



Memorandum

TO: Distribution

FROM: Julia H. Cooper

SUBJECT: SJ-SC Clean Water Financing
Authority Quarterly Board Meeting

DATE: February 5, 2018

Attached is the agenda packet for the San José-Santa Clara Clean Water Financing Authority Quarterly Board Meeting. The meeting will be held on Thursday, February 8, 2018, at 3:30p.m., 200 E. Santa Clara Street, Room 1352, San José City Hall.

If you have any questions, please feel free to call Joe Gray at (408) 535-7032.

JULIA H. COOPER
Treasurer of Clean Water Financing Authority
Director of Finance, San José

Attachment

Distribution:

Pat Kolstad, Santa Clara Council Member
Debi Davis, Santa Clara Council Member
Charles "Chappie" Jones, San José Council Member
Lan Diep, San José Council Member
Sergio Jinenez, San José Council Member
Toni Taber, San José City Clerk
Danielle Kenealey, San José City Attorney's Office
Lisa C. Taitano, San José Assistant Director of Finance
Joe Gray, San José Debt Administrator
Ashwini Kantak, San José Assistant Director of Environmental Services Department
Laura Burke, San José Fiscal Officer of Environmental Services Department
Gary Welling, City of Santa Clara Acting Director of Water and Sewer Utilities

**GOVERNING BOARD
SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**

Charles "Chappie" Jones, Chairman (San José)
Sergio Jimenez, Vice-Chair (San José)
Pat Kolstad, Boardmember (Santa Clara)

Debi Davis, Boardmember (Santa Clara)
Lan Diep, Boardmember (San José)

**SPECIAL MEETING
Rescheduled Quarterly Meeting
February 8, 2018 at 3:30 p.m.**

San José City Hall
200 E. Santa Clara Street, Room 1352
San Jose, CA 95113

AGENDA

- 1. Roll Call**
- 2. Approval of Minutes**
 - A. From June 1, 2017 Meeting
- 3. Election of Chair and Vice-Chair**
- 4. Review and Consideration**
 - A. Audited Financial Statements for the year ended June 30, 2017 by Grant Thornton LLP.
 - B. Compliance Letter of the City of San José for the year ended June 30, 2017 by Grant Thornton LLP.
 - C. Compliance Letter of the City of Santa Clara for year ended June 30, 2017 by Maze & Associates.
 - D. Adopt a resolution authorizing the Treasurer to execute an agreement with Macias, Gini & O'Connell LLP for auditing services for fiscal years ending June 30, 2018 through June 30, 2020 with the option for the City of San Jose's City Auditor to extend the agreement's term for three additional one year periods for fiscal years ended June 30, 2021, 2022 and 2023.
 - E. Adopt a resolution amending Resolution No. 81-1 of the San José-Santa Clara Clean Water Financing Authority Governing Board to revise the regular meeting schedule of the Authority and repealing Resolution No. 10-01.
- 5. Other Items**
 - A. Meeting schedule
- 6. Public Comment/Oral Petitions**
- 7. Adjournment**

To arrange an accommodation under the Americans with Disabilities Act to participate in this public meeting, please call 535-7010 (Voice) at least 48 hours before this meeting.

**GOVERNING BOARD
SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**

**Special Rescheduled Quarterly Meeting Minutes
June 1, 2017**

1. Roll Call

Members of the San José-Santa Clara Clean Water Financing Authority Board convened this date at 4:00 p.m. in Room T-1352 at San José City Hall.

Present:

Board Members: Charles "Chappie" Jones (San José)
Lan Diep (San José)
Sergio Jimenez (San José)
Pat Kolstad (Santa Clara)

All Others:

Julia H. Cooper (Director of Finance, San José)
Joe Gray (Debt Administrator San José)
Danielle Kenealey (Chief Deputy City Attorney, San José)
Laura Burke (Fiscal Officer of Environmental)
Gary Welling (Director of Water and Sewer Utilities)
Linda Charfauros (Division Manager, Environmental Services
Department, San José)
Deepak Sharma (Analyst II, San José)

Absent: Debi Davis (Santa Clara)

A quorum was present.

2. Approval of Minutes

Documents Filed: The May 26, 2016 Meeting Minutes.

Action: Upon motion by Board Member Jones, seconded by Board Member Diep and carried unanimously, the May 26, 2016 Meeting Minutes were accepted.
(4-0. Absent: Davis)

3. Election of Chair and Vice-Chair

Board Member Jimenez nominated Board Member Jones as Chair and Board Member Jones nominated Board member Jimenez as Vice-Chair.

SAN JOSE-SANTA CLARA
CLEAN WATER FINANCING AUTHORITY
Quarterly Meeting Minutes of June 1, 2017

Action: Upon motion by Board Member Jimenez, seconded by Board Member Diep and carried unanimously, motion to elect Board member Jones as Chair was accepted. Upon motion by Board Member Jones, second by Board Member Diep to elect Jimenez as Vice-Chair carried unanimously, both motions were accepted. (4-0. Absent: Davis).

4. Review and Consideration of Audited Financial Statements, Compliance Letters from auditors

Documents Filed: (A) Audited Financial Statements for June 30, 2016 by Grant Thornton LLP. (B) Compliance Letter of the City of San José for the year ended June 30, 2016 by Grant Thornton LLP. (C) Compliance Letter of the City of Santa Clara for the year ended June 30, 2016 by Maze & Associates.

Action: Upon motion by Board Member Jones, seconded by Board Member Diep and carried unanimously, the Audited Financial Statements, Compliance Letter of the City of San José, Compliance Letter of the City of Santa Clara were accepted.
(4-0. Absent: Davis)

5. Other Items

Next quarterly meeting tentatively scheduled for August 10, 2017.
Treasurer will cancel the meeting if no business is scheduled.

6. Public Comment

None.

7. Adjournment

The quarterly meeting was adjourned at 4:06 p.m.

SAN JOSE-SANTA CLARA
CLEAN WATER FINANCING AUTHORITY
Quarterly Meeting Minutes of June 1, 2017

Acceptance of June 1, 2017 Minutes:

Charles "Chappie" Jones, Board Member

Lan Diep, Board Member

Sergio Jimenez, Board Member

Pat Kolstad, Board Member

Debi Davis, Board Member (Absent)

SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY
(A Component Unit of the City of San José, California)

Independent Auditor's Report and Financial Statements

For the Year Ended June 30, 2017



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
San José – Santa Clara Clean Water Financing Authority, California

Grant Thornton LLP
10 Almaden Blvd, Suite 800
San Jose, CA 95113
T 408.275.9000
F 408.275.0582
www.GrantThornton.com

Report on the financial statements

We have audited the accompanying financial statements of San José – Santa Clara Clean Water Financing Authority (the “Authority”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority’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 opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’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 Authority’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 opinion.

**SAN JOSE - SANTA CLARA CLEAN
WATER FINANCING AUTHORITY**
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017

The following discussion and analysis of the San José - Santa Clara Clean Water Financing Authority's (the "Authority") financial performance provides an overview of its financial activities for the year ended June 30, 2017. The City of San José's Finance Department prepared this discussion and analysis. Please read it in conjunction with the Authority's basic financial statements, which begin on Page 5. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest solely with management of the Authority. To the best of our actual knowledge and belief, the basic financial statements, as presented, are accurate in all material respects.

Financial Statements

The Authority's financial statements are those of a special-purpose government engaged only in providing debt financing for the acquisition and construction of additions and improvements to the existing wastewater treatment plant and related facilities, known as the San José - Santa Clara Water Pollution Control Plant (the "Plant"). Under Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, public entities like the Authority that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net position (deficit); (2) statement of revenues, expenses, and changes in net position; (3) statement of cash flows; and (4) notes to basic financial statements.

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

The following table indicates the net position at June 30, 2017 and 2016:

	2017	2016	Dollar Change
Assets	\$ 5,495,022	\$ 10,082,036	\$ (4,587,014)
Deferred outflows of resources		70,860	(70,860)
Total assets and deferred outflows of resources	5,495,022	10,152,896	(4,657,874)
Current liabilities	5,372,912	6,151,472	(778,560)
Noncurrent liabilities	17,985,560	27,365,270	(9,379,710)
Total liabilities	23,358,472	33,516,742	(10,158,270)
Net deficit	\$ (17,863,450)	\$ (23,363,846)	\$ 5,500,396

Statement of Net Deficit

Total assets decreased by \$4.6 million for the year ended June 30, 2017. The decrease is the result of using \$5.4 million in 2005A reserve fund for the debt service payment and the additional funding of \$1.3 million in 2009A reserve fund. Total liabilities decreased by \$10.1 million for the year ended June 30, 2017. The decrease is primarily the result of the Authority's scheduled bond principal payment of \$5.8 million and dissolved \$5.4 million in 2005A reserve fund.

**SAN JOSE - SANTA CLARA CLEAN
WATER FINANCING AUTHORITY**

(A Component Unit of the City of San José, California)
Statement of Net Deficit
June 30, 2017

	June 30, 2017
Assets	
Current assets:	
Restricted cash and cash equivalents (Note 4)	\$ 2,176,194
Base payment receivable	3,318,828
Total current assets	5,495,022
Noncurrent assets:	
Prepaid insurance costs	-
Total assets	5,495,022
Deferred outflows of resources - loss on refunding of debt	-
Liabilities	
Current liabilities:	
Bond interest payable	103,203
Bonds payable - current, net (Note 5)	5,269,709
Total current liabilities	5,372,912
Noncurrent liabilities:	
Advance from the City of San José (Note 6)	2,139,375
Bonds payable - noncurrent, net (Note 5)	15,846,185
Total noncurrent liabilities	17,985,560
Total liabilities	23,358,472
Net deficit	
Unrestricted deficit	\$ (17,863,450)

See accompanying notes to the financial statements.

**SAN JOSE - SANTA CLARA CLEAN
WATER FINANCING AUTHORITY**

(A Component Unit of the City of San José, California)

Statement of Cash Flows

For the Year Ended June 30, 2017

	June 30, 2017
Cash flows from operating activities:	
Cash received from the City of San José, principal portion	\$ 725,000
Cash received from the City of San José, interest portion	836,500
Cash received for general expenses	5,000
Cash payments for general expenses	(4,650)
Net cash provided by operating activities	1,561,850
 Cash flows from noncapital financing activities:	
Cash paid for principal on bonds	(5,855,000)
Cash paid for interest on bonds	(932,688)
Transfer out the remaining of 2005A bond reserve to City of San Jose	(188,826)
Advances from the City of San Jose	1,292,000
Net cash used in noncapital financing activities	(5,684,514)
 Cash flows from investing activities:	
Investment earnings received	13,665
Net change in cash and cash equivalents	\$ (4,108,999)
 Cash and cash equivalents:	
Beginning of year	\$ 6,285,193
End of year	\$ 2,176,194
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,083,835
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in prepaid insurance costs	7,499
Decrease in base payment receivable	470,516
Net cash provided by operating activities	1,561,850
 Noncash noncapital financing and investing activities:	
Amortization of deferred outflow of resources - loss on refunding of debt	\$ 70,860
Amortization of bond premium	\$ 166,504

See accompanying notes to the financial statements.

**SAN JOSE – SANTA CLARA CLEAN
WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City of San José, as the administering agent of the Authority, has established certain funds to account for its sewer collections and plant operations, which are integral to the Authority, including the South Bay Water Recycling Fund, which was established to account for construction activity partially financed through the Authority, and the Clean Water Financing Authority Payment Fund, which is used to collect funds to be transferred to the Authority as Base Payments.

Restricted Cash and Cash Equivalents

Cash and cash equivalents are restricted and held by a fiscal agent. 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*, which requires governmental entities to report certain investments at fair value and recognize the corresponding change in fair value of investments in the year in which the change occurred. The Authority reports its investments at fair value. The fair value is based on quoted market information obtained from the fiscal agent or other sources.

For purposes of the accompanying statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Donated Services

As the agent for the Authority, the City of San José incurs certain administrative costs on behalf of the Authority. The City of San José has not charged the Authority for any of these costs incurred through June 30, 2017. Any such charges would be substantially offset by Additional Payments for administrative costs by the City of San José under the Improvement Agreement. The net effect of the donated services is not material and has not been reflected in the accompanying basic financial statements.

Original Issue Premiums and Loss on Refunding of Debt

Original issue premiums are amortized using the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable bond premium. Losses occurring from refunding of debt are reported as deferred outflows of resources and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is reported as a component of interest expense.

Prepaid Insurance Costs

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

**SAN JOSE – SANTA CLARA CLEAN
WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk – Pursuant to the Authority’s bond indenture, investments shall mature no later than such times as necessary to provide money when reasonably expected to be needed for payments. At June 30, 2017, the Authority invested \$2,176,194 in JP Morgan 100% U.S. Treasury money market mutual funds with a weighted average maturity of 26 days.

Credit Risk – The Authority’s investment in money market mutual fund is rated Aaa-mf by Moody’s Investors Service and AAAM by Standard & Poor’s.

Fair Value Measurement Categorization

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Securities classified in Level 1 of the fair value hierarchy is valued using prices quoted in active markets for those securities.

	Carrying Value	Fair Value Measurements Using		
		Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
JP Morgan 100% U.S. Treasury Money Market	\$ 2,176,194	\$ 2,176,194	\$ -	\$ -
Total investments	<u>\$ 2,176,194</u>	<u>\$ 2,176,194</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 5 - BONDS PAYABLE

Series 2005A Bonds

On October 5, 2005, the Authority issued \$54,020,000 of Series 2005A sewer revenue refunding bonds. The proceeds of the Series 2005A bonds were used to refund the Authority’s Series 1995A sewer revenue bonds. Debt service is payable from the Authority’s revenue, which consists primarily of payments to the Authority from Net System Revenues of the sewer system operated by the City of San José. The Series 2005A bonds bear interest at fixed rates ranging from 3.25% to 5.00% and have a final maturity date of November 15, 2016.

Series 2009A Bonds

On January 29, 2009, the Authority issued \$21,420,000 of Series 2009A sewer revenue refunding bonds with fixed interest rates ranging from 3.00% to 5.00% maturing from November 15, 2016 through November 15, 2020. The proceeds of the Series 2009A bonds were used to refund the Authority’s Series 2005B variable rate sewer revenue refunding bonds, which were used to refund the Authority’s Series 1995B sewer revenue bonds. The 1995 Bonds were issued to pay for a project to recycle treated wastewater from the San José - Santa Clara Water Pollution Control Plant for irrigation and industrial uses in San José, Santa Clara and Milpitas. Debt service is payable from the Authority’s revenue, which consists of payments to the Authority from Net System Revenues of the sewer system operated by the City of San José.

**SAN JOSE – SANTA CLARA CLEAN
WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

NOTE 6 – ADVANCE FROM THE CITY OF SAN JOSE

During the year ended June 30, 2017, the City of San José's Wastewater Treatment System enterprise fund advanced \$2,139,375 to the Authority. The Authority deposited the funds received into the 2009A Bonds reserve accounts in order to satisfy the Debt Service Reserve Requirement pursuant to the bond indenture. The advance bears no interest and will be repaid to the City of San José when the Debt Service Reserve Requirement is met through the surety policy issued by Financial Security Assurance, Inc. or when no bonds remain outstanding. At June 30, 2017, the balance of the advance from the City of San José is \$2,139,375.



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

Compliance and other matters

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

Intended purpose

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

Grant Thornton LLP

San Jose, California
October 13, 2017



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable City Council
City of San José, California

Grant Thornton LLP
10 Almaden Blvd, Suite 800
San Jose, CA 95113
T 408.275.9000
F 408.275.0582
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We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (the "City") as of and for the year ended June 30, 2017 and our report dated November 16, 2017 expressed an unmodified opinion on those financial statements.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the accounting provisions of Section 5.2(b) of the Improvement Agreement between the San José-Santa Clara Clean Water Financing Authority, the City of Santa Clara, and the City, dated July 1, 1982, as amended and supplemented, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Indenture, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the governing bodies and management of the San José-Santa Clara Clean Water Financing Authority, the City of Santa Clara, and the City and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

San José, California
November 16, 2017



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Santa Clara, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Santa Clara, California, as of and for the year ended June 30, 2017, and have issued our report thereon dated December 6, 2017. Our report includes an emphasis of a matter paragraph disclosing the implementation of new accounting principles. Our report also includes a reference to other auditors who audited the blended component unit of the Santa Clara Stadium Authority (Stadium Authority), as of and for the year ended March 31, 2017, as described in our report on the City's financial statements. Our report also includes a reference to other auditors who audited the financial statements of Northern California Power Agency (NCPA), Transmission Agency of Northern California (TANC) and San Jose-Santa Clara Regional Wastewater Facility and Clean Water Financing Authority (SJSC) as of and for the year ended June 30, 2016, related to the calculation of the Investments in Joint Ventures, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control we consider to be a significant deficiency as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated December 6, 2017, which is an integral part of our audit and should be read in conjunction with this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our tests included procedures to test the City's compliance with the accounting and financial reporting provisions of Section 5.2 of the Improvement Agreement between the San Jose – Santa Clara Clean Water Financing Authority, the City of San Jose, and the City of Santa Clara, dated July 1, 1982, as amended. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit is described in our separately issued Memorandum on Internal Control dated December 6, 2017, which is an integral part of our audit and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended for the information and use of the City's management and the City of San Jose. However, this report is a matter of public record and its distribution is not limited.

Maye & Associates

Pleasant Hill, California
December 6, 2017

RESOLUTION NO. 18-01

**RESOLUTION OF THE GOVERNING BOARD OF
THE SAN JOSE-SANTA CLARA CLEAN WATER
FINANCING AUTHORITY AUTHORIZING THE
TREASURER TO EXECUTE AN AGREEMENT
WITH MACIAS, GINI & O'CONNELL LLP FOR
AUDITING SERVICES**

WHEREAS, the City of San José ("San José") and the City of Santa Clara ("Santa Clara") have entered into a Joint Exercise of Powers Agreement, dated as of March 1, 1981, as amended and restated by a Second Amended and Restated Joint Exercise of Powers Agreement, dated as of October 17, 1995 ("JPA Agreement") for the San José-Santa Clara Clean Water Financing Authority ("Authority"); and

WHEREAS, the JPA agreement requires annual audits of the Authority's accounts; and

WHEREAS, in 2015, San José conducted a Request for Proposal ("RFP") process to obtain auditing services for San José and its related entities, including the Authority; and

WHEREAS, Macias, Gini & O'Connell LLP submitted a proposal in response to the RFP and has been selected based on its proposal to provide auditing services for San José and San José related entities, including the Authority, commencing with fiscal year 2018;

NOW, THEREFORE BE IT RESOLVED BY THE GOVERNING BOARD OF THE SAN JOSÉ-SANTA CLARA CLEAN WATER FINANCING AUTHORITY THAT:

Section 1. The Treasurer is authorized to execute the agreement with Macias, Gini & O'Connell LLP to perform annual financial and compliance audit services for the Authority for fiscal years ending June 30, 2018, 2019, and 2020 with three one-year extension options for fiscal years ended June 30, 2021, 2022, and 2023 with annual compensation not to exceed \$16,241 in year one and fees adjusted by the Consumer Price Index, not to exceed three percent in years four through six, for a total amount not to exceed \$104,785 for a potential six year term subject to annual appropriation of funds by the San José City Council. The exercise of the three one-year extensions is at the discretion of San José's Auditor.

RD:DK
1/31/18

Section 2. This Resolution shall become effective upon adoption.

ADOPTED this 8th day of February, 2018 by the following vote:

AYES: .

NOES: .

ABSENT: .

By: _____
Chair of the Board

Attest:

Secretary of the Board



Memorandum

TO: San José-Santa Clara Clean Water
Financing Authority Board

FROM: Sharon W. Erickson,
City Auditor

SUBJECT: AGREEMENT WITH MACIAS, GINI &
O'CONNELL TO PROVIDE ANNUAL
FINANCIAL AUDIT

DATE: January 30, 2018

RECOMMENDATION

Adopt a resolution authorizing the Treasurer to execute an agreement with Macias, Gini & O'Connell LLP to perform annual financial audit services for fiscal years ending June 30, 2018, 2019, and 2020 with the option for the City of San Jose's City Auditor to extend the term for up to three years for fiscal years ended June 30, 2021, 2022, and 2023, with annual compensation not to exceed \$16,241 in year one and fees adjusted for subsequent years by the Consumer Price Index, not to exceed 3 percent per year in years two through six, for a total amount not to exceed \$104,785 for a potential six year term subject to annual appropriation of funds by the City Council.

BACKGROUND

In November 2015 the City issued a Request for Proposal (RFP) for external audit services for the City and its related entities. The RFP covered the City, Airport, Convention and Cultural Facilities, Hayes Mansion, Deferred Compensation, Successor Agency to the Redevelopment Agency, Retirement Plans, and San José-Santa Clara Clean Water Financing Authority. Three proposals were received by the deadline and two were invited for an interview: Macias Gini and O'Connell, LLP (MGO) and Grant Thornton LLP (Grant Thornton). Grant Thornton was selected and provided audit services for the fiscal years ended June 30, 2016 and 2017.

On January 8, 2018, the City Auditor terminated the agreements with Grant Thornton for audit services for the City, the Clean Water Financing Authority, the Deferred Compensation plans, and the Successor Agency to the Redevelopment Agency. In order to retain external audit services, the City Auditor asked MGO if it would honor the pricing in its RFP proposal and MGO has agreed to do so.

ANALYSIS

MGO's state and local government practice is one of the largest in the U.S. Their local government specialists have served over 100 cities in California. MGO is familiar with the City's operations and accounting systems, having previously conducted the annual financial and compliance audits of the City and its related entities.

Annual compensation in the first year to be paid to MGO for audit services under the proposed agreement totals \$16,241. The cost of future years' audit services is subject to annual cost of living adjustments (capped at 3 percent per year) and annual appropriation of funds by the City Council. The fees for these audit services for fiscal year 2018 under the previous agreement with Grant Thornton would have been somewhat less at \$13,807.

BUDGET REFERENCE

The following budget information addresses the compensation to be paid to MGO for the first year of the agreement. Action to align the budget with anticipated costs will be brought forward as part of the 2017-2018 Mid-Year Budget Review.

Fund #	Appn #	Appn Name	Total Appn	Cost	2017-18 Adopted Budget Operating/Capital Page	Last Budget Action (Date, Ord. No.)
512	6584	Payment For Clean Water Financing Authority Trustee	\$5,000	\$16,241	308	06/20/2017, 29962

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Finance Department, and the Budget Office.

Respectfully submitted,

Sharon W. Erickson
 Sharon W. Erickson
 City Auditor

RD:DK
2/1/2018

RESOLUTION NO. 18-_____

**RESOLUTION OF THE GOVERNING BOARD OF THE
SAN JOSE-SANTA CLARA CLEAN WATER FINANCING
AUTHORITY AMENDING RESOLUTION NO. 81-1 IN
ORDER TO REVISE THE REGULAR MEETING
SCHEDULE OF THE AUTHORITY AND REPEALING
RESOLUTION NO. 10-01**

WHEREAS, the City of San José ("San José") and the City of Santa Clara ("Santa Clara") have entered into a Joint Exercise of Powers Agreement, dated as of March 1, 1981, as amended and restated by a Second Amended and Restated Joint Exercise of Powers Agreement, dated as of October 17, 1995 for the San José-Santa Clara Clean Water Financing Authority ("Authority"); and

WHEREAS, the governing board of the Authority (the "Board") previously adopted its Resolution No. 81-1 as amended by Resolution 10-01, that, among other things, established the Authority's regular meeting schedule and meeting place; and

WHEREAS, the Board desires to further amend Resolution No. 81-1, as amended, in order to revise its regular meeting schedule by changing the time at which each regular meeting will commence;

NOW, THEREFORE BE IT RESOLVED BY THE GOVERNING BOARD OF THE SAN JOSE-SANTA CLARA CLEAN WATER FINANCING AUTHORITY THAT:

Section 1. Paragraph 1 of Resolution No. 81-1 is revised to read as follows:

"The regular meetings of the Board of the Authority shall be held at San José City Hall, 200 East Santa Clara Street, San José, California, in Room 1352, or such other place designated by the Board, on the second Thursday of February, May, August and November at 3:30 P.M. In the event that the Treasurer of the Authority determines that there is no business of the Authority to be conducted at a regularly scheduled meeting, the Treasurer is authorized to cancel the meeting. In the case of cancellation, the Treasurer shall notify the members of the Board and the Secretary of the Authority. The Treasurer shall cause notice of cancellation to be posted in the same location that the agendas for Authority meetings are posted."

Section 2. All other provisions of Resolution No. 81-1 not amended by this Resolution shall remain in full force and effect.

Section 3. Resolution No. 10-01 is hereby repealed.

ADOPTED this 8th day of February, 2018 by the following vote:

AYES:

NOES:

ABSENT:

By: _____
Chair of the Board

Attest:

Secretary of the Board