681	199,987
Wastewater Treatment System	111,026	108,510	111,435	134,882	126,788	140,831	147,283	149,980	147,994	169,622
Municipal Water System	18,328	19,896	22,618	26,017	25,416	24,355	24,600	29,260	31,523	33,187
Parking System	8,652	10,058	9,787	10,127	11,800	11,579	9,630	9,290	10,231	10,751
Total business-type activities expenses	260,888	264,234	283,463	324,953	304,645	348,741	377,380	388,910	389,429	413,547
Total primary government expenses	$ 1,634,623	$ 1,766,739	$ 1,856,199	$ 2,009,933	$ 2,101,238	$ 2,085,086	$ 2,076,362	$ 1,971,779	$ 1,928,423	$ 1,925,527
Program Revenues										
Governmental activities:										
Charges for services:										
General government	34,550	51,449	56,125	32,585	30,906	29,986	25,716	24,732	49,213	41,168
Public safety	21,411	18,377	21,776	45,845	39,254	20,343	21,454	22,099	21,868	19,228
Community services	67,276	78,736	73,671	88,050	66,090	75,208	85,971	90,252	109,291	116,522
Sanitation	86,166	86,957	95,548	121,793	125,198	135,099	137,677	151,644	148,270	151,056
Capital maintenance	27,365	28,998	26,559	37,580	36,340	31,072	46,040	52,205	70,519	40,024
Operating grants and contributions	63,909	76,004	93,090	94,357	115,965	110,926	100,045	123,829	108,858	103,844
Capital grants and contributions	48,715	60,337	68,835	48,075	26,306	49,926	33,041	22,749	36,365	29,873
Total governmental program revenues	349,392	400,858	435,604	468,285	440,059	452,560	449,944	487,510	544,384	501,715
Business-type activities:										
Charges for services										
Norman Y. Mineta San José										
International Airport	112,273	117,983	118,978	138,532	138,999	130,030	145,895	154,713	154,246	159,978
Wastewater Treatment System	113,850	109,587	113,772	129,568	151,516	158,256	167,721	167,783	171,689	195,891
Municipal Water System	19,149	20,284	22,399	24,154	25,807	24,732	26,010	28,542	32,371	35,427
Parking System	9,473	9,756	9,777	11,226	11,052	10,458	9,541	11,585	12,093	13,621
Operating grants and contributions	5,570	8,398	8,284	8,444	9,326	1,149	701	670	565	1,651
Capital grants and contributions	21,584	32,956	17,927	9,162	18,618	46,237	19,413	10,899	16,246	14,507
Total business-type activities program revenues	281,899	298,964	291,137	321,086	355,318	370,862	369,281	374,192	387,210	421,075
Total primary government revenues	$ 631,291	$ 699,822	$ 726,741	$ 789,371	$ 795,377	$ 823,422	$ 819,225	$ 861,702	$ 931,594	$ 922,790

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

SCHEDULE II
(Concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net (Expenses) Revenues										
Governmental activities	$ (1,024,343)	$ (1,101,647)	$ (1,137,132)	$ (1,216,695)	$ (1,356,534)	$ (1,283,785)	$ (1,249,038)	$ (1,095,359)	$ (994,610)	$ (1,010,265)
Business-type activities	21,011	34,730	7,674	(3,867)	50,673	22,121	(8,099)	(14,718)	(2,219)	7,528
Total primary government	(1,003,332)	(1,066,917)	(1,129,458)	(1,220,562)	(1,305,861)	(1,261,664)	(1,257,137)	(1,110,077)	(996,829)	(1,002,737)
General Revenues and Other Changes in Net Position (Net Assets)										
Governmental activities:										
Taxes:										
Property and other taxes	398,541	430,426	467,917	495,731	507,273	498,973	481,145	404,877	329,591	368,233
Utility	73,081	75,489	79,129	82,255	93,619	108,151	108,528	110,912	111,750	114,486
Franchise	33,722	36,760	40,415	41,064	41,067	38,410	41,273	41,709	43,741	45,749
Transient occupancy	15,957	19,214	21,400	23,900	19,261	17,250	18,102	22,451	25,258	29,685
Business license	36,936	37,236	39,502	39,901	38,597	34,952	37,963	41,134	45,140	45,500
Sales taxes shared revenues	128,822	136,031	145,340	149,500	127,802	123,312	137,970	154,026	163,751	173,412
State of California in-lieu	20,850	5,817	5,911	9,244	8,839	7,169	4,889	2,611	524	434
Unrestricted interest and investment earnings	17,594	23,682	39,359	65,721	34,092	5,010	8,142	6,950	2,019	5,060
Other revenue	44,343	42,076	35,875	53,420	40,372	35,786	33,237	21,207	20,678	18,278
Transfers	6,711	7,772	6,418	9,383	5,285	3,291	5,303	3,357	829	2,468
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-	-	-	-	2,075,379	(167,244)	-
Total governmental activities	776,557	814,503	881,266	970,119	916,207	872,304	876,552	2,884,613	576,037	803,305
Business-type activities										
Unrestricted interest and investment earnings	11,503	13,079	21,138	29,232	18,434	1,192	3,886	3,562	(1,612)	4,581
Transfers	(6,711)	(7,772)	(6,418)	(9,383)	(5,285)	(3,291)	(5,303)	(3,357)	(829)	(2,468)
Extraordinary loss on dissolution of RDA	-	-	-	-	-	-	-	(13,528)	-	-
Total business-type activities	4,792	5,307	14,720	19,849	13,149	(2,099)	(1,417)	(13,323)	(2,441)	2,113
Total primary government	$ 781,349	$ 819,810	$ 895,986	$ 989,968	$ 929,356	$ 870,205	$ 875,135	$ 2,871,290	$ 573,596	$ 805,418
Change In Net Position (Net Assets)										
Governmental activities	$ (247,786)	$ (287,144)	$ (255,866)	$ (246,576)	$ (440,327)	$ (411,481)	$ (372,486)	$ 1,789,254	$ (418,573)	$ (206,960)
Business-type activities	25,803	40,037	22,394	15,982	63,822	20,022	(9,516)	(28,041)	(4,660)	9,641
Total primary government	$ (221,983)	$ (247,107)	$ (233,472)	$ (230,594)	$ (376,505)	$ (391,459)	$ (382,002)	$ 1,761,213	$ (423,233)	$ (197,319)

Note: (1) The amounts have not been retroactively restated prior to FY 2013 for the effect of GASB 65 implementation.

SCHEDULE III

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

Data prior to GASB 54 implementation:

	Fisal Year					
	2005	2006	2007	2008	2009	2010
General Fund						
Reserved	$ 29,514	$ 33,267	$ 35,708	$ 48,511	$ 32,400	$ 27,269
Unreserved	162,517	203,703	244,889	228,622	178,793	143,618
Total General Fund	$ 192,031	$ 236,970	$ 280,597	$ 277,133	$ 211,193	$ 170,887
Other Governmental Funds						
Reserved	$ 633,171	$ 573,567	$ 539,761	$ 695,408	$ 704,866	$ 711,231
Unreserved, reported in:						
Special revenue funds	248,863	268,344	285,532	299,078	314,128	280,031
Debt service funds	-	(15,109)	(31,493)	(31,067)	-	(1,373)
Capital project funds	301,019	293,622	307,713	263,207	185,549	38,384
Total Other Governmental Funds	$ 1,183,053	$ 1,120,424	$ 1,101,513	$ 1,226,626	$ 1,204,543	$ 1,028,273

Data incorporating GASB 54 implementation (1):

	Fiscal Year				
	2010(2)	2011	2012	2013	2014
General Fund					
Nonspendable	$ 13	$ 13	$ 13	$ 13	$ 219
Restricted	489	397	392	330	19,629
Committed	55,414	51,587	63,014	89,114	121,991
Assigned	70,527	69,852	70,236	73,237	111,587
Unassigned	44,443	44,772	49,373	64,200	50,638
Total General Fund	$ 170,887	$ 166,621	$ 183,028	$ 226,894	$ 304,064
Other Governmental Funds					
Nonspendable	$ 1,149	$ 1,111	$ 20,508	$ 898	$ 77
Restricted	953,322	1,007,431	921,164	851,869	876,041
Committed	30,450	41,774	28,928	29,110	31,779
Assigned	29,397	31,714	32,673	48,229	59,243
Unassigned	(642)	(222)	(172)	-	-
Total Other Governmental Funds	$ 1,013,676	$ 1,081,808	$ 1,003,101	$ 930,106	$ 967,140

Note: The City made are some changes 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 six years of data prior to GASB 54 implementation, and five 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.

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
REVENUES										
Taxes and special assessments	$ 686,088	$ 730,905	$ 788,690	$ 827,531	$ 808,152	$ 806,979	$ 805,034	$ 792,365	$ 736,466	$ 795,550
Licenses, permits, and fines	86,518	90,351	88,611	89,656	84,274	81,983	93,471	62,197	61,137	66,826
Intergovernmental	81,352	80,003	92,051	96,930	120,460	101,527	113,669	112,169	106,091	96,396
Charges for current services	225,397	250,975	265,381	296,281	322,002	308,164	206,328	227,522	248,636	236,865
Rent	8,211	9,836	10,326	13,789	12,740	19,676	21,092	20,970	24,020	28,683
Investment income and other revenues	97,499	106,571	140,631	169,506	106,979	73,729	75,270	73,081	110,720	99,216
Total revenues	1,185,065	1,268,641	1,385,690	1,493,693	1,454,607	1,392,058	1,314,864	1,288,304	1,287,070	1,323,536
EXPENDITURES										
General government	198,319	212,964	227,255	238,747	259,699	235,571	112,809 (2)	88,385	100,483	90,395
Public safety	334,169	343,576	370,575	418,869	420,483	428,594	434,260	445,790	440,231	464,672
Community services	194,509	203,273	254,525	191,541	249,624	233,355	222,950	214,719	183,193	178,189
Sanitation	89,368	91,908	99,746	111,965	123,477	130,114	128,309	133,908	160,881	142,766
Other expenditures	-	-	-	-	-					
Capital maintenance	178,262	210,032	233,910	248,203	282,230	279,396	214,305	160,346	165,377	169,689
Capital outlay	289,985	203,573	130,669	171,575	173,434	126,137	49,679	53,038	106,387	73,037
Debt service:										
Principal	50,752	63,567	67,487	71,621	88,738	152,239	107,829	110,578	51,042	51,085
Interest and fiscal charges	138,253	145,698	150,600	167,837	164,785	162,790	164,439	116,338	64,287	62,954
Bond issuance costs	6,822	6,676	20,664	4,718	2,926	1,068	1,839	-	1,762	-
Payment to refunded bond escrow agent	2,022	9,282	14,974	12,992	3,143	-	-	-	31,985	-
Total expenditures	1,482,461	1,490,549	1,570,405	1,638,068	1,768,539	1,749,264	1,436,419	1,323,102	1,305,628	1,232,787
Excess (deficiency) of revenues over (under) expenditures	(297,396)	(221,908)	(184,715)	(144,375)	(313,932)	(357,206)	(121,555)	(34,798)	(18,558)	90,749
OTHER FINANCING SOURCES (USES)										
Bonds issued	245,025	151,320	171,300	246,030	162,875	160,405	138,410	-	-	-
Proceeds from capital lease financing	-	-	-	-	-	-	-	-	-	19,286
Refunding bonds issued	195,870	277,520	737,740	125,500	88,380	-	-	-	335,980	-
Premium / (discount) on bonds	3,127	20,477	30,124	1,645	(1,072)	22	(2,650)	-	45,506	-
Payment to refunded bond escrow agent	(126,899)	(289,673)	(745,137)	(116,908)	(84,982)	(56,735)	-	-	(348,750)	-
Reclassification of debt	19,427	25,094	-	374	44,700	-	23,562	(88,600)	-	-
Proceeds from sale of capital assets	4,482	11,449	8,491	-	8,365	33,647	20,577	12,237	6,198	2,221
Transfers in	192,968	231,092	221,671	239,207	265,681	310,277	206,745	476,238	83,670	104,097
Transfers out	(186,916)	(223,061)	(214,758)	(229,824)	(258,038)	(306,986)	(201,223)	(472,172)	(83,036)	(102,149)
Total other financing sources (uses)	347,084	204,218	209,431	266,024	225,909	140,630	185,421	(72,297)	39,568	23,455
Extraordinary gain (loss) from dissolution of RDA	-	-	-	-	-	-	-	44,795	(50,139)	-
Net change in fund balances	$ 49,688	$ (17,690)	$ 24,716	$ 121,649	$ (88,023)	$ (216,576)	$ 63,866	$ (62,300)	$ (29,129)	$ 114,204
Debt service as a percentage of noncapital[(1)] expenditures	16.02%	16.98%	16.19%	17.21%	16.09%	19.41%	19.63%	17.87%	12.28%	9.83%

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, the City converted Public Works Program Support Fund (Fund 150), Employee Benefits Fund (Funds 155-161), and Stores Vehicle Maintenance and Operations Fund (Funds 551-553) 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)

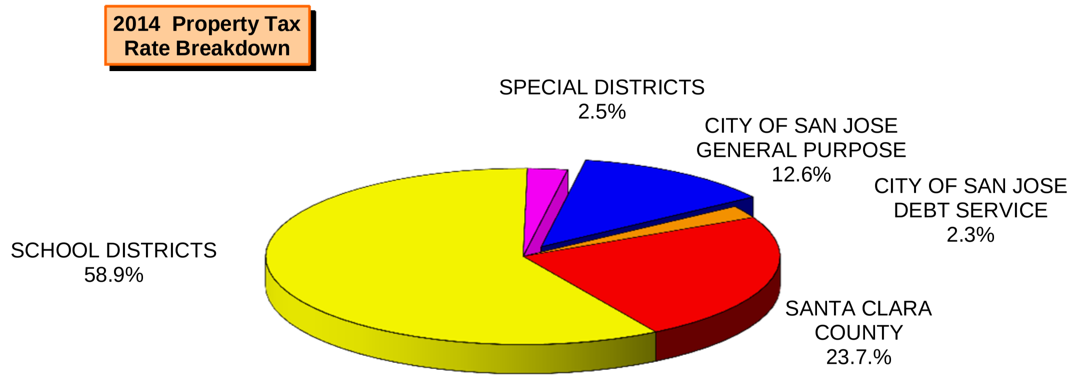
	City				Former Agency / SARA				
Fiscal Year	Secured	Unsecured	Less: Exemptions	Net Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Net Taxable Assessed Value	Total Direct Rate
2005	$ 76,286,940	$ 3,979,113	$ 2,733,404	$ 77,532,649	$ 11,197,792	$ 3,843,039	$ 0	$ 15,040,831	0.182
2006	84,455,121	3,800,649	3,020,934	85,234,836	11,211,222	3,822,707	0	15,033,929	0.185
2007	92,922,334	3,908,432	3,214,283	93,616,483	12,116,350	3,975,452	0	16,091,802	0.189
2008	100,183,489	4,397,235	3,487,434	101,093,290	13,948,249	4,104,730	0	18,052,979	0.188
2009	104,823,540	4,686,153	3,682,139	105,827,554	15,256,509	4,253,680	0	19,510,189	0.189
2010	102,272,875	4,826,605	4,081,360	103,018,120	15,888,334	4,115,097	0	20,003,431	0.191
2011	100,551,658	4,317,806	4,180,818	100,688,646	14,633,045	3,861,489	0	18,494,534	0.189
2012	101,709,647	4,526,059	4,249,198	101,986,508	13,987,097	4,215,662	0	18,202,759	0.188
2013	102,910,953	4,740,429	4,452,573	103,198,809	14,920,273	3,674,268	0	18,594,541	0.184
2014	111,660,402	4,584,810	4,561,937	111,683,275	16,739,547	4,027,543	0	20,767,090	0.184

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: Department of Finance, County of Santa Clara

SCHEDULE VI

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



Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
City of San José:										
General purpose	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156
Debt service	0.026	0.029	0.033	0.032	0.033	0.035	0.033	0.032	0.028	0.028
Total Direct Rate	0.182	0.185	0.189	0.188	0.189	0.191	0.189	0.188	0.184	0.184
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	0.656	0.669	0.670	0.628	0.684	0.699	0.694	0.699	0.726	0.726
Special districts	0.039	0.031	0.031	0.030	0.031	0.031	0.030	0.030	0.031	0.031
Total direct and overlapping rates	1.169	1.177	1.182	1.138	1.196	1.213	1.205	1.209	1.233	1.233

Note:

1. The above tax rates are applied per $100 of assessed valuation.
2. 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: Department of Finance, County of Santa Clara

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

2014			2005		
Taxpayer	Taxable Assessed Value	Percent of Total City Taxable Assessed Value		Taxable Assessed Value	Percent of Total City Taxable Assessed Value
The Irvine Company LLC	$ 1,290,220	0.97%	Cisco Systems, Inc.	$ 629,418	0.68%
Cisco Systems, Inc.	1,133,232	0.86%	Hitachi Global Storage Techs Inc	573,472	0.62%
Blackhawk Parent LLC	755,279	0.57%	Sobrato Development	450,532	0.49%
VF Mall LLC	510,903	0.39%	VF Mall LLC	436,467	0.47%
Sobrato Interests	488,372	0.37%	Spieker Properties	374,813	0.40%
FRIT San Jose Town & Country Village LLC	433,452	0.33%	Irvine Community Development Co.	295,897	0.32%
Hitachi Global Storage Techs Inc	398,812	0.30%	San Jose Water Works	271,554	0.29%
Ebay Inc.	368,478	0.28%	Carramerica Realty Corp.	255,062	0.28%
San Jose Water Works	359,803	0.27%	Bay Area Apartment Communities Inc.	250,043	0.27%
M West Propco	358,407	0.27%	Mission West Properties LP	249,370	0.27%
Total assessed property valuation, local secured net	$ 6,096,958	4.61%		$ 3,786,628	4.09%
Total City of San José net assessed property valuation (including the former Redevelopment Agency):					
FY 2004-2005				$ 92,573,480	
FY 2013-2014	$ 132,450,365				

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

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

Fiscal Year	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy: Amount	Collected within the Fiscal Year of Levy: Percent of Levy	Collections in Subsequent Years	Total Collections to Date: Amount	Total Collections to Date: Percent of Levy
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	127,418	100.0
2012	129,822	129,822	100.0	0	129,822	100.0
2013	133,522	133,522	100.0	0	133,522	100.0
2014	146,783	146,783	100.0	0	146,783	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 ar
adjusted to reflect actual tax collections.

Source: 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)

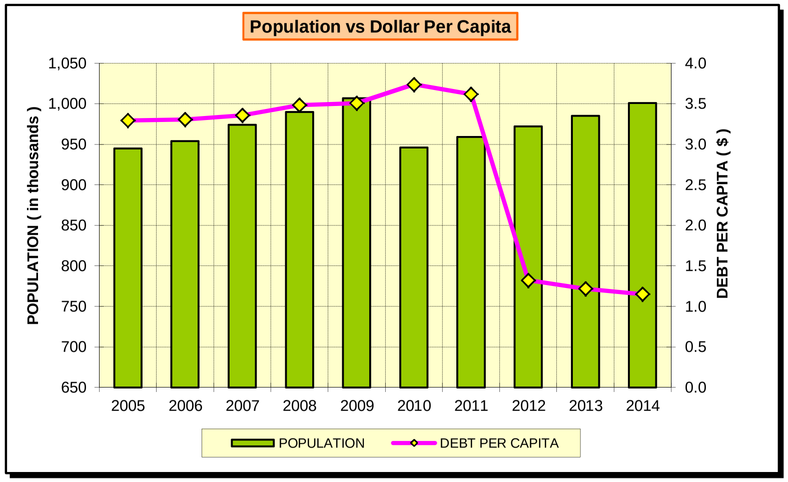
Fiscal Year	Governmental Activities: General Obligation Bonds	Tax Allocation Bonds	Notes & Loans	Lease Revenue Bonds	Special Assessment Bonds	Revenue Bonds	Total Governmental Activities
2005	$ 337,240	$ 1,782,775	$ 23,347	$ 655,235	$ 79,434	$ 339,595	$ 3,217,626
2006	432,445	1,745,275	92,786	646,070	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)	1,465,486
2013	441,025	0	14,706	604,155	156,545	153,305	1,369,736
2014	421,380	0	14,706	588,235	152,335	141,995	1,318,651

Fiscal Year	Business-type Activities: 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
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
2013	1,406,955	43,185	22,769	1,472,909	2,842,645	2.33%	2.89
2014	1,384,680	37,865	18,720	1,441,265	2,759,916	2.08%	2.76

(1) As of February 1, 2012, all bonds associated with the former Redevelopment Agency of the City of San Jose ("Agency") were transferred to the Successor Agency to the Revelopment Agency of the City of San Jose ("SARA") resulting in a decrease in Government Bonds outstanding Tax Allocation Bonds, notes and loans, and other revenues 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	General Bonded Debt Per Capita
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	946,000	0.028748	3.74
2011	480,320	2,049,440	669,233	271,385	3,470,378	119,183,180	959,000	0.029118	3.62
2012	460,670	0 (2)	659,578	164,125	1,284,373	120,189,267	971,000	0.010686	1.32 (1)
2013	441,025	0 (2)	604,155	153,305	1,198,485	121,793,350	984,000	0.009840	1.22
2014	421,380	0 (2)	588,235	141,995	1,151,610	132,450,365	1,001,000	0.008695	1.15

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

(1) Decrease in General Bonded Debt Per Capital primarily due to Tax Allocation and Revenue bonds issued by the former Agency being transferred to SARA at February 1, 2012.
(2) For details, please refer to Notes IV.C.3. of the Notes to Basic Financial Statements.

Source: 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, 2014

	% Applicable	Outstanding Debt as of 06/30/14	Estimated Share of Overlapping Debt
City Net Taxable Assessed Valuation		$ 132,450,365	
City Direct Debt	100.00%	$ 421,380,000	$ 421,380,000
Direct Tax and Assessment Debt:			
City of San Jose Community Facilities Districts	100.00%	$ 27,375,000	$ 27,375,000
City of San Jose Special Assessment Bonds	100.00%	17,935,000	17,935,000
		45,310,000	45,310,000
Overlapping Tax and Assessment Debt:			
Alum Rock Union School District	77.26%	104,827,661	80,987,754
Berryessa Union School District	96.61%	30,008,031	28,990,459
Cambrian School District	64.54%	15,164,944	9,787,303
Campbell Union High School District	60.29%	152,410,000	91,881,893
Campbell Union School District	47.23%	160,685,056	75,896,373
Cupertino Union School District	16.32%	261,223,462	42,642,118
East Side Union High School District	96.38%	663,161,952	639,162,121
Evergreen School District	99.47%	98,521,562	97,999,398
Evergreen School District Community Facilities District No. 92-1	100.00%	2,150,000	2,150,000
Foothill-DeAnza Community College District	4.46%	613,197,288	27,360,060
Franklin-McKinley School District	99.72%	86,345,198	86,106,885
Fremont Union High School District	9.85%	290,570,108	28,635,684
Gavilan Joint Community College District	6.17%	100,410,000	6,193,289
Los Gatos Union School District	1.18%	102,870,000	1,217,981
Los Gatos-Saratoga Joint Union High School District	0.56%	41,805,000	235,780
Luther Burbank School District	22.64%	10,012,787	2,266,995
Milpitas Unified School District	0.00%	88,485,000	35
Moreland School District	75.97%	94,832,888	72,045,493
Morgan Hill Unified School District	14.04%	98,059,040	13,765,528
Mount Pleasant School District	87.83%	16,624,992	14,601,564
Oak Grove School District	99.84%	109,739,352	109,567,061
Orchard School District	100.00%	45,450,291	45,450,291
San Jose Unified School District	98.40%	526,407,986	517,985,458
San Jose-Evergreen Community College District	85.79%	431,844,948	370,497,055
Santa Clara County	39.41%	804,700,000	317,132,270
Santa Clara Unified School District	23.47%	416,910,000	97,832,101
Santa Clara Valley Water District Benefit Assessment District	39.41%	115,045,000	45,339,235
Union School District	73.11%	64,636,708	47,259,129
West Valley Community College District	33.45%	294,332,663	98,459,760
Subtotal Overlapping Tax and Assessment Debt		5,840,431,917	2,971,449,073
Total Direct and Overlapping Tax and Assessment Debt		5,885,741,917	3,016,759,073
Overlapping Other Debt:			
Alum Rock Union School District Certificates of Participation	77.26%	25,000,000	19,314,500
East Side Union High School District Post Employment Obligations	96.38%	30,795,000	29,680,529
Foothill-DeAnza Community College District General Fund Obligations	4.46%	13,468,694	600,973
Franklin-McKinley School District Certificates of Participation	99.72%	4,860,000	4,846,586
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.56%	7,925,000	44,697
Campbell Union High School District Certificates Programs	60.29%	10,159,891	6,124,992
Campbell Union High School District General Fund Obligations	47.23%	3,500,000	1,653,155
Midpeninsula Regional Open Space Park District General Fund Obligations	0.01%	133,209,717	18,649
Morgan Hill Unified School District Certificates of Participation	14.04%	13,505,000	1,895,832
San Jose Unified School District Certificates of Participation	98.40%	6,000,000	5,904,000
San Jose-Evergreen Community College District Benefit Obligations	85.79%	47,450,000	40,709,253
Santa Clara County Board of Education Certificates of Participation	39.41%	9,730,000	3,834,593
Santa Clara County General Fund Obligations	39.41%	757,814,320	298,654,624
Santa Clara County Pension Obligations	39.41%	375,419,144	147,952,685
Santa Clara County Vector Control District Certificates of Participation	39.41%	3,275,000	1,290,678
Santa Clara Unified School District Certificates of Participation	23.47%	13,430,000	3,151,484
West Valley-Mission Community College District General Fund Obligations	33.45%	65,095,000	21,776,230
Total Gross Direct and Overlapping General Fund Debt		1,520,636,766	587,453,460
Total Overlapping Debt		$ 7,406,378,683	
Total Direct and Overlapping Debt			$ 3,604,212,533

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 only includes General Obligation Bonds, it does not include Special Hotel Tax Revenue Bonds (Convention Center Expansion and Renovation project), Series 2011 and outstanding obligations of the former Agency which was transferred to SARA on February 1, 2012.

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

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

SCHEDULE XII

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Calculation of Debt Limit										
Gross assessed value for fiscal year	$ 95,306,884	$ 103,289,698	$ 112,922,568	$ 122,633,703	$ 129,019,882	$ 127,102,911	$ 123,363,998	$ 124,438,465	$ 126,245,923	$ 137,012,302
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	$ 14,296,033	$ 15,493,455	$ 16,938,385	$ 18,395,055	$ 19,352,982	$ 19,065,437	$ 18,504,600	$ 18,665,770	$ 18,936,888	$ 20,551,845
Calculation of Legal Debt Margin										
Debt limit applicable to fiscal year	$ 14,296,033	$ 15,493,455	$ 16,938,385	$ 18,395,055	$ 19,352,982	$ 19,065,437	$ 18,504,600	$ 18,665,770	$ 18,936,888	$ 20,551,845
Less: total general obligation bonds	337,240	432,445	510,710	528,565	519,320	499,970	480,320	460,670	441,025	421,380
Legal debt margin	$ 13,958,793	$ 15,061,010	$ 16,427,675	$ 17,866,490	$ 18,833,662	$ 18,565,467	$ 18,024,280	$ 18,205,100	$ 18,495,863	$ 20,130,465
Total debt applicable to the limit as a percentage of debt limit	2.4%	2.8%	3.0%	2.9%	2.7%	2.6%	2.6%	2.5%	2.3%	2.1%

(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			Available Passenger Facility Charges (4)	Net Bond Debt Service Payable from Revenues	Coverage (3), (4)
				Principal	Interest	Total			
2005	$ 129,526	$ 73,422	$ 56,104	$ 7,608	$ 10,324	$ 17,932	-	$ 17,932	3.13
2006	139,637	78,156	61,481	8,975	12,448	21,423	-	21,423	2.87
2007	143,361	86,295	57,066	8,776	12,061	20,837	-	20,837	2.74
2008	163,826	95,615	68,211	9,753	11,814	21,567	-	21,567	3.16
2009	169,094	91,051	78,043	11,195	11,842	23,037	-	23,037	3.39
2010	161,836	82,711	79,125	11,653	19,714	31,367	$ 4,588	26,779	2.95
2011	175,985	76,850	99,135	12,135	41,755	53,890	21,388	32,502	3.05
2012	188,490	67,875	120,615	25,550	55,175	80,725	21,336	59,389	2.03
2013	190,857	64,974	125,883	13,440	72,885	86,325	22,100	64,225	1.96
2014	202,874	66,319	136,555	22,275	72,793	95,068	25,747	69,321	1.97

(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 total debt service requirements.

4) Under the Master Trust Agreement, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt services. The amount of Debt Service is reduced by the amount Available Passenger Facility Charges designated by the City and deposited with Trustee to pay Debt Service. Beginning 2009 - 2010 debt service requirements calculation excludes Passenger Facility Charges.

5) Some data reported previously were 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
				Principal	Interest	Total	
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
2013	171,689	120,329	51,360	9,102	2,310	11,412	4.50
2014	196,937	141,092	55,845	9,369	2,047	11,416	4.89

(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

SCHEDULE XIV

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

Fiscal Year	Population (1)	Net Taxable Assessed Values (2) ($000's)	Per Capita Taxable Property Values ($000's)	Average Unemployment Rate % (3)
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
2013	984,000	121,793,350	123,774	9.3
2014	1,001,000	132,450,365	132,318	7.7

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 / Notes:

1. *State of California, Department of Finance, Population Estimates for California Cities*
2. *Finance Department, County of Santa Clara*
3. *State of California, Employment Development Department, Labor Market Information Division*

(*) 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.

SCHEDULE XV

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

	2014			2006		
Company or Organization	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	14,950	1	1.53%	14,860	2	1.70%
Cisco Systems	13,600	2	1.39%	16,500	1	1.89%
City of San Jose*	5,651	3	0.58%	6,670	3	0.76%
eBay Inc.	4,700	4	0.48%	2,200	8	0.25%
IBM	4,200	5	0.43%	5,800	4	0.66%
U.S. Postal Service	3,920	6	0.40%	n/a (**)	n/a (**)	n/a (**)
San Jose State University	3,119	7	0.32%	3,100	5	0.35%
San Jose Unified School District	2,330	8	0.24%	1,820	13	0.21%
Hitachi	2,070	9	0.21%	2,880	6	0.33%
Adobe Systems, Inc.	2,000	10	0.20%	2,000	10	0.23%
Good Samaritan Hospital	1,950	11	0.20%	1,850	12	0.21%
Kaiser Permanente	1,940	12	0.20%	n/a (**)	n/a (**)	n/a (**)
Cadence Design Systems	1,800	13	0.20%	1,750	14	0.20%
Sanmina-SCI	1,770	14	0.18%	2,100	9	0.24%
Maxim Integrated	1,650	15	0.17%	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 avalable.

(*) 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,									
	2005	2006	2007	2008	2009	2010	2011 [4]	2012	2013	2014
Airport	360	347	360	367	343	281	190	181	169	165
City Attorney's Office	88	82	87	85	87	79	71	67	73	72
City Auditor's Office	21	20	17	17	19	16	14	12	15	14
City Clerk's Office	14	15	19	21	21	16	12	11	11	16
City Council Staff	97	94	85	93	80	83	81	81	85	78
City Manager's Office	108	109	126	117	118	104	68	62	61	59
Convention & Cultural Facities	93	71	78	72	69	53	8	1	0	0
Environmental Services Department	424	418	460	477	498	499	486	455	427	452
Finance Department	106	133 [1]	127	142	139	127	114	109	112	112
Fire Department	766	801	859	867	828	816	712	740	783	762
General Services Department	298	178 [1]	189	208	304 [3]	303	234	0 [5]	0	0
Housing Department	66	67	80	85	86	83	65	57	50	49
Human Resources	123	139	164	179	148	140	93	74	60	39
Independent Police Auditor	5	6	6	6	5	6	6	6	6	6
Information Technology	117	100	102	143	141	128	99	83	76	70
Library Department	589	621	733 [2]	712	701	651	566	532	575	525
Office of Economic Development	60	85	75	76	90	90	107	138	112	54
Parks, Recreation & Neighborhood Services	1,960	2,214	1,956	1,909	1,709 [3]	1,717	1,521	1,422	1,425	1,018
Planning, Building & Code Enforcement	320	309	351	367	328	272	295	288	324	294
Police Department	1,898	1,881	1,934	1,927	1,953	1,831	1,715	1,572	1,580	1,524
Public Works Department	383	365	347	361	332	293	240	475	503	516
Retirement Services	21	26	29	29	30	28	28	27	26	32
Transportation	452	447	431	478	462	444	408	406	396	406
Total	8,369	8,528	8,615	8,738	8,491	8,060	7,133	6,799	6,869	6,263

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, respectively.

(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 $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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
AIRPORT:										
Takeoffs Per Year:										
Commercial Airline Operations	98,892	97,198	97,596	96,860	86,672	76,024	73,094	71,672	71,000	74,088
Cargo Commercial Airlines Operations	3,594	3,464	3,388	3,140	2,554	2,076	2,046	1,678	1,500	1,504
Taxi / Commuter Commercial	29,672	30,756	28,806	29,504	23,830	19,776	16,172	14,806	16,000	16,843
General Aviation	63,708	61,907	55,021	55,146	46,674	33,439	30,503	31,664	31,000	31,246
Military Flights	99	83	103	64	242	275	276	285	230	228
Landings Per Day:										
Commercial	181	180	178	177	155	134	125	121	120	125
General Aviation	87	85	75	76	64	46	42	43	40	43
Number of Passengers Per Year:										
Business	5,148,960	5,208,960	5,113,920	5,116,800	4,200,000	3,950,400	4,026,720	3,964,800	4,032,000	4,272,000
Non-Business	5,578,040	5,643,040	5,540,080	5,543,200	4,550,000	4,279,600	4,362,280	4,295,200	4,368,000	4,628,000
ENVIRONMENT AND UTILITIES:										
Water:										
Gallons of Wastewater Treated Per Day (in millions)	116	116	116	116	107	106	111 (2)	107 (2)	111	109
Gallons of Municipal Water Consumption Per Year (in billions)	7.4	7.7	7.7	8.3	8.7	7.9	6.8	7.7	8.1	8.1
Recycled Materials:										
Tons of Recyclables	100,703	104,631	105,648	132,821	129,462	120,511	120,819	114,369	101,102	103,000
Tons of Yard Trimmings	141,061	146,706	161,142	123,473	125,676	128,728	130,637	132,875	132,979	129,000
Gallons of Used Motor Oil	244,647	249,477	165,357	120,098	116,864	123,318	122,745	124,871	81,127	77,999
FIRE:										
Fires Per Year	1,700	2,794	3,270	3,172	3,018	1,659	1,570	1,765	1,988	2,000
Hazardous Materials Incidents Per Year	350	221	330	546	841	368	291	448	880	NA (4)
Fire Safety Code Inspections Per Year	16,000	16,050	14,123	16,989	12,056	11,073	11,508	14,318	13,615	13,000
Emergency Medical Calls Per Year	40,650	41,322	41,616	40,534	46,533	49,036	49,683	49,320	52,210	48,000
LIBRARIES:										
Circulation	14,170,776	14,449,984	14,200,000	14,250,000	14,399,685	15,000,000	13,560,762	11,544,886	10,702,251	10,700,000
Reference Questions	529,641	489,282	550,000	600,000	648,721	650,000	748,647	666,385	563,753	550,000
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Annual Participant Hours / Attendance in Recreation Programs	3,592,800	3,679,836	2,610,890	2,740,500	2,200,000	2,050,000	2,030,000	220,743 (1)	278,481	575,000
POLICE:										
911 Calls Per Year	235,100	317,884	368,855	400,155	457,360	405,739	669,594	420,862	454,919	549,000
311 Calls Per Year	300,700	265,548	259,834	257,100	256,648	343,868	435,312	360,929	385,189	368,000
Cases Investigated Per Year	24,262	37,399	42,000	46,096	45,000	38,006	35,090	32,982	NA (3)	22,300
BUILDING PERMITS:										
Number issued:										
New Buildings	1,206	1,201	1,534	916	593	369	388	620	947	1,191
Building Alterations	8,547	8,025	7,718	7,272	6,165	6,020	6,677	4,495	4,812	6,085
Value:										
New Buildings (in $)	532,785,367	466,877,910	535,783,080	455,272,352	332,315,767	298,573,631	388,496,732	517,738,795	547,633,219	1,398,057,690
Building Alterations (in $)	273,798,097	358,482,282	412,444,929	439,999,543	342,053,067	301,370,071	383,794,593	475,777,145	468,400,699	746,751,604

Note:

(1) Decrease due to change in methodology used to calculate attendance from hours to attendees to number of events.
(2) Data reported previously was revised to reflect the most recent information.
(3) Data currently unavailable due to the Police Department's transition to a new Records Management System.
(4) Data currently unavailable due to the Fire Department's transition to a new Records Management System.

Source: 2014-15 Adopted Operating Budget
City Manager's Office, City of San José

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	2,888	2,888	2,856	2,383	2,383	2,695	2,539	2,539	2,500	2,500
Long-Term Parking	4,050	4,050	3,646	3,991	3,991	3,600	3,085	3,085	3,100	3,030
ENVIRONMENT AND UTILITIES:										
Wastewater:										
Miles of Municipal Sewer Mains	2,190	2,195	2,200	2,200	2,200	2,251	2,258	2,264	2,271	2,294
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	26,416	26,954	26,954	26,230	26,500	26,475	26,300	26,400	26,700	26,700
Miles of Water Mains	330	340	340	343	344	344	344	345	345	345
FIRE:										
Stations	31	31	31	34	34	34	33	33	33	33
LIBRARIES:										
Main Library	1	1	1	1	1	1	1	1	1	1
Branches	17	20	20	21	21	21	21	22	22	22
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Park Sites	194	159	163	174	183	188	189	192	193	194
Community Centers	27	28	30	38	42	10	12	12	12	12
POLICE:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles and Motorcycles	399	384	384	387	390	384	382	430	430	369
Horses and Dogs	23	26	29	27	27	27	26	20	18	18
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)
AS OF JUNE 30, 2014

Project Name	Series	Date Issued	Issue Amount	6/30/2014 Balance	Maturity/ Redemption	Annual Fees(2)
Almaden Lake Village Apartments	1997A	03/27/97	$ 25,000,000	$ 25,000,000	03/01/32	$ 33,750
Italian Gardens Senior Apartments	1998	04/24/98	8,000,000	6,322,245	05/01/30	7,458
Coleman Senior Apartments	1998	04/24/98	8,050,000	6,362,903	05/01/30	7,507
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	-	01/01/32	6,000
Helzer Court Apartments	1999A	06/02/99	16,948,000	15,253,000	12/01/41	26,123
Ohlone-Chynoweth Commons Apartments	1999	06/04/99	16,200,000	-	05/30/09	20,250
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	8,140,000	03/01/33	12,375
Craig Gardens Apartments	2000A	12/05/00	7,100,000	3,905,478	12/01/32	8,875
El Parador Apartments	2000A & C	12/07/00	10,630,000	5,520,000	01/01/41	14,413
El Parador Apartments	2000B	12/07/00	900,000	180,000	01/01/16	na
Monte Vista Gardens Senior Housing	2000A	12/08/00	3,740,000	2,814,632	07/15/33	9,350
San Jose Lutheran Seniors Apartments	2001A-1 & A-2	07/11/01	5,000,000	3,195,569	02/15/34	6,250
Sixth and Martha Family Apartments Phase II	2001C	08/01/01	9,000,000	6,880,000	04/01/34	11,250
The Villages Parkway Senior Apartments	2001D	08/01/01	6,800,000	4,855,000	04/01/34	8,500
Terramina Square Apts/North White Rd Proj	2001F	11/15/01	16,845,000	15,708,123	04/01/44	21,056
Villa de Guadalupe Apartments	2001E	11/27/01	6,840,000	-	12/01/13	9,688
Almaden Senior Housing Apartments	2001G	12/05/01	6,050,000	2,765,000	07/15/34	7,563
Betty Anne Gardens Apartments	2002A	04/05/02	11,000,000	6,360,000	04/01/34	13,750
El Paseo Apartments	2002B	04/05/02	9,600,000	4,445,000	10/01/34	12,000
Sunset Square Apartments	2002E	06/26/02	10,904,000	3,969,000	06/01/34	13,630
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 & C-2	07/24/02	3,665,000	2,766,597	02/01/35	4,581
Pollard Plaza Apartments	2002D	08/06/02	14,000,000	6,595,000	08/01/35	17,500
Evans Lane Apartments	2002H	10/08/02	31,000,000	-	04/15/36	38,750
Hacienda Villa Creek Senior Apartments	2002G-1	10/10/02	4,453,000	3,407,000	12/01/34	8,750
Kennedy Apartment Homes	2002K	12/11/02	14,000,000	8,675,000	12/15/35	17,500
Fallen Leaves Apartments	2002J-1	12/18/02	13,360,000	10,630,000	06/01/36	23,500
Fallen Leaves Apartments	2002J-2 (Sub.)	12/18/02	3,340,000	2,760,000	05/01/36	na
Turnleaf Apartments	2003A	06/26/03	15,290,000	15,090,000	06/21/36	19,113
The Oaks of Almaden Apartments	2003B-1	07/29/03	4,365,000	3,602,249	02/15/36	10,438
Cinnabar Commons	2003C	08/07/03	25,900,000	24,300,000	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	3,021,468	01/15/37	6,875
Delmas Park	2004C-1	10/15/04	13,780,000	12,618,123	01/01/47	24,224
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	4,666,771	12/01/38	na
Paseo Senter II	2005C-1	12/21/05	4,903,000	3,608,324	06/01/38	na
Casa Feliz Studio Apartments	2007A	06/13/07	11,000,000	-	12/01/09	7,500
Almaden Family Apartments	2007B (Sub.)	12/17/07	6,385,000	2,114,306	11/15/37	na
Curtner Studios	2007C-1	12/19/07	5,520,000	5,099,327	12/01/39	7,500
Fairgrounds Senior Housing Apartments	2008B	05/08/08	26,000,000	12,640,000	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	7,600,000	01/01/44	17,000
Fourth Street Apts	2010A-1	06/04/10	5,620,000	5,250,355	05/01/43	28,750
Orvieto Family Apartments	2010B-1	07/20/10	7,760,000	7,695,000	08/01/29	17,750
Kings Crossing Apartments	2010C	09/17/10	24,125,000	2,775,782	09/01/45	30,156
Taylor Oaks Apartments	2011A-1	10/21/11	3,950,000	3,950,000	10/01/28	7,875
1st and Rosemary Family Apartments	2012C	04/19/12	35,500,000	35,500,000	10/01/44	44,375
1st and Rosemary Senior Apartments	2012D	04/19/12	15,500,000	15,500,000	10/01/44	19,375
Mayfair Court Apartments	2012B-1	04/20/12	5,220,000	5,220,000	10/01/44	27,500
Mayfair Court Apartments	2012B-2	04/20/12	16,780,000	16,780,000	10/01/44	na
La Moraga Apartments	2012E	09/07/12	52,440,000	42,844,191	03/01/26	65,550
3rd Street Residential	2013A	06/27/13	6,630,000	4,681,663	07/01/33	na
Grand Total			**$ 707,960,200**	**$ 494,938,134**		**$ 864,256**

(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, 3014, and amount of debt issued and outstanding at end of reporting period. As of June 30, 2014, 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 and the reimbursement agreement and to ensure compliance with tax law. The annual monitoring fees are deposited in the Housing Activities Fund.