City of San José, California

Single Audit Reports

Basic Financial Statements with
Federal and Airport Compliance Sections

For the Year Ended June 30, 2019

MGO Certified Public Accountants

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For the Year Ended June 30, 2019
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MGO Certified Public Accountants

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City Council
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City), as of and for the year ended June 30, 2019, 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 did not audit the financial statements of the City of San José Federated City Employees' Retirement System and the City of San José Police and Fire Department Retirement Plan (collectively, "the Pension Trust Funds"), which represent 87.2 percent, 114.8 percent, and 41.8 percent, respectively, of the assets, fund balance/net position, and revenues/additions of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pension Trust Funds, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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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, based on our audit and the reports of other auditors, 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 as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, schedule of passenger facility charge revenues and expenditures, and schedule of customer facility charge revenues and expenditures are presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *the Passenger Facility Charge Audit Guide for Public Agencies*, and the *California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through section 50474.3,* respectively and, are not required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2019, except for our report on the schedule of expenditures of federal awards,
schedule of passenger facility charge revenues and expenditures, and
schedule of customer facility charge revenues and expenditures as to which the date is February 7, 2020

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, 2019. 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 in the billions and millions have been rounded to the nearest million and hundred thousand respectively. All percentages have been rounded to the nearest one hundredth 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, 2019, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $4.055 billion. Of this amount, a deficit of $2.367 billion represents unrestricted net position, which is comprised of a deficit balance of $2.658 billion for governmental activities, and a positive balance of $290.1 million for business-type activities. In addition, the City's restricted net position totals $1.110 billion ($1.037 billion for governmental activities and $73 million for business-type activities) based on the restrictions imposed by the enabling legislations or debt covenants. Lastly, net position of $5.312 billion is the City's net investment in capital assets, which include $4.330 billion from governmental activities and $982 million from business-type activities.

- The net position increased by $115.3 million or 2.9 percent during FY 2019 to $4.055 billion from $3.939 billion. Governmental Activities accounted for $27 million of the increase mainly due to the increases in property tax, sales tax, and other tax related revenues. Business-type activities accounted for $88.7 million of the increase primarily from a change in accounting principal with the implementation of GASB 75.

- Governmental funds reported a combined ending fund balance of $1.559 billion at June 30, 2019, which is $135 million or 9.5 percent more than the June 30, 2018 balance. The increase was attributable to an increase in the General Fund of $121.5 million, the Housing Activities Fund of $15 million, the Low and Moderate Income Housing Asset Fund of $18.3 million, the Special Assessment Districts Fund of $4.6 million, the Nonmajor Governmental Funds of $19.6 million, and offset by decrease in the San José Financing Authority Debt Service Fund of $44 million.

- Unassigned fund balance of governmental funds is $111.2 million, which is 7.1 percent of the combined governmental fund balances at June 30, 2019.

- Total long-term liabilities, excluding net pension and Other Postemployment Benefits (OPEB), decreased by $61.4 million to $2.485 billion at June 30, 2019, which represents a decrease of 2.4 percent compared to $2.546 billion at June 30, 2018. The primary factors leading to the decrease in long-term liabilities for governmental activities of $97.6 million was primarily due to redemptions, loan payoffs, and scheduled debt service payments totaling $89.8 million. Outside of the scheduled debt service of $42.9 million, the majority of the reduction was the redemption of the City of San José Financing Authority Series 2008C and 2008D Lease Revenue Bonds for $28.5 million from the sale of the Hayes Mansion and Conference Center and final maturity of the New Market Tax Credit Financing (NMTC) obligation for $18.4 million due to the termination of the program. The primary factors leading to the increase in long-term liabilities for business-type activities of $36.3 million was due to the scheduled debt service payments of $35.7 million offset by a draw from the Waste Water Revenue note for $70.6 million.

- Net pension liability decreased by $63.3 million or 2 percent during FY 2019 to $3.129 billion from $3.192 billion. Deferred outflows of resources related to pensions decreased by $215.2 million, and deferred inflows of resources related to pensions increased by $76.3 million. The decrease in net pension liability resulted from changes of assumptions and differences between expected and actual actuarial experience in the City of San José Police and Fire Department Retirement Plan. More details on the net pension liability are included in the Note IV.A.3 on page 140.

- As of June 30, 2019, total net OPEB liability was $923.3 million which included $840.5 million in governmental activities and $82.8 million in business-type activities. The total net OPEB liability decreased by $148 million or 13.8 percent due to changes of benefits and assumptions in both plans.

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, parking operations, and clean energy program.

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

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

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

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

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

Required Supplementary Information includes the budgetary schedules for the General Fund, the 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 the City's financial position. As of June 30, 2019, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $4.055 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, 2019 and 2018
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Assets:						
Current and other assets	$ 1,891,362	$ 1,726,091	$ 970,098	$ 881,034	$ 2,861,460	$ 2,607,125
Capital assets	5,228,207	5,316,928	2,260,663	2,123,324	7,488,870	7,440,252
Total assets	7,119,569	7,043,019	3,230,761	3,004,358	10,350,330	10,047,377
Deferred outflows of resources:						
Loss on refundings of debt	648	721	8,128	8,616	8,776	9,337
Deferred outflows of resources related to pensions	645,244	824,288	73,153	109,303	718,397	933,591
Deferred outflows of resources related to other postemployment benefits	80,020	50,616	7,757	7,163	87,777	57,779
Total deferred outflows of resources	725,912	875,625	89,038	125,082	814,950	1,000,707
Liabilities:						
Current and other liabilities	253,969	200,994	183,625	90,074	437,594	291,068
Long-term liabilities	1,136,322	1,233,965	1,348,445	1,312,194	2,484,767	2,546,159
Net pension liability	2,781,722	2,835,815	347,373	356,541	3,129,095	3,192,356
Net OPEB Liability	840,481	957,581	82,796	113,684	923,277	1,071,265
Total liabilities	5,012,494	5,228,355	1,962,239	1,872,493	6,974,733	7,100,848
Deferred inflows of resources:						
Deferred inflows of resources related to pensions	80,589	3,980	250	513	80,839	4,493
Deferred inflows of resources related to other postemployment benefits	42,877	3,415	12,304	125	55,181	3,540
Total deferred inflow of resources	123,466	7,395	12,554	638	136,020	8,033
Net position:						
Net investment in capital assets	4,330,279	4,349,559	982,045	930,631	5,312,324	5,280,190
Restricted	1,036,765	1,000,459	72,890	72,750	1,109,655	1,073,209
Unrestricted	(2,657,523)	(2,667,124)	290,071	252,928	(2,367,452)	(2,414,196)
Total net position	$ 2,709,521	$ 2,682,894	$ 1,345,006	$ 1,256,309	$ 4,054,527	$ 3,939,203

At June 30, 2019, the City reported positive balances in net position on a total basis. Net investment in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire assets and deferred inflows and outflows related to debt) of $5.312 billion comprises 131 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 FY 2019, net investment in capital assets increased $32.1 million primarily due to an increase of $51.4 million in business-type activities offset by a decrease of $19.3 million from governmental activities. A portion of the City's net position, $1.110 billion or 27.4 percent, are subject to legal restrictions for their use, including $1.037 billion in governmental activities and $73 million in business-type activities. Of the total net position at June 30, 2019, a deficit balance of $2.367 billion or 58.4 percent represents unrestricted net position, which comprises a deficit balance of $2.658 billion for governmental activities, and a positive balance of $290.1 million for business-type activities. The primary factor contributing to the deficit in unrestricted net position is the City's net pension and OPEB liabilities.

During FY 2019, the City's total net position increased by $115.3 million. Notable changes in the statement of net position between June 30, 2019 and June 30, 2018 include:

Assets

- Capital assets increased by $48.6 million or 0.7 percent compared to the prior fiscal year. Governmental capital assets decreased by $88.7 million and business-type capital assets increased by $137.3 million. The decrease in governmental capital assets resulted from depreciation expense of $226 million for major infrastructure and other assets, partially offset by additions to capital assets of $159.7 million, which included $77.4 million of additional capital projects, $14.2 million of contributed capital from donated infrastructure assets, $18.5 million in vehicles and equipment, and $48.7 million from property acquisitions. The increase in business-type capital assets was primarily due to depreciation expense of $83.2 million, offset by additions to capital assets of $220.8 million primarily from the Airport and Wastewater Treatment Facility. As of June 30, 2019, the Airport completed construction of phase 1 and 2 of their Terminal B ramp reconstruction and an interim boarding facility to support remote passenger operations.

- Current and other assets increased by $254.3 million or 9.8 percent due to an increase of $165.2 million for governmental activities and an increase of $89.1 million for business-type activities. The increase in governmental activities is mainly due to the increase in cash and investments and receivables from the increase in taxes and special assessments and sales tax revenue. The increase in current assets for business-type activities is mainly due to higher cash and investments and receivables resulting from revenues exceeding expenses.

Liabilities

- Total long-term liabilities (excluding net pension and OPEB liabilities) decreased by $61.4 million to $2.485 billion at June 30, 2019, which represents a decrease of 2.4 percent compared to $2.546 billion at June 30, 2018. The primary factors leading to the decrease in long-term liabilities for governmental activities of $97.6 million was primarily due to the scheduled debt service payments of $42.9 million, redemption of $28.5 million in Series 2008C and 2008D Lease Revenue Bonds, and final maturity of the NMTC loans of $18.4 million. The primary factors leading to the increase in long-term liabilities for business-type activities of $36.3 million were due to the scheduled debt service payments of $35.7 million offset by a draw from the Waste Water Revenue note for $70.6 million.

- Current and other liabilities increased by $146.5 million or 50.3 percent due to an increase of $53 million for governmental activities and an increase of $93.6 million for business-type activities.

- Net pension liability decreased by $63.3 million or 2 percent during FY 2019 to $3.129 billion from $3.192 billion. Deferred outflows of resources related to pensions decreased by $215.2 million, and deferred inflows of resources related to pensions increased by $76.3 million. The decrease in net pension liability resulted from changes of assumptions and differences between expected and actual actuarial experience in the City of San José Police and Fire Department Retirement Plan. More details on the net pension liability are included in the Note IV.A3 on page 140.

- As of June 30, 2019, total net OPEB liability was $923.3 million which included $840.5 million in governmental activities and $82.8 million in business-type activities. The total net OPEB liability decreased by $148 million or 13.8 percent due to changes of benefits and assumptions in both plans.

Net Position

- Unrestricted net position for governmental activities improved by $9.6 million or 0.4 percent with a deficit balance of $2.658 billion at June 30, 2019. The primary factors contributing to the reduction of the deficit for governmental activities is the City's net pension and OPEB liabilities. For business-type activities, unrestricted net position increased by $37.1 million or 14.7 percent with a positive balance of $290.1 million at June 30, 2019. The net increase in unrestricted net position in business-type activities was primarily due to $112.3 million in fees, fines, and charges for services offset by $16.3 million decrease in the Airport's rate stabilization Fund and ten-year lookback distribution. A description of the rate stabilization fund and ten-year lookback distribution is in Section III.E.2 on page 88.

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, 2019 and 2018
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Revenues:						
Program revenues:						
Fees, fines, and charges for services	$ 435,418	$ 419,189	$ 645,318	$ 532,975	$ 1,080,736	$ 952,164
Operating grants and contributions	108,361	113,938	720	894	109,081	114,832
Capital grants and contributions	111,278	97,441	24,655	16,362	135,933	113,803
General revenues:						
Property and other taxes	497,317	461,964	-	-	497,317	461,964
Utility	120,846	120,234	-	-	120,846	120,234
Franchise	48,397	51,180	-	-	48,397	51,180
Transient occupancy taxes	51,399	48,854	-	-	51,399	48,854
Business taxes	77,011	70,673	-	-	77,011	70,673
Sales taxes	263,530	226,337			263,530	226,337
State of California in-lieu	505	551	-	-	505	551
Unrestricted interest and investment income	24,165	6,688	23,498	6,322	47,663	13,010
Other revenue	34,707	36,485	627	4,961	35,334	41,446
Gain on sale of capital assets	44,528	-	-	-	44,528	-
Total revenues	1,817,462	1,653,534	694,818	561,514	2,512,280	2,215,048
Expenses:						
General government	142,531	132,157	-	-	142,531	132,157
Public safety	709,532	769,305	-	-	709,532	769,305
Community services	308,345	329,222	-	-	308,345	329,222
Sanitation	164,677	164,890	-	-	164,677	164,890
Capital maintenance	422,170	494,007	-	-	422,170	494,007
Interest and fiscal charges	46,720	57,002	-	-	46,720	57,002
Norman Y. Mineta San José International Airport	-	-	224,387	207,675	224,387	207,675
Wastewater Treatment System	-	-	199,350	203,272	199,350	203,272
Municipal Water System	-	-	47,917	49,156	47,917	49,156
Parking System	-	-	16,151	14,503	16,151	14,503
San José Clean Energy			98,909	1,116	98,909	1,116
Total expenses	1,793,975	1,946,583	586,714	475,722	2,380,689	2,422,305
Excess (deficiency) before transfers	23,487	(293,049)	108,104	85,792	131,591	(207,257)
Transfers	3,141	5,769	(3,141)	(5,769)	-	-
Lookback Distribution	-	-	(16,266)	-	(16,266)	-
Change in net position	26,628	(287,280)	88,697	80,023	115,325	(207,257)
Net position at beginning of year	2,682,893	3,437,781	1,256,309	1,241,519	3,939,202	4,679,300
Change in accounting principle	-	(467,608)	-	(65,233)	-	(532,841)
Net position at beginning of year, as restated	-	2,970,173	-	1,176,286	3,939,202	4,146,459
Net position at end of year	$ 2,709,521	$ 2,682,893	$ 1,345,006	$ 1,256,309	$ 4,054,527	$ 3,939,202

Governmental activities: Net position for governmental activities increased by $26.6 million or 1 percent during FY 2019 from $2.683 billion to $2.710 billion. Total expenses decreased by $152.6 million and total revenues increased by $163.9 million. The major factors contributing to the increase in net position before transfers from July 1, 2018 to June 30, 2019 are as follows:

Revenues

- Fees, fines, and charges for services increased by $16.2 million mainly due to a $9.3 million increase in General Fund from fees related to the General Plan update, Public Information Services and increases from other services, and a $5.7 million increase in General Fund from new revenues such as small cell fees (cell tower/antenna installation).

- Property and other tax revenue increased by $35.4 million or 7.7 percent due to $16.7 million in distributions from the County from the sales of properties by the City's Successor Agency to the Redevelopment Agency (SARA), and an increase in assessed valuations based on a strong real estate market and continuing improvement of the economy. Capital grants and contributions increased by $13.8 million in current year due to a $27.9 million increase in capital asset additions from the transfer of Diridon properties from the SARA to the City, $1.6 million transfer of the N. San Pedro Block G property and a reduction of developer donated projects of $14 million from the prior year. Sales taxes collected in General Fund increased by $37.2 million due to favorable economy. Construction excise tax capital maintenance increased by $13.1 million due to the Road Maintenance and Road Repairs Act SB1 and the Traffic Congestion Relief Fund (TCRF) funding. Transient occupancy tax receipts from guests staying in the City's local hotels increased by $2.5 million or 5.2 percent due to continuing higher occupancy and room rates.

- Gain on sale of capital assets increased $44.5 million due to the sales of the Hayes Mansion and Diridon Properties.

Expenses

- General government expenses increased $10.4 million or 7.9 percent during FY 2019 mainly due to an increase of $37 million from overhead costs, a cost of living adjustment of 5 percent, and a reclassification of $15 million from community service expenses. There was also a one-time reduction in expenses of $16.8 million in FY 2018. The increase in expenses was offset by a $43 million decrease in OPEB expense due to the implementation of the Voluntary Employee Beneficiary Association Plans (VEBA). Please refer to footnote IV.A.4 for information regarding the VEBA plans.

- Public safety expenses decreased by $59.8 million or 7.8 percent primarily due to a decrease of OPEB expense of $56.8 million which resulted from the implementation of the VEBA plans. Please refer to footnote IV.A.4 for information regarding the VEBA plans.

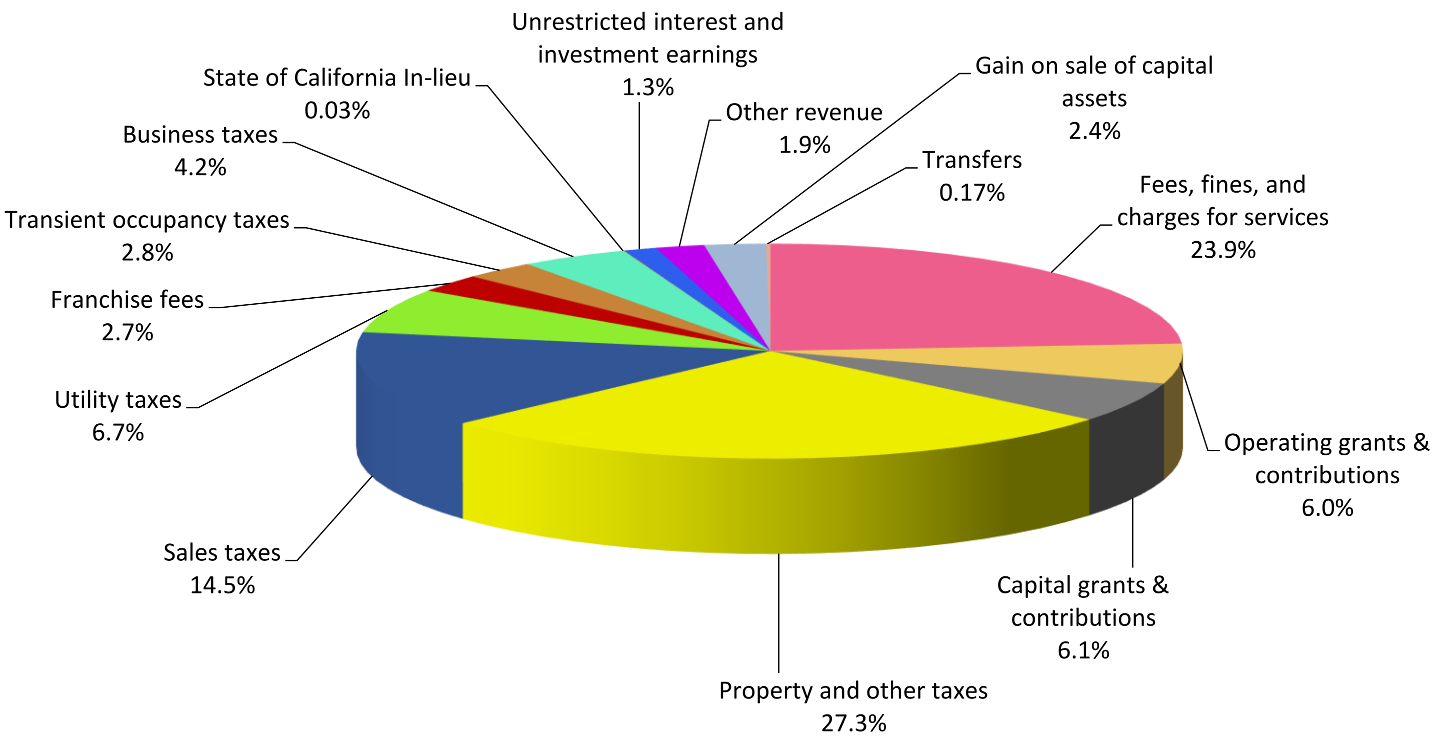
- Community services expenses decreased by $20.9 million or 6.3 percent mainly due to the reclassification of $15 million to general government expenses, a decrease in OPEB expense of $5.6 million from the implementation of the VEBA plans, and a decrease in pension expense of $2.8 million due to a change of assumptions.

- Capital maintenance expenses decreased by $71.8 million or 14.5 percent primarily due to a reduction in the Convention Center Exhibit Hall Lighting and Ceiling Upgrade Project of $18.3 million, the pavement maintenance program of $15.4 million, and smaller projects totaling $15 million. In addition, OPEB and pension expenses decreased $14.2 million collectively due to the implementation of the VEBA plans (OPEB) and a change in assumptions (pension).

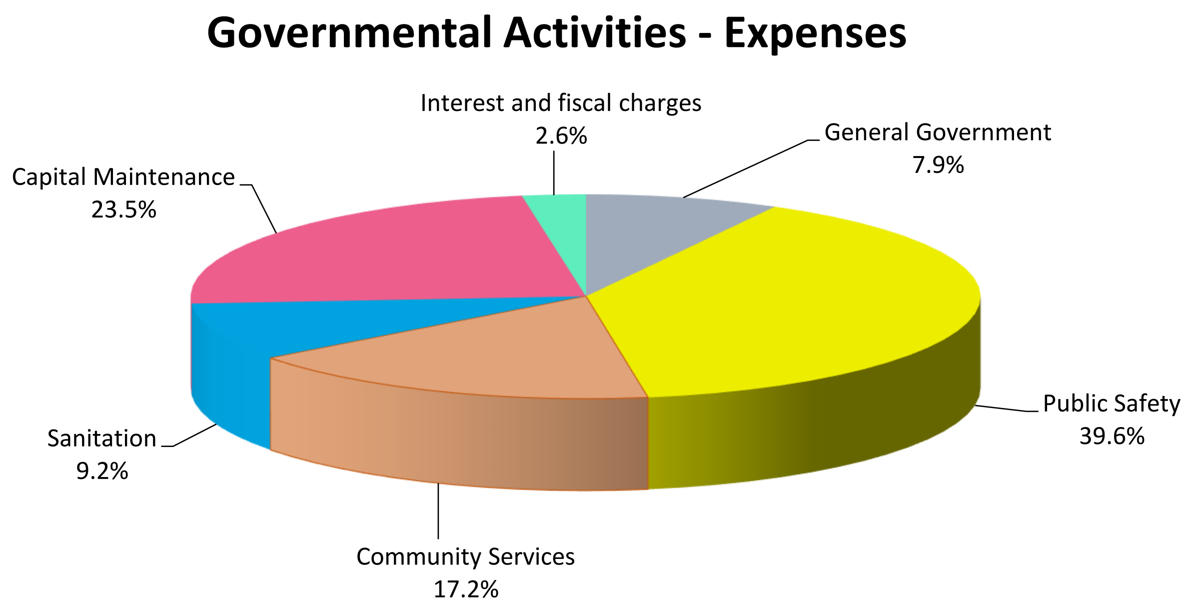
- Interest and fiscal charges were down $10.3 million in FY 2019 due to the decrease of $6.2 million in the San José Financing Authority Debt Service Fund. In FY 2018, 2008F had interest and other payments of $2.4 million, 2001A had interest payment of $1.1 million, and 2001F had interest payment of $4.8 million. In FY 2019, 2008F and 2001A were redeemed and the 2001F Bond only had an interest payment of $1.6 million.

The chart below shows the primary components of governmental activities revenue sources for FY 2019. Of the $1.821 billion in total revenues generated by governmental activities, 72.4 percent is attributable to four categories: property and other taxes (27.3 percent), fees, fines, and charges for services (23.9 percent), sales taxes revenue (14.5 percent), and utility taxes (6.7 percent).

Governmental Activities - Revenues By Source



The chart below shows the major categories of FY 2019 expenses for governmental activities. Of the $1.794 billion in total expenses incurred by governmental activities, 80.3 percent is attributable to three categories: public safety (39.6 percent), capital maintenance (23.5 percent), and community services (17.2 percent).



Business-type activities: Business-type activities net position increased by $88.7 million or 7.1 percent to $1.345 billion in FY 2019.

The notable components of the changes in net position for business-type activities in FY 2019 are:

Airport change in net position from current year activities showed an increase of $13 million in FY 2019 compared to an increase of $7.9 million in FY 2018. The combination of increase in operating revenues, capital contributions, and the restatement of beginning net position to reflect the changes in accounting principle resulting from the implementation of GASB Statement Number 75 was more than the offset due to an increase in net non-operating expenses, and the rate stabilization fund and ten-year lookback distribution.

The Airport had a net operating income of $25 million, an increase of $2.9 million compared to prior year's operating income of $22.1 million. Operating revenues increased by 3.7 percent from $168.6 million in FY 2018 to $174.8 million in FY 2019 mainly due to an increase in passenger traffic. A total of approximately 14.9 million passengers traveled through the Airport in FY 2019 as compared to approximately 13.5 million in FY 2018, resulting in passenger traffic growth of 10.4 percent.

Operating expenses in FY 2019 increased 2.3 percent, or $3.4 million, from $146.4 million in FY 2018 to $149.8 million in FY 2019. Increases were experienced in salaries and fringe benefits, pension expenses, higher costs for public safety employees, non-personnel expenses, and depreciation expenses.

Wastewater Treatment System net position increased by $65.1 million or 7.5 percent from $866.1 million to $931.2 million. The increase was primarily due to revenues exceeding expenses (before capital contributions) by $61.2 million. The largest portion, $725.9 million or 77.9 percent, of the net position was its net investment in capital assets (e.g. land, buildings, and infrastructure) less outstanding debt that was used to acquire those assets. Approximately $196.5 million, or 21.1 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

Operating revenues decreased $3.9 million primarily due to lower contributions from outside users toward the Water Pollution Control Plant's ("Plant") ongoing maintenance, replacement, and debt service costs by $17.9 million, offset by a 3.0 percent sewer rate increase effective July 1, 2018, higher recycled-water revenue due to a recycled-water rate increase, increased demand by $2.6 million, and higher reimbursement from Cupertino Sanitary District for joint projects by $3.4 million.

Total operating expenses decreased by $4.9 million compared to the prior fiscal year. The decrease was due to a net decrease of $16.8 million in pension expenses and other postemployment benefits per the updated calculations of the total pension and OPEB liabilities and a decrease of $0.9 million of equalization payment to the Santa Clara Valley Water District for the Silicon Valley Advanced Water Purification center; offset by a $7.3 million increase in program management, preliminary engineering, planning, feasibility study or development of various Plant projects, an increase of $3.1 million in personnel costs due to higher salary costs and fewer vacancies, an increase of $0.6 million in direct overhead costs and an increase of $1.5 million in Owner Controlled Insurance expenses to provide a centralized insurance program for losses associated with onsite construction of the Capital Improvement Program at the Plant.

Net nonoperating revenues increased by $7.4 million primarily due to increases in fair value of investments. Capital contributions increased by $0.6 million mainly due to an increase in donated assets from developers.

Municipal Water System net position increased by $3.8 million or 4.6 percent from $83.5 million to $87.3 million. Operating revenues of $51.2 million increased by $2.6 million or 5.3 percent due to increases in both user fee rates and additional consumption of recycled water. Operating expenses of $47.9 million decreased by $1.2 million or 2.5 percent due to decreases in operations and maintenance costs and benefit costs. The decrease in operating expenses was offset by increases in wholesale water prices in the potable and recycled water programs.

Parking System net position increased by $2.7 million or 2.7 percent from $103.4 million to $106.1 million. Operating revenues increased by $1.6 million or 8.7 percent from $17.6 million to $19.2 million. Nonoperating revenue decreased by $2.8 million or 71.6 percent. The decrease is due to the recording of $3.6 million as interest revenue as part of a debt settlement agreement between the SARA in FY 2018. Operating expenses increased by $1.6 million or 11.4 percent reflecting higher operations and maintenance costs.

San José Clean Energy (SJCE) is the enterprise fund established in 2017-2018 to account for revenues from the sale of electricity and the costs associated with the San José Clean Energy Program. Operating revenues were $102.9 million and expenses were $98.6 million in FY 2019. In FY 2018, there were no operating revenues and $1.1 million in operating expenses since it was a new fund and programs were not fully operational at the time.

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, 2019, the City's governmental funds reported combined fund balances of $1.559 billion compared to $1.424 billion balances in FY 2018. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- $0.2 million consists of nonspendable fund balance related to advances and deposits that are not intended to convert into cash and long-term in nature and do not represent currently available resources.
- $1.016 billion 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.
- $169.6 million is reported as committed fund balance that had been limited by formal Council action for a specific purpose.
- $262.5 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.
- $111.2 million is reported as unassigned fund balance that represents the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications.

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2019, the General Fund's unassigned fund balance is $143.9 million or 34.7 percent of the $414.5 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, 2019, unassigned fund balance represents 14.6 percent of total General Fund expenditures of $984.7 million, while total fund balance represents 42.1 percent of total General Fund expenditures. At June 30, 2018, the same measures were 8.1 percent and 28.9 percent respectively.

The General Fund ending fund balance increased by $121.5 million from $293 million to $414.5 million at June 30, 2019.

In FY 2019, General Fund revenues of $1.068 billion were $89.4 million or 9.1 percent higher than FY 2018 revenues of $978.8 million. Taxes and special assessments revenues increased by $43.4 million or 7.6 percent. The increase was attributed to an increase of property taxes of $38.2 million and sales taxes of $37.2 million.

Property taxes increased by $38.2 million in FY 2019, which is primarily due to an increase in assessed valuations based on a strong real estate market, excess Educational Revenue Augmentation Fund (ERAF) revenue, and $16.7 million in revenues from the County's distribution from the sales of the SARA properties. The property sales revenue is classified as Property Tax in the financial statements, but classified as other revenue on a budgetary basis. Sales tax revenue increased by $37.2 million due to the favorable economy.

FY 2019 General Fund expenditures of $984.7 million were $28.6 million or 2.8 percent lower than FY 2018 expenditures of $1.013 billion. The decrease was primarily due to a $15.4 million reduction in the pavement maintenance program, and a reduction in expenditures from several smaller projects totaling $15 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, 2019, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first time homebuyers, was $70.2 million. This balance includes loans to developers for various projects, including Ford and Monterey, Taylor Oaks Apartments, Donner Lofts, Japantown Seniors, The Metropolitan, Roundtable, Kings Crossing, Fourth Street Apartments, Peacock Commons, Archer Studios, Curtner Studios, Homesafe, Markham Plaza, Corde Terra Village Senior, Willow Glen Senior Housing, Santa Clara Inn, and Second Street Studios. Restricted fund balance increased by $15 million to $148.2 million at June 30, 2019. The increase is primarily due to revenues from intergovernmental ($15.1 million), and investment and other revenues ($20.6 million) exceeding expenditures for community services ($20.6 million). Intergovernmental revenues increased by $7.0 million or 85.5 percent compared to prior year due to an $11 million Homeless Emergency Aid Program (HEAP) grant offset by a one-time Coyote Creek Recovery grant of $5.4 million in FY 2018. Other revenue increased by $9.1 million or 110 percent compared to prior year due to increases in the Inclusionary In-Lieu fees and Affordable Housing Impact fee revenues.

Low and Moderate Income Housing Asset Fund: The Low and Moderate Income Housing Asset fund was created pursuant to the Redevelopment Dissolution Law to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the former Agency. At June 30, 2019, the fund's loan receivable balance (net) was $213.2 million. This balance consists mainly of loans to developers for various projects including Almaden Family Apartments, Belovida Apartments, Brookwood Terrace, Cinnabar Commons, Corde Terra Village, Las Ventanas, Oak Tree Village, Pollard Plaza, Villas on the Park, Second Street Studios, and The Metropolitan (South). Restricted fund balance increased by $18.3 million to $397.6 million from $379.3 million. The increase is primarily due to repayments of developer loans.

Special Assessment Districts Fund: The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of eight special assessment and community facilities districts located in different parts of the City. A total of $125.2 million in special assessment and special tax bonds were outstanding at June 30, 2019. All bonds are secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt, except for the Special Hotel Tax Revenue Bond, Series 2011, which are secured by a first lien on the Convention Center Facilities District No.2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT as defined in the bond documents) as appropriated by City Council. The City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund for these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

Restricted fund balance increased by $4.6 million from $42 million to $46.6 million as of June 30, 2019. The total revenues of $25.3 million were over total expenditures of $16.5 million for FY 2019. The net transfers amount of negative $4.2 million resulted in a $4.6 million net positive change in fund balance. The lower expenditures of $16.9 million, or 50.6 percent compared to the prior fiscal year were related to a reduction of expenditures from the Convention Center Exhibit Hall Lighting and Ceiling Upgrade Project of $18.3 million.

City of San José Financing Authority Fund: The City's Financing Authority Debt Service Fund accounts for debt activity related to lease revenue bonds and commercial paper notes, which serves as a mechanism for financing City public improvements and other eligible purposes. Restricted fund balance decreased by $11.4 million from $11.4 million to none as of June 30, 2019. Unassigned fund balance decreased by $32.6 million from none to a deficit of $32.6 million as of June 30, 2019. The decrease in fund balance of $44 million was primarily due to an increase in short-term notes payable by $38.3 million from the commercial paper transfer of $42.4 million to the South Hall Project and $6 million decrease from the dissolution of Hayes Mansion . Principal payments decreased by $76.5 million or 63.0 percent due to the payoff different bonds in FY 2018 and FY 2019. In FY 2018, the Fourth and San Fernando Project and Convention Center

Refunding Project paid off $92.6 million in bonds. In FY 2019, the Hayes Mansion sale retired $28.5 million in bonds.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. At June 30, 2019, the unrestricted net position was $29.2 million for the Airport, $196.5 million for the Wastewater Treatment System, $13.1 million for the Municipal Water System, $48.4 million for the Parking System, and $2.9 million for the San José Clean Energy fund. Net position for proprietary funds increased from $1.256 billion at June 30, 2018 to $1.345 billion at June 30, 2019, resulting in an increase of $88.7 million or 7.1 percent.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's Charter requires the City Manager to submit balanced operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1st and ends on the following June 30th. Council approved the FY 2019 budget in June 2018.

During the year ended June 30, 2019, there was a $45.6 million decrease in the budgeted revenues between the original and final amended operating budget for the General Fund. The decrease in budgeted revenues included all revenue categories except for Utility Tax, Franchise Tax, State of California in-lieu, Charges for Current Services, and Investment Income categories.

Actual budgetary basis expenditures of $1.03 billion were $43.2 million less than the amended budget and $293.6 million less than the original budget due to planned expenditures not occurring in the fiscal year ended June 30, 2019.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to $7.489 billion at June 30, 2019. 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. For the year end June 30, 2019, net capital assets increased by $48.6 million ($88.7 million decreased in governmental activities and $137.3 million increased in business-type activities) compared to net capital assets at June 30, 2018. The decrease in capital assets of $88.7 million in governmental activities is primarily due to depreciation expense of $226 million and deletions of capital assets totaling $49.4 million, which included a $39.1 million sale of Hayes Mansion and a $28.0 million Diridon property sale to Google. The decrease was offset by acquisitions of capital assets of $159.7 million and land transfers totaling $27.1 million. The increase of $137.3 million in capital assets in the business-type activities resulted from depreciation expense of $83.2 million, offset by additions of capital projects of $168.4 million and additions of $52.4 million in other capital improvements primarily at the Airport and the Wastewater Treatment Facility.

Total construction in progress (CIP) increased by $124.7 million from $230.6 million at June 30, 2018 to $355.3 million at June 30, 2019. Construction in progress for the governmental activities increased by $60.5 million primarily due to more CIP additions relative to those being placed into service. Of the larger assets placed into service, one included the installation of upgraded Motorola dispatch consoles at various Police facilities and the completion of a new trail located at Lonus Street, which resulted in decreases in CIP of $3.6 million and $3.7 million, respectively. Business-type activities contributed an increase of $64.2 million to the total CIP as additions to the Airport and the Wastewater Treatment System totaling $168.4 million was offset by $103.7 million in Airport and Wastewater Treatment System projects that were completed and placed in service. The completed Airport projects include the following: completion of phase 1 and 2 of Terminal B ramp reconstruction and an interim boarding facility.

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, 2019 and June 30, 2018 (in thousands):

	Governmental activities		Business-type activities		Total	
	2019	2018	2019	2018	2019	2018
Land	$ 455,831	$ 409,022	$ 137,938	$ 137,938	$ 593,769	$ 546,960
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	107,083	46,570	248,167	183,980	355,250	230,550
Buildings	940,112	1,000,352	1,057,678	1,046,008	1,997,790	2,046,360
Improvements, other than buildings	222,652	224,407	672,242	650,662	894,894	875,069
Infrastructure	3,449,292	3,593,318	-	-	3,449,292	3,593,318
Furniture and fixtures, vehicles, equipment	53,237	43,259	131,756	91,854	184,993	135,113
Total capital assets	$5,228,207	$5,316,928	$2,260,663	$2,123,324	$7,488,870	$7,440,252

Commitments outstanding as of June 30, 2019, related to governmental and business-type activities construction in progress totaled approximately $10.7 million and $164.5 million, respectively. Additional information about the City's capital assets can be found in the Notes to Basic Financial Statements, Note III.D.

Net General Obligation Bonded Debt Limit

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2018-2019 tax roll was $188.6 billion, which results in a total debt limit of $28.3 billion. As of June 30, 2019, the City had $327.6 million of Net General Obligation bonds outstanding which represents approximately 1.2 percent of the General Obligation bonds debt limit.

General Obligation Bonds and Other Bond Ratings

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

Moody's credit rating for the City of San José Financing Authority, lease revenue bond Series 2003A, 2006A, 2013A, and 2013B is Aa2. Moody's rated the Series 2007A and 2011A lease revenue bonds at Aa3. S&P and Fitch both have an underlying rating of AA. The outlook for all the three agencies is stable.

For the City of San José Airport Revenue Bonds, S&P currently has an underlying rating of A with stable outlook, Moody's currently has an underlying rating of A2 with stable outlook. Fitch had an underlying rating on Airport Revenue Bonds at A- with stable outlook in FY 2019. On September 27, 2019, Fitch upgraded the rating to A with stable outlook.

Sewer revenue bonds issued by the San José -Santa Clara Clean Water Financing Authority have current underlying ratings of AAA by S&P and Fitch, and a rating of Aa2 by Moody's. The outlook for all three agencies is 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 the current year, the City's outstanding long-term debt decreased by $40.9 million to $2.239 billion, comprised of $910.1 million of governmental activities and $1.329 billion of business-type activities. The decrease of $40.9 million is primarily due to the scheduled debt service payments and the redemption of the Hayes Mansion 2008C and 2008D series bonds.

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

	As of June 30, 2019	As of June 30, 2018	Net Change
Governmental Activities:			
General obligation bonds	$ 327,591	$ 347,530	$ (19,939)
San José Financing Authority			
Lease revenue bonds	458,821	505,519	(46,698)
Special assessment bonds with limited			
governmental commitment	123,714	129,228	(5,514)
Sub-total	910,126	982,277	(72,151)
Business-Type Activities:			
Revenue bonds	1,240,165	1,277,755	(37,590)
State of CA-Revolving Fund Loan	-	1,772	(1,772)
Regional Wastewater Facility - Notes payable	89,076	18,490	70,586
Sub-total	1,329,241	1,298,017	31,224
Total:	$ 2,239,367	$ 2,280,294	$ (40,927)

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's General Fund completed FY 2019 with better operating financial results than expected when the FY 2019 Adopted Budget was developed. Although the local economic activity remains strong, 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 2019, the City Council approved a balanced General Fund budget for FY 2020. Given the availability of one-time funding and the modest funding made available, the FY 2020 Adopted Budget follows City Council direction to focus on targeted, strategic spending as well as saving for the future. The budget takes a multi-year approach with one-time funding set aside in FY 2020 to address the projected General Fund shortfall in FY 2021 on a one-time basis. It also increases the Budget Stabilization Reserve, maintains existing service levels, enhances service delivery in limited areas, and invests in the City's infrastructure and technology. With limited resources, it is critical that the City continues to innovate and leverage resources to achieve its service delivery goals.

- The FY 2020 Adopted Budget includes modest increases to staffing levels to support a variety of activities and limited enhancements to other critical services. Overall, the level of staffing will increase by a net 234 (a total of 87 positions are one-time funded), from 6,413 full-time equivalent positions in the FY 2019 Adopted Budget to 6,647 positions in the FY 2020 Adopted Budget. This 3.6 percent increase still leaves City staffing well below its peak of almost 7,500 positions in FY 2002 and well below the average of large cities.

- As reported in the GASB 67/68 Report as of June 30, 2018 prepared by the actuary for the Police and Fire Department Retirement Plan (PFDRP), the net position of the Defined Benefit Pension Plan was 74 percent of the total pension liability. The total pension liability was $4.636 billion, and the fiduciary net position was $3.496 billion, resulting in a net pension liability of $1.140 billion.

- As reported in the GASB 67/68 Report as of June 30, 2018 prepared by the actuary for the Federated City Employees' Retirement System (FCERS), the net position of the Defined Benefit Pension Plan was 50 percent of the total pension liability. The total pension liability was $4.057 billion, and the fiduciary net position was $2.069 billion, resulting in a net pension liability of $1.988 billion.

- For funding purposes, as of June 30, 2018, the most recent actuarial valuation date, FCERS's OPEB Plan had a 42.6 percent actuarial funded ratio for postemployment healthcare benefits. The actuary reported total OPEB liability for postemployment healthcare benefits was $651.2 million and the fiduciary net position was $277.3 million, resulting in a net OPEB liability of $374.0 million.

- For funding purposes, as of June 30, 2018, the most recent actuarial valuation date, PFDRP's OPEB Plan had a 22.8 percent actuarial funded ratio for postemployment healthcare benefits. The actuary reported total OPEB liability for postemployment healthcare benefits was $711.8 million and the fiduciary net position was $162.5 million, resulting in a net OPEB liability of $549.3 million.

- For FY 2020, the City's contribution rates for pension benefits and postemployment healthcare benefits, as a percentage of payroll are as follows:

	PFDRP (1)				FCERS (1)	
Contribution Rates	**Police Tier 1**	**Police Tier 2**	**Fire Tier 1**	**Fire Tier 2**	**Tier 1**	**Tier 2**
Retirement Pension	107.19%	14.06%	107.97%	15.39%	111.40%	8.33%
Postemployment Healthcare Benefits	15.8%	- (2)	12.9%	- (2)	7.06%	7.06%

(1) The rates above are the Retirement Board adopted rates based on the June 30, 2018, actuarial valuations.

(2) Subsequent to the implementation of the revised Tier 2 pension benefits for sworn Police and Fire Tier 2 employees, the City Manager exercised his discretion, pursuant to the Municipal Code, to terminate the defined benefit retiree healthcare plan for these employees. Effective July 30, 2017, Police and Fire Tier 2 employees were no longer eligible for the defined benefit retiree healthcare plan and, as such, will not make contributions to the plan. The City continues to pay its contributions for the Tier 2 police and fire employees. Additional information about the City's Postemployment Healthcare Benefits appears in the Notes to Basic Financial Statements, Note IV. A.4 would not apply to FY 2019.

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 to reflect any event or circumstance that may arise after the date of the CAFR.

Requests for Information

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

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 200 East Santa Clara Street, San José, California 95113. Requests for documents may be directed to the City department designated in the CAFR as the holder of a particular document or to the Director of Finance. This report can also be found online at *http://www.sanjoseca.gov.*

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Basic
Financial Statements

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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City of San José
Statement of Net Position
June 30, 2019
($000's)

		Governmental Activities	Business-Type Activities	Total
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	1,179,855	683,268	1,863,123
Other cash and investments		15	-	15
Receivables (net of allowances for uncollectibles)		148,721	78,381	227,102
Due from outside agencies		58	-	58
Prepaid expenses, advances and deposits		-	104	104
Inventories		1,150	773	1,923
Notes receivable		10,020	-	10,020
Loans receivable (net of allowances for uncollectibles)		287,582	-	287,582
Advances and deposits		722	1,460	2,182
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		97,241	45,302	142,543
Cash and investments held with fiscal agent		88,392	133,298	221,690
Other cash and investments		17,507	2,255	19,762
Receivables (net of allowances for uncollectibles)		-	5,360	5,360
Prepaid bond insurance costs		-	93	93
Prepaid bond insurance costs (net of accumulated amortization)		307	1,941	2,248
Long-term receivables from SARA		28,687	17,863	46,550
Other assets		31,105	-	31,105
Capital assets (net of accumulated depreciation):				
Nondepreciable		562,914	398,987	961,901
Depreciable		4,665,293	1,861,676	6,526,969
Total assets		7,119,569	3,230,761	10,350,330
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refundings of debt		648	8,128	8,776
Deferred outflows of resources related to pensions		645,244	73,153	718,397
Deferred outflows of resources related to other postemployment benefits		80,020	7,757	87,777
Total deferred outflows of resources		725,912	89,038	814,950
LIABILITIES				
Accounts payable		40,710	85,922	126,632
Accrued salaries, wages and payroll taxes		39,370	5,125	44,495
Interest payable		9,118	21,162	30,280
Due to outside agencies		485	-	485
Short-term notes payable		77,969	62,216	140,185
Unearned revenue		19,073	3,921	22,994
Advances, deposits, and reimbursable credits		7,609	5,279	12,888
Long-term payable to SARA		739	-	739
Other liabilities		58,896	-	58,896
Long-term obligations:				
Due within one year		114,641	54,040	168,681
Due in more than one year		1,021,681	1,294,405	2,316,086
Net pension liability		2,781,722	347,373	3,129,095
Net other postemployment benefits liability		840,481	82,796	923,277
Total liabilities		5,012,494	1,962,239	6,974,733
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions		80,589	250	80,839
Deferred inflows of resources related to other postemployment benefits		42,877	12,304	55,181
Total deferred inflows of resources		123,466	12,554	136,020
NET POSITION				
Net investment in capital assets		4,330,279	982,045	5,312,324
Restricted for:				
Debt service		24,440	24,422	48,862
Capital projects		332,363	48,468	380,831
Community services		677,788	-	677,788
Public safety		2,174	-	2,174
Unrestricted (deficit)		(2,657,523)	290,071	(2,367,452)
Total net position	$	2,709,521	1,345,006	4,054,527

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, 2019
($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	$ 142,531	26,656	1,160	-	(114,715)	-	(114,715)
Public safety	709,532	88,391	8,070	-	(613,071)	-	(613,071)
Community services	308,345	106,836	61,986	-	(139,523)	-	(139,523)
Sanitation	164,677	154,094	63	-	(10,520)	-	(10,520)
Capital maintenance	422,170	59,441	37,082	111,278	(214,369)	-	(214,369)
Interest and fiscal charges	46,720	-	-	-	(46,720)	-	(46,720)
Total governmental activities	**1,793,975**	**435,418**	**108,361**	**111,278**	**(1,138,918)**	**-**	**(1,138,918)**
Business -Type activities:							
Norman Y. Mineta San José International Airport	224,387	223,267	720	18,747	-	18,347	18,347
Wastewater Treatment System	199,350	248,830	-	5,653	-	55,133	55,133
Municipal Water System	47,917	51,181	-	255	-	3,519	3,519
Parking System	16,151	19,185	-	-	-	3,034	3,034
San José Clean Energy	98,909	102,855	-	-	-	3,946	3,946
Total business-type activities	**586,714**	**645,318**	**720**	**24,655**	**-**	**83,979**	**83,979**
Total	**$ 2,380,689**	**1,080,736**	**109,081**	**135,933**	**(1,138,918)**	**83,979**	**(1,054,939)**

	Governmental Activities	Business -Type Activities	Total
General revenues:			
Taxes and franchise fees:			
Property and other taxes	497,317	-	497,317
Utility	120,846	-	120,846
Franchise	48,397	-	48,397
Transient occupancy	51,399	-	51,399
Business taxes	77,011	-	77,011
Sales taxes	263,530	-	263,530
State of California in-lieu	505	-	505
Unrestricted interest and investment income	24,165	23,498	47,663
Other revenue	34,707	627	35,334
Gain on sale of capital assets	44,528	-	44,528
Transfers	3,141	(3,141)	-
Special item - rate stabilization fund and ten-year lookback distribution	-	(16,266)	(16,266)
Total general revenues, transfers and special item	**1,165,546**	**4,718**	**1,170,264**
Change in net position	**26,628**	**88,697**	**115,325**
Net position - beginning	2,682,893	1,256,309	3,939,202
Net position - ending	**$ 2,709,521**	**1,345,006**	**4,054,527**

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2019
($000's)

		General Fund	Housing Activities	Low and Moderate Income Housing Asset
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	435,353	47,009	148,821
Other cash and investments		-	-	-
Receivables (net of allowance for uncollectibles)		78,156	2,693	2,274
Due from outside agencies		58	-	-
Due from other funds		1,653	-	-
Notes receivable		-	-	-
Loans receivables (net of allowance for uncollectibles)		1,241	70,211	213,168
Advances and deposits		137	-	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		1,331	47,315	-
Cash and investments held with fiscal agent		1	-	-
Other cash and investments		-	-	-
Advances to other funds		3,297	-	-
Advances receivable from SARA		12,742	-	15,945
Other assets		-	2,300	26,901
Total assets	$	533,969	169,528	407,109
LIABILITIES				
Accounts payable	$	11,901	2,955	514
Accrued salaries, wages, and payroll taxes		34,437	118	274
Due to other funds		-	-	-
Due to outside agencies		373	-	-
Short-term notes payable		-	-	-
Unearned revenue		6,548	-	-
Advances, deposits, and reimbursable credits		37	-	-
Advances from other funds		-	-	-
Long-term advances from SARA		-	-	739
Other liabilities		53,432	-	-
Total liabilities		106,728	3,073	1,527
DEFERRED INFLOWS OF RESOURCES		12,742	18,265	7,934
FUND BALANCES				
Nonspendable		153	-	-
Restricted		1,370	148,190	397,648
Committed		100,147	-	-
Assigned		168,961	-	-
Unassigned		143,868	-	-
Total fund balances		414,499	148,190	397,648
Total liabilities, deferred inflows of resources and fund balances	$	533,969	169,528	407,109

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
-	466	529,540	1,161,189
-	-	8	8
30,137	-	34,986	148,246
-	-	-	58
-	-	2,035	3,688
-	10,000	20	10,020
-	-	2,962	287,582
5	-	580	722
15,248	-	33,347	97,241
30,853	38,265	19,273	88,392
-	-	17,018	17,018
-	-	-	3,297
-	-	-	28,687
-	-	1,904	31,105
76,243	48,731	641,673	1,877,253
319	-	24,838	40,527
-	-	3,229	38,058
-	-	3,688	3,688
-	112	-	485
-	77,969	-	77,969
-	-	11,959	18,507
1,578	-	5,994	7,609
-	3,297	-	3,297
-	-	-	739
317	-	5,147	58,896
2,214	81,378	54,855	249,775
27,400	-	1,888	68,229
-	-	-	153
46,629	-	422,000	1,015,837
-	-	69,451	169,598
-	-	93,500	262,461
-	(32,647)	(21)	111,200
46,629	(32,647)	584,930	1,559,249
76,243	48,731	641,673	1,877,253

City of San José
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2019
($000's)

Total fund balances-governmental funds (Page 27)		$ 1,559,249
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	$ 455,831	
Construction in progress	107,083	
Infrastructure assets	11,560,910	
Other capital assets	2,067,622	
Accumulated depreciation	(8,968,165)	
Total capital assets		5,223,281
Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds.		40,829
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.		307
Refundings of debt reported as deferred outflows/inflows of resources are not financial resources, therefore are not reported in the funds. Such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.		648
Special assessments are reported as revenues when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred inflows of resources since they are not available.		27,400
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.		(9,118)
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 assets and liabilities are included in governmental activities in the statement of net position.		20,571
Long-term obligations are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds, loan payables, and lease-purchase agreements	$ (924,017)	
Accrued vacation, sick leave and compensatory time	(74,142)	
Estimated liability for self-insurance	(128,660)	
Other	(6,422)	
Total long-term obligations		(1,133,241)
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds. These amounts consist of:		
Net pension liability	$ (2,781,722)	
Deferred outflows of resources	645,244	
Deferred inflows of resources	(80,589)	
		(2,217,067)
Other postemployment benefits liability and related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds. These amounts consist of:		
Net other postemployment benefits liability	$ (840,481)	
Deferred outflows of resources	80,020	
Deferred inflows of resources	(42,877)	
		(803,338)
Net position of governmental activities (Page 24)		$ 2,709,521

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

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019
($000's)

		General Fund	Housing Activities	Low and Moderate Income Housing Asset
REVENUES				
Taxes and special assessments	$	611,752	-	-
Sales taxes		263,530	-	-
Licenses, permits, and fines		80,725	-	-
Intergovernmental		8,349	15,105	-
Charges for current services		55,646	-	-
Rent		-	-	-
Investment income		7,303	3,313	21,045
Other revenue		40,888	17,285	8,253
Total revenues		1,068,193	35,703	29,298
EXPENDITURES				
Current:				
General government		137,732	-	-
Public safety		622,250	-	-
Community services		115,441	20,626	10,475
Sanitation		4,844	-	-
Capital maintenance		89,758	-	-
Capital outlay		12,464	-	-
Debt service:				
Principal		1,420	-	-
Interest and fiscal charges		838	-	-
Total expenditures		984,747	20,626	10,475
Excess (deficiency) of revenues over (under) expenditures		83,446	15,077	18,823
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets		132,703	-	-
Transfers in		18,751	-	-
Transfers out		(46,423)	(69)	(479)
Escrow payment to the County of Santa Clara		(67,000)	-	-
Total other financing sources (uses)		38,031	(69)	(479)
Net change in fund balances		121,477	15,008	18,344
Fund balances - beginning		293,022	133,182	379,304
Fund balances - ending	$	414,499	148,190	397,648

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
23,664	-	183,723	819,139
-	-	-	263,530
-	-	-	80,725
-	-	78,874	102,328
-	-	214,161	269,807
-	-	60,974	60,974
1,292	983	15,823	49,759
315	-	18,547	85,288
25,271	983	572,102	1,731,550
-	-	13,563	151,295
-	-	1,603	623,853
-	-	108,929	255,471
-	-	158,427	163,271
915	-	144,783	235,456
1,391	-	124,321	138,176
5,580	44,940	21,082	73,022
8,590	23,590	16,111	49,129
16,476	68,530	588,819	1,689,673
8,795	(67,547)	(16,717)	41,877
-	-	28,240	160,943
4,300	69,724	104,025	196,800
(8,483)	(46,210)	(95,983)	(197,647)
-	-	-	(67,000)
(4,183)	23,514	36,282	93,096
4,612	(44,033)	19,565	134,973
42,017	11,386	565,365	1,424,276
46,629	(32,647)	584,930	1,559,249

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, 2019
($000's)

Net change in fund balances--total governmental funds (Page 31)		$ 134,973
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	$ 138,176	
Depreciation expense	(223,616)	
Excess of depreciation expense over capital outlay		(85,440)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)		
Donated assets and other additions	$ 19,922	
Transfers from SARA	28,662	
Transfers to SARA	(1,600)	
Proceeds from sale of capital assets	(93,943)	
Gain on disposal of assets	44,528	
		(2,431)
Decrease in long-term receivables are not current financial resources and therefore are not reported in the governmental funds.		(19,610)
Prepaid bond insurance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		(19)
Amortization of deferred outflows of resources resulting from the deferred loss on refunding of bonds		(74)
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.		71,380
Accrued interest payable on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources. Amortization of bond premiums and discounts should be expensed as a component of interest expense on the statement of activities. This amount represents the change in accrued interest payable and the amortization of bond premiums and discounts not reported in governmental funds.		
Decrease in accrued interest payable	$ 512	
Amortization of premiums and discounts on bonds issued	1,971	
Total net interest expense and amortization of discount/premium		2,483
Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available revenues" and are reported as deferred inflows of resources in the governmental funds.		(4,162)
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.		(85)
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 vacation, sick leave, and compensatory time	$ (857)	
Net decrease in estimated liability for self-insurance	6,666	
Net decrease in other liabilities	18,321	
Total expenditures		24,130
Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(201,559)
Changes to other postemployment benefits liability and related deferred outflows and inflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		107,042
Change in net position of governmental activities (Page 25)		$ 26,628

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

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2019
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	**Wastewater Treatment System**	**Municipal Water System**	**Parking System**	**San José Clean Energy**	**Total**	**Internal Service Funds**
ASSETS							
Current assets:							
Equity in pooled cash and investments held in City Treasury	$ 159,170	449,410	24,997	38,414	11,277	683,268	18,666
Other cash and investments	-	-	-	-	-	-	7
Receivables (net of allowance for uncollectibles)	14,597	10,486	10,662	353	42,283	78,381	475
Prepaid expenses, advances and deposits	104	-	-	-	-	104	-
Inventories	-	773	-	-	-	773	1,150
Total unrestricted current assets	173,871	460,669	35,659	38,767	53,560	762,526	20,298
Restricted assets:							
Equity in pooled cash and investments held in City Treasury	34,836	8,308	-	2,158	-	45,302	-
Cash and investments held with fiscal agent	133,294	-	-	-	4	133,298	-
Other cash and investments	-	2,255	-	-	-	2,255	489
Receivables (net of allowances for uncollectibles)	5,360	-	-	-	-	5,360	-
Current portion of prepaid bond insurance	93	-	-	-	-	93	-
Total restricted assets	173,583	10,563	-	2,158	4	186,308	489
Total current assets	347,454	471,232	35,659	40,925	53,564	948,834	20,787
Noncurrent assets:							
Prepaid bond insurance (net of accumulated amortization)	1,941	-	-	-	-	1,941	-
Advances and deposits	1,460	-	-	-	-	1,460	-
Long-term receivable from SARA	-	-	-	17,863	-	17,863	-
Net other postemployment benefits asset	-	-	-	-	742	742	-
Capital assets (net of accumulated depreciation):							
Nondepreciable	96,403	273,342	6,077	23,165	-	398,987	-
Depreciable	1,208,802	552,373	68,129	32,372	-	1,861,676	4,926
Total noncurrent assets	1,308,606	825,715	74,206	73,400	742	2,282,669	4,926
Total assets	1,656,060	1,296,947	109,865	114,325	54,306	3,231,503	25,713
DEFERRED OUTFLOWS OF RESOURCES							
Loss on refundings of debt	8,128	-	-	-	-	8,128	-
Deferred outflows of resources related to pensions	18,111	47,018	5,215	2,005	804	73,153	-
Deferred outflows of resources related to other postemployment benefits	2,427	4,564	440	152	174	7,757	-
Total deferred outflows of resources	$ 28,666	51,582	5,655	2,157	978	89,038	-

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

City of San José
Statement of Fund Net Position (Continued)
Proprietary Funds
June 30, 2019
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
LIABILITIES							
Current liabilities:							
Accounts payable	$ 22,995	25,343	448	900	35,027	84,713	183
Accrued salaries, wages, and payroll taxes	1,290	3,229	321	115	170	5,125	1,312
Interest payable	79	285	-	-	-	364	-
Short-term notes payable	52,216	-	-	-	10,000	62,216	-
Accrued vacation, sick leave and compensatory time	1,842	3,829	185	161	125	6,142	-
Estimated liability for self-insurance	633	428	121	-	6,791	7,973	-
Advances and deposits payable	1,847	-	-	94	-	1,941	-
Unearned revenue	3,826	-	-	-	-	3,826	566
Total current liabilities unrestricted	84,728	33,114	1,075	1,270	52,113	172,300	2,061
Current liabilities payable from restricted assets:							
Accounts payable and accrued liabilities	1,209	-	-	-	-	1,209	-
Interest payable	20,739	59	-	-	-	20,798	-
Unearned revenue	95	-	-	-	-	95	-
Current portion of bonds payable, net	34,625	5,300	-	-	-	39,925	-
Total current liabilities payable from restricted assets	56,668	5,359	-	-	-	62,027	-
Total current liabilities	141,396	38,473	1,075	1,270	52,113	234,327	2,061
Noncurrent liabilities:							
Accrued vacation, sick leave and compensatory time	397	441	-	-	-	838	3,081
Estimated liability for self-insurance	1,901	1,875	475	-	-	4,251	-
Advance contributions from participating agencies	-	1,663	-	-	-	1,663	-
Advances, deposits, and reimbursable credits	-	-	1,675	-	-	1,675	-
Notes payable	-	89,076	-	-	-	89,076	-
Bonds payable (net of premium/discount)	1,194,784	5,456	-	-	-	1,200,240	-
Net pension liability	105,487	215,610	18,693	7,583	-	347,373	-
Net other postemployment benefits liability	19,983	56,733	5,572	1,250	-	83,538	-
Total noncurrent liabilities	1,322,552	370,854	26,415	8,833	-	1,728,654	3,081
Total liabilities	1,463,948	409,327	27,490	10,103	52,113	1,962,981	5,142
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources related to pensions	61	163	19	7	-	250	-
Deferred inflows of resources related to other postemployment benefits	3,176	7,821	754	259	294	12,304	-
Total deferred inflows of resources	3,237	7,984	773	266	294	12,554	-
NET POSITION							
Net investment in capital assets	126,419	725,883	74,206	55,537	-	982,045	4,926
Restricted for debt service	20,124	2,140	-	2,158	-	24,422	-
Restricted for capital projects and other agreements	41,773	6,695	-	-	-	48,468	-
Unrestricted	29,225	196,500	13,051	48,418	2,877	290,071	15,645
Total net position	$ 217,541	931,218	87,257	106,113	2,877	1,345,006	20,571

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2019
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
OPERATING REVENUES							
Charges for services	$ 75,778	180,725	51,181	19,185	102,855	429,724	136,229
Rentals and concessions	23,717	13,976	-	-	-	37,693	-
Service connection, engineering and inspection	64,560	4,050	-	-	-	68,610	-
Operating contributions from participating agencies	-	45,605	-	-	-	45,605	-
Other	10,773	4,474	-	-	-	15,247	-
Total operating revenues	174,828	248,830	51,181	19,185	102,855	596,879	136,229
OPERATING EXPENSES							
Operations and maintenance	75,724	133,946	42,722	6,781	95,811	354,984	138,613
General and administrative	25,042	33,533	2,397	6,820	2,603	70,395	-
Depreciation	49,026	29,616	2,798	1,748	-	83,188	2,415
Materials and supplies	-	540	-	802	136	1,478	-
Total operating expenses	149,792	197,635	47,917	16,151	98,550	510,045	141,028
Operating income (loss)	25,036	51,195	3,264	3,034	4,305	86,834	(4,799)
NONOPERATING REVENUES (EXPENSES)							
Passenger facility charges	29,735	-	-	-	-	29,735	-
Customer facility charges	18,704	-	-	-	-	18,704	-
Operating grants	720	-	-	-	-	720	-
Investment income	9,893	11,548	793	1,124	140	23,498	624
Interest expense	(60,381)	(1,690)	-	-	(67)	(62,138)	-
Letter of credit fees	-	-	-	-	(292)	(292)	-
Participating airline net revenue sharing	(13,943)	-	-	-	-	(13,943)	-
Contributions for maintenance reserves	-	(25)	-	-	-	(25)	-
Gain (loss) on disposal of capital assets	(271)	-	-	-	-	(271)	93
Other revenues (expenses), net	372	201	69	(15)	-	627	9
Net nonoperating revenues (expenses)	(15,171)	10,034	862	1,109	(219)	(3,385)	726
Income (loss) before capital contributions, transfers, and special item	9,865	61,229	4,126	4,143	4,086	83,449	(4,073)
Capital contributions	18,747	5,653	255	-	-	24,655	-
Transfers in	673	327	-	31	-	1,031	4,200
Transfers out	-	(2,084)	(584)	(1,411)	(93)	(4,172)	(212)
Special item - rate stabilization fund and ten-year lookback distribution	(16,266)	-	-	-	-	(16,266)	-
Changes in net position	13,019	65,125	3,797	2,763	3,993	88,697	(85)
Net position - beginning	204,522	866,093	83,460	103,350	(1,116)	1,256,309	20,656
Net position - ending	$ 217,541	931,218	87,257	106,113	2,877	1,345,006	20,571

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, 2019
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$ 178,409	215,202	50,021	19,188	60,572	523,392	-
Cash received from interfund services provided	-	-	-	-	-	-	136,101
Payments to suppliers	(32,827)	(72,577)	(39,670)	(11,045)	(55,150)	(211,269)	(114,324)
Payments for employees	(32,652)	(87,835)	(7,124)	(3,429)	(2,915)	(133,955)	(24,367)
Payments for City services	(21,945)	-	-	-	-	(21,945)	-
Payments to airlines	(30,210)	-	-	-	-	(30,210)	-
Claims paid	(141)	-	-	-	-	(141)	-
Other receipts	1,138	29,508	-	-	-	30,646	-
Net cash provided by (used in) operating activities	61,772	84,298	3,227	4,714	2,507	156,518	(2,590)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfer from other funds	-	-	-	31	-	31	4,200
Transfer to other funds	-	(1,757)	(584)	(1,411)	(93)	(3,845)	(212)
Operating grants	946	-	-	-	-	946	-
Payments from other funds	-	-	22	-	-	22	-
Net cash provided by (used in) noncapital and related financing activities	946	(1,757)	(562)	(1,380)	(93)	(2,846)	3,988
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Passenger facility charges received	29,521	-	-	-	-	29,521	-
Customer facility charges received	18,636	-	-	-	-	18,636	-
Capital grants received	19,979	357	-	-	-	20,336	-
Acquisition and construction of capital assets	(77,586)	(132,164)	(3,191)	(1,053)	-	(213,994)	(1,471)
Proceeds from commercial paper	55,000	-	-	-	-	55,000	-
Proceeds from line of credit	-	70,586	-	-	-	70,586	-
Principal payment on commercial paper	(10,293)	-	-	-	-	(10,293)	-
Principal paid on debt	(28,915)	(6,737)	-	-	-	(35,652)	-
Interest paid on debt	(63,837)	(1,642)	-	-	(67)	(65,546)	-
Fees paid on letter of credit	-	-	-	-	(292)	(292)	-
Advances and deposits returned	1,355	-	-	-	-	1,355	-
Net cash provided by (used in) capital and related financing activities	(56,140)	(69,600)	(3,191)	(1,053)	(359)	(130,343)	(1,471)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from sales and maturities of investments	73,994	-	-	-	-	73,994	-
Purchase of investments	(69,511)	-	-	-	-	(69,511)	-
Interest received	8,658	11,007	771	1,124	140	21,700	624
Land and building rentals	-	140	-	-	-	140	-
Net cash provided by investing activities	13,141	11,147	771	1,124	140	26,323	624
Net change in cash and cash equivalents	19,719	24,088	245	3,405	2,195	49,652	551
Cash and cash equivalents - beginning	267,521	435,886	24,752	37,167	9,086	774,412	18,611
Cash and cash equivalents - ending	$ 287,240	459,974	24,997	40,572	11,281	824,064	19,162

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, 2019
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	$ 25,036	51,195	3,264	3,034	4,305	86,834	(4,799)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	49,026	29,616	2,798	1,748	-	83,188	2,415
Special item - rate stabilization fund and ten-year lookback distribution	(16,266)	-	-	-	-	(16,266)	-
Participating airline net revenue sharing	(13,943)	-	-	-	-	(13,943)	-
Other nonoperating revenues	1,139	-	69	48	-	1,256	9
Decrease (increase) in:							
Accounts receivable	3,007	(4,120)	(1,229)	(45)	(42,283)	(44,670)	(136)
Inventories	-	(76)	-	-	-	(76)	(5)
Prepaid expenses, advances and deposits	2	-	-	-	-	2	-
Increase (decrease) in:							
Accounts payable and accrued liabilities	18,278	1,634	(2,505)	(260)	34,897	52,044	198
Accrued salaries, wages, and payroll	106	120	4	(27)	114	317	-
Accrued vacation, sick leave and compensatory time	(89)	(109)	(18)	(28)	109	(135)	(160)
Estimated liability for self-insurance	(487)	(842)	(300)	-	6,791	5,162	-
Unearned revenue	(4,878)	-	-	-	-	(4,878)	(112)
Net pension liability, deferred outflows and inflows of pension related resources	6,210	18,418	2,251	646	(804)	26,721	-
Net other postemployment benefits liability, deferred outflows and inflows of postemployment benefits resources	(5,632)	(11,538)	(1,107)	(404)	(622)	(19,303)	-
Advances and deposits payable	263	-	-	2	-	265	-
Net cash provided by (used in) operating activities	$ 61,772	84,298	3,227	4,714	2,507	156,518	(2,590)
Reconciliation of cash and cash equivalents to the statement of net position:							
Equity in pooled cash and investments held in City Treasury							
Unrestricted	$ 159,170	449,410	24,997	38,414	11,277	683,268	18,666
Restricted	34,836	8,308	-	2,158	-	45,302	-
Cash and investments held with fiscal agent	93,234	-	-	-	4	93,238	-
Other cash and investments	-	2,256	-	-	-	2,256	496
Cash and cash equivalents	$ 287,240	459,974	24,997	40,572	11,281	824,064	19,162
Noncash noncapital, capital and related financing, and investing activities:							
Disposal of capital assets	$ (271)	-	-	-	-	(271)	-
Capital contributions from developers	-	5,296	255	-	-	5,551	-
Amortization of bond discount/premium, and prepaid bond insurance costs	(3,492)	125	-	-	-	(3,367)	-
Amortization of deferred outflows/inflows of resources related to bond refundings	488	-	-	-	-	488	-
Change in capital related payables	(1,254)	-	-	-	-	(1,254)	-
Change in capital related receivables	1,231	-	-	-	-	1,231	-
Change in fair value of investments	880	-	-	-	-	880	-

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

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City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019
($000's)

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Fund
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	$ -	197	6,257
Cash and investments	-	56,785	-
Investments of retirement systems:			
Investments:			
Public equity	1,977,259	-	-
Short-term investment grade bonds	1,200,172	-	-
Private equity	841,487	-	-
Market neutral strategies	436,565	-	-
Bonds (immunized cash flows)	283,964	-	-
Core real estate	247,400	-	-
Commodities	155,810	-	-
Private debt	261,777	-	-
Emerging market bonds	186,693	-	-
Growth real estate	154,017	-	-
Treasury inflation protected securities	118,638	-	-
Cash and cash equivalents	92,517	-	-
Private real assets	56,956	-	-
International currency contracts, net	104	-	-
Sovereign bonds ex US	102,860	-	-
High yield debt	17,678	-	-
Total investments of retirement systems	6,133,897	-	-
Receivables:			
Accrued investment income	10,563	-	38
Employee contributions	2,980	-	-
Employer contributions	19,239	-	-
Other	40,719	298	-
Restricted cash and investments held with fiscal agent	-	117,797	-
Total current assets	6,207,398	175,077	6,295
Noncurrent assets:			
Advances to the City of San José	-	739	-
Accrued interest	-	1,076	-
Loans receivable, net	-	4,121	-
Advances and deposits	-	5	-
Prepaid bond insurance	-	1,809	-
Capital assets:			
Nondepreciable	-	2,892	-
Depreciable, net	6,069	50,598	-
Total noncurrent assets	6,069	61,240	-
Total assets	6,213,467	236,317	6,295
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	$ -	38,089	

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

City of San José
Statement of Fiduciary Net Position (Continued)
Fiduciary Funds
June 30, 2019
($000's)

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Fund
LIABILITIES			
Current liabilities:			
Accounts payable	$ -	150	-
Due to brokers	8,792	-	-
Accrued interest payable	-	22,036	-
Unearned revenue	-	8	-
Other liabilities	3,656	-	6,295
Total current liabilities	12,448	22,194	6,295
Long-term liabilities:			
Due within one year	-	141,514	-
Due in more than one year	-	1,517,436	-
Total noncurrent liabilities	-	1,658,950	-
Total liabilities	12,448	1,681,144	6,295
NET POSITION			
Restricted for:			
Employees' pension benefits	5,720,574	-	
Employees' postemployment healthcare benefits	480,445	-	
Redevelopment dissolution and other purposes	-	(1,406,738)	
Total net position (deficit)	$ 6,201,019	(1,406,738)	

City of San José
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2019
($000's)

ADDITIONS		**Pension Trust Funds**	**Private-Purpose Trust Funds**
Redevelopment property tax revenues	$	-	226,744
Investment income:			
Interest		41,147	1,229
Dividends		20,920	-
Net rental income		-	101
Net change in fair value of plan investments		175,418	-
Investment expenses		(29,072)	-
Total investment income		208,413	1,330
Contributions:			
Employer		404,778	-
Employees		71,310	-
Total contributions		476,088	-
Charges for current services		-	56
Development fees		-	251
Gain on sale of revenue participation		-	31
Gain on sales of property and other assets		-	10,725
Grant revenue		-	993
Capital contribution from the City of San José			1,600
Other		-	1,586
Total additions		684,501	243,316
DEDUCTIONS			
General and administrative		10,461	1,550
Project expenses		-	680
Pass through amounts to the County of Santa Clara		-	36,410
Payments to the County of Santa Clara for distributions to taxing entities		-	51,541
Transfer of properties to the City of San José		-	28,662
Depreciation		-	1,979
Allowance for loan losses		-	134
Interest on debt		-	54,904
Health insurance premiums		55,229	-
Refunds of contributions		1,313	-
Retirement and other benefits:			
Death benefits		26,881	-
Retirement benefits		394,880	-
Veba transfer		19	-
Total deductions		488,783	175,860
Change in net position		195,718	67,456
Net position restricted for pension benefits, postemployment healthcare benefits and other purposes:			
Beginning of year		6,005,301	(1,474,194)
End of year	$	6,201,019	(1,406,738)

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

INDEX TO THE NOTES

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

- **Successor Agency to the Redevelopment Agency of the City of San José** – The Successor Agency to the Redevelopment Agency of the City of San José (the "SARA") was created by State statute, referred to in these notes as the Redevelopment Dissolution Law, to serve as a custodian for the assets and to wind down the affairs of the SARA. The SARA is subject to the direction and oversight of a board consisting of the Mayor and the other members of the City Council ("SARA Board"). The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an oversight board.

  Beginning July 1, 2018, pursuant to Health and Safety Code section 34179(j), the individual oversight boards within Santa Clara County no longer existed and were combined into one county-wide oversight board (the "Oversight Board"). The Oversight Board is comprised of seven member representatives with one member appointed by each of the following: County Board of Supervisors, the city selection committee established pursuant to Section 50270 of the Government Code, the independent special district selection committee established pursuant to Section 56332 of the Government Code, the County Superintendent of Education, the Chancellor of the California Community Colleges, a public appointment made the County Board of Supervisors, and the recognized employee organization representing the largest number of successor agency employees in the county. The Oversight Board is staffed by the County of Santa Clara Auditor-Controller and tasks have been delegated among the County Finance Agency, the Office of the County Executive, the Clerk of the Board of Supervisors, and Office of the County Counsel.

In general, the SARA's assets can only be used to pay the enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In general, the SARA is allocating revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Redevelopment Agency of the City of San José (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"), currently known as the San José – Santa Clara Regional Wastewater Facility (the "RWF"). The Clean Water Financing Authority is governed by a five-member Board of Directors; three are members of the San José City Council and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara entered into an Improvement Agreement and subsequent amendments to the Improvement Agreement (the "Improvement Agreement"), which requires each city to make base payments that are at least equal to each city's allocable share of debt service requirements of the Clean Water Financing Authority's outstanding revenue bonds. Under the Improvement Agreement, the City of San José is entirely responsible for the repayment of the Clean Water Financing Authority's outstanding revenue bonds. The Clean Water Financing Authority is blended in the Wastewater Treatment System Enterprise Fund for financial reporting purposes.

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

- **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 area of the City surrounding the San José Diridon Station, 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 2018-19 (also known as "FY 2019").

Separate financial reports for City departments and component units for the FY 2019, containing additional information and more detailed information regarding financial position, changes in financial position, and, where applicable, cash flows, are available from the City's Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

- Federated City Employees' Retirement System (the "FCERS")
- Police and Fire Department Retirement Plan (the "PFDRP")
- Successor Agency to the Redevelopment Agency of the City of San José

- Norman Y. Mineta San José International Airport (the "Airport")
- San José – Santa Clara Clean Water Financing Authority

B. Financial Statement Presentation

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

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

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

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

The City reports the following major governmental funds:

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

The ***Housing Activities Fund*** is a special revenue fund that accounts for all of the City's affordable housing activities funded by federal and state grants, as well as various fees.

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

The City reports the following major enterprise funds:

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

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

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

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

The ***San José Clean Energy Fund*** accounts for the City's Community Choice Energy program known as San José Clean Energy ("SJCE"), which allows the City to procure electricity for the City and businesses and residents in San José with more renewable energy options.

The City also reports the following types of funds:

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

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

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

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

Document Summaries. *All summaries of documents contained in the notes to the financial statements 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 is qualified in its entirety by reference to such document, which is on file with or may be obtained from the City's Director of Finance at the address set forth in Note I.A.*

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

D. Use of Estimates

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

E. New Pronouncements

During the year ended June 30, 2019, the City implemented the following Governmental Accounting Standards Board (the "GASB") Statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require a government to take actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The application of Statement No. 83 did not have any effect on the City's financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash or other assets that may be used in lieu of cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

This statement defines direct borrowings and direct placements as having terms negotiated directly with the investor or lender and are not offered for public sale. The application of Statement No. 88 had an impact on the reporting related to several debts incurred in connection with both governmental and business-type activities. (See Note III.F).

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund, and fiduciary fund. The City has updated the Capitalized Interest policy to no longer capitalize interest for the Wastewater Treatment System Fund which had an immaterial impact to the financial statements. Application of Statement No. 89 is effective for the City's fiscal year ending June 30, 2021, and will be applied to all remaining funds in subsequent years.

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

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Application of statement No. 84 is effective for the City's fiscal year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of Statement No. 87 is effective for the City's fiscal year ending June 30, 2021.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Application of Statement No. 90 is effective for the City's fiscal year ending June 30, 2020.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of Statement No. 91 is effective for the City's fiscal year ending June 30, 2022.

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. 72, *Fair Value Measurement and Application.* The City categorizes its fair value measurements within the fair value hierarchy established by GAAP in the United States of America. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments whose values are based on inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 - Investments whose values are based on unobservable inputs for an asset and may require a degree of professional judgment.

Pooled Cash and Investments held in City Treasury. The City reports its investments held in the City Treasury at fair value. The fair value is based primarily on quoted market information and using pricing applications and models 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, 2019, the total investment income from these investments assigned and transferred to the General Fund was approximately $1,693,000.

Retirement Systems. The Retirement Systems' investment policies authorize various types of investments. These investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. 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 reported at cost.

5. Loans Receivable, net

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

6. Special Assessment Districts

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

7. Advances and Deposits

Amounts deposited mainly in connection with eminent domain proceedings are reported as advances and deposits. In the governmental fund statements, noncurrent portions of these are offset equally by either a credit or a classification of fund balance in the nonspendable, restricted or committed account. In the business-type activities, the amount is related to the deposit with the insurance company to fund the potential claims under the Airport's Owner Controller Insurance Program (OCIP).

8. Other Assets

Other assets primarily consist of real properties acquired outright and/or through foreclosure in connection with the housing rehabilitation program and an asset associated with the City's New Market Tax Credit Financing ("NMTCF") program. These assets are recorded at the lower of cost or estimated net realizable value. The NMTCF program terminated in fiscal year 2018-19 (see Note IV.B.4).

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

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

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

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

10. Restricted Assets

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

11. Capital Assets

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

Capital assets are defined as assets with an initial individual cost of more than $5,000 for general capital assets and $100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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. For Norman Y. Mineta San José International Airport Fund, interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the investment proceeds of taxable and tax-exempt debt over the same period. For the Wastewater Treatment System Fund, interest cost incurred before the end of a construction period is recognized as an expense in the period in which the cost is incurred. Amortization of assets acquired under capital leases is based on the shorter of the lease term, when the lease does not transfer ownership or include a bargained purchase option, or the estimated useful life of the asset and is included in depreciation.

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

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

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

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

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

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

Employees in FCERS who retire with at least 15 years of service, or 20 years for police officers and firefighters in PFDRP, may be eligible to receive, upon retirement, sick leave payouts based on percentages of accumulated unused sick leave hours as determined by the respective collective bargaining agreements for represented employees. Similar terms are applicable to eligible unrepresented employees. Eligibility for sick leave payouts depends on the employee's hire date.

The tables below summarizes the eligibility terms for sick leave payout and the terms governing the amount of the payout.

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

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

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

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

Compensatory time is generally provided to employees who work overtime and earn compensatory time off at the rate of one and one half the number of overtime hours worked in lieu of pay. The Fair Labor Standards Act ("FLSA") provides that general employees may accrue up to 240 hours of compensatory time, and employees responsible for law enforcement or fire suppression such as those represented by SJPOA, IAFF, and in the Public Safety Communication Dispatcher classifications may accrue up to 480 hours of compensatory time.

13. Interfund Transactions

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

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

14. Self-Insurance

The City is self-insured for workers’ compensation, general liability, auto liability, and certain other risks, except as described in Note III.F.12. The City’s workers’ compensation activities are funded and accounted for separately in the fund financial statements based upon the activities of each fund. The current portion of claims liability is accounted for in the General Fund and the enterprise funds on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements and the enterprise fund financial statements, the estimated liability for all self-insurance liability claims is recorded as a liability.

15. Deferred Outflows/Inflows of Resources

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

16. Pensions

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

17. Other Postemployment Benefits (OPEB)

For purpose of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PFDRP and FCERS OPEB plans and additions to/deductions from the OPEB plans’ fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

18. Net Position

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

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

- *Restricted Net Position* – This category represents net position that has 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, 2019, the government-wide statement of net position reported restricted net position of $1,036,765,000 in governmental activities and $72,890,000 in business-type activities. Of these amounts $351,596,000 and $28,192,000, respectively, are restricted by enabling legislation.

- *Unrestricted Net Position* – This category represents net amounts that do not meet the criteria for “restricted” or “net investment in capital assets”. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed.

19. Fund Balances

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

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

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

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

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

Intent is expressed by (a) the City Council or (b) the City Manager to which the City Council has delegated the authority to assign amounts to be used for specific purposes.

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

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

20. Property Taxes

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

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

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

General property taxes are based either on a flat 1% rate applied to the fiscal 1976 full value of the property or on 1% of the sales price of the property on sales transactions and construction that occur after the fiscal 1976 valuation. The assessed value increases each year by an inflationary rate not to exceed the percentage change for the California Consumer Price Index ("CPI"), or 2%, whichever is less."

The City's net assessed valuation for the year ended June 30, 2019, was approximately $182.7 billion, an increase of approximately 6.7% from the previous year. The City's tax rate was approximately $0.173 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).

21. Wastewater Treatment System

The Wastewater Treatment System is an enterprise of the City and is comprised of the Plant, including South Bay Water Recycling and the San José Sewage Collection System. The Clean Water Financing Authority was established to provide financing for the capital programs of the Plant including the regional water reclamation program.

The Plant provides wastewater treatment services to the City and to six other sewage collection agencies. The City's sewer service rates pay for the City's share of the Plant operations, maintenance, and administration and capital costs.

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the year ended June 30, 2019, the City's portion of the capital and operating costs was approximately 80.4% and the City's interest in the net position of the Plant was approximately 78.5%.

II. Stewardship, Compliance, and Accountability

A. Deficit Net Position

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show on an annual basis that it had incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, the former Agency liabilities exceeded assets. Therefore, the Agency historically carried a deficit, which was expected to be reduced as future tax increment revenues were received and used to reduce its outstanding long-term debt. This deficit was transferred to the SARA on February 1, 2012. At June 30, 2019, the SARA has a deficit of $1,407,284,000, which will be reduced when future redevelopment property tax revenues are distributed from the Redevelopment Property Tax Trust Fund administered by the County of Santa Clara Auditor-Controller to pay SARA’s annual enforceable obligations.

B. Deficit Unrestricted Net Position – Governmental Activities

At June 30, 2019, the City reported negative balances in unrestricted net position for its governmental activities in the amount of $2,657,523,000 after adjusting for implementation of GASB Statement No. 68 for Accounting and Financial Reporting for Pension since FY 2015 and GASB Statement No. 75 for Accounting and Financial Reporting for OPEB since FY 2018.

C. Deficit Fund Balance – Major Governmental Funds

At June 30, 2019, the City reported a deficit fund balance of $32,647,000 for the San José Financing Authority Debt Service fund, which was primarily due to the sale of the Hayes Mansion property and the retirement of the Series 2008C and 2008D debts.

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2019, total City cash, deposits and investments, at fair value, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds: Pension Trust	Fiduciary Funds: Private-Purpose Trust	Fiduciary Funds: Agency	Carrying Value
Equity in pooled cash and investments	$ 1,179,855	$ 683,268		$ 197	$ 6,257	$ 1,869,577
Cash and investments	-	-	-	56,785	-	56,785
Restricted assets:						
Equity in pooled cash and investments	97,241	45,302	-	-	-	142,543
Cash and investments with fiscal agents	88,392	133,298	-	117,797	-	339,487
Other cash and investments	17,507	2,255	-	-	-	19,762
Investments of retirement systems	-	-	6,133,897	-	-	6,133,897
Total deposits and investments	$ 1,382,995	$ 864,123	$ 6,133,897	$ 174,779	$ 6,257	$ 8,562,051
Deposits						$ (51,558)
Investments						8,613,609
Total deposits and investments						$ 8,562,051

Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2019, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks, resulted in the negative cash and deposits of $51.6 million.

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 cash and 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 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 terms 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 weighted average maturity of the investment portfolio at two years. Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed five years.

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2019, was approximately 661 days.

Credit 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.

LAIF is part of the State's Pooled Money Investment Account that allows cities, counties and special districts to place money into the fund. LAIF operating account allows a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than $5,000 and in increments of a thousand dollars. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal every 30 days.

At June 30, 2019, the City's pooled and fiscal agent investments in LAIF were approximately $167,429,000 and the SARA's investments in LAIF was approximately $56,337,000. The weighted average maturity of LAIF was 173 days at June 30, 2019. The total amount recorded by all public agencies in LAIF at June 30, 2019 was approximately $24.6 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The PMIA is not registered with the Securities and Exchange Commission ("SEC"), but is required to invest according to the California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2019 was approximately $105.7 billion and of that amount, 70.72% was invested in U.S. Treasuries and agencies, 22.15% in depository securities, 6.37% in commercial paper, and 0.74% in loans.

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 related to the City's cash and investment pool (the "Policy") on April 2, 1985, which is subject to annual review and was reviewed and amended on March 19, 2019. 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, 2019:

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

** Represents where the Policy is more restrictive than the California Government Code.*

Other restrictions on investments are summarized as follows:

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

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

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

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

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

- 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 at the time of purchase.

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

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

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

- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is $65,000,000.

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

- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.

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

- Mortgage backed securities and collateralized mortgage obligations must be rated “AA-“ or better by a nationally recognized rating service.

- Asset backed securities must be rated “AA-“ or better by a nationally recognized rating service.

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 risk and concentration of credit risk of the City's investments, as of June 30, 2019 (in thousands). The credit ratings listed are for 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 / N/A	$ 10,000	$ -	$ 44,922	$ 56,933	$ 111,855
Treasury Discounts	N/A	9,990	9,946	-	-	19,936
Federal Home Loan Banks	AAA / AA+	73,735	-	35,875	81,599	191,209
Federal Home Loan Banks - Callable	AAA / AA+	-	-	-	16,198	16,198
Federal National Mortgage Association	AAA / AA+	-	-	3,645	29,481	33,126
Federal National Mortgage Association - Callable	N/A / AA+	-	-	29,865	-	29,865
Federal Farm Credit Banks Bonds	AAA / AA+	10,000	-	19,938	65,980	95,918
Federal Farm Credit Banks Bonds - Callable	AAA / AA+	-	-	-	23,211	23,211
Federal Home Loan Mortgage Corporation	AAA / AA+	-	-	8,035	59,872	67,907
Federal Home Loan Mortgage Corporation - Callable	AAA / AA+	-	7,551	-	148,466	156,017
Farmer MAC Interest Bearing	N/A	-	-	36,956	49,854	86,810
Supranational	AAA / AAA	-	23,681	-	193,281	216,962
Corporate Medium Term Notes	AAA / BBB+	-	81,094	59,362	414,573	555,029
Corporate Floaters	AAA / A+	-	10,054	-	8,477	18,531
Negotiable Certificates of Deposit	N/A	-	115,146	45,115	-	160,261
Commercial Paper	N/A	-	34,739	-	-	34,739
Municipal Bonds	AAA / AA	27,840	-	16,313	185,153	229,306
Money Market Mutual Funds	N/A	16	-	-	-	16
California Local Agency Investment Fund	Not Rated	-	34,724	-	-	34,724
Total pooled investments in the City Treasury		131,581	316,935	300,026	1,333,078	2,081,620
Investments with fiscal agents:						
Treasury Bills	N/A	-	1,807	-	7,092	8,899
Federal Agricultural Mortgage Corporation	N/A	-	-	-	5,395	5,395
Federal Farm Credit Banks	Aaa / AA+	-	-	782	-	782
Federal Home Loan Banks	Aaa / AA+	-	-	-	26,685	26,685
Federal National Mortgage Association	N/A	5,499				5,499
Money Market Mutual Funds	Aaa / AAA	43,993	-	-	-	43,993
California Local Agency Investment Fund	Not Rated	-	132,705	-	-	132,705
Total investments with fiscal agents		49,492	134,512	782	39,172	223,958
Total Citywide investments (excluding Retirement Systems and the SARA)		$ 181,073	$ 451,447	$ 300,808	$ 1,372,250	2,305,578
Trust Funds:						
Total investments in Retirement Systems (See page 69)						6,133,897
Total investments in the SARA (See page 175)						174,134
Total investments						$ 8,613,609

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* Investments with these issuers represent more than 5% of the City's pooled investments held in the City's Treasury.

** Investments with these issuers represent more than 5% of the City's investments held outside the City's Treasury pool.

Fair Value Measurement Categorization. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Money Market Mutual Funds and LAIF are valued by net asset value. The inputs and techniques used for securities are not necessarily an indication of risk associated with investing in these securities. The City's investments in Money Market Mutual Funds and LAIF are not subject to fair value hierarchy.

The City has the following recurring fair value measurements as of June 30, 2019:

		Fair Value Measurement Using		
	Carrying Value 6/30/19	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Pooled Investment in the City Treasury				
Investments by fair value level				
Treasury Notes	$ 111,855	$ 111,855	$ -	$ -
Treasury Discounts	19,936	19,936	-	-
Federal Home Loan Banks	191,209	-	191,209	-
Federal Home Loan Banks - Callable	16,198	-	16,198	-
Federal National Mortgage Association	33,126	-	33,126	-
Federal National Mortgage Association - Callable	29,865	-	29,865	-
Federal Farm Credit Banks Bonds	95,918	-	95,918	-
Federal Farm Credit Banks Bonds - Callable	23,211	-	23,211	-
Federal Home Loan Mortgage Corporation	67,907	-	67,907	-
Federal Home Loan Mortgage Corporation - Callable	156,017	-	156,017	-
Farmer MAC Interest Bearing	86,810	-	86,810	-
Supranational	216,962	-	177,692	39,270
Corporate Medium Term Notes	555,029	-	555,029	-
Corporate Floaters	18,531	-	18,531	-
Negotiable Certificates of Deposit	160,261	-	160,261	-
Commercial Paper	34,739	-	34,739	-
Municipal Bonds	229,306	-	229,306	-
Total Investments by fair value level	2,046,880	131,791	1,875,819	39,270
Investment not subject to fair value hierarchy				
California Local Agency Investment Fund	34,724			
Money Market Mutual Funds	16			
Total Investments not suject to fair value hierarchy	34,740			
Total Pooled Investments in the City Treasury	2,081,620	131,791	1,875,819	39,270
Investments with fiscal agents:				
Investments by fair value level:				
Treasury Bills	8,899	8,899	-	-
Federal Agricultural Mortgage Corporation	5,395	-	5,395	-
Federal Farm Credit Banks	782	-	782	-
Federal Home Loan Banks	26,685	-	26,685	-
Federal National Mortgage Association	5,499	-	5,499	-
Total Investments by fair value level:	47,260	8,899	38,361	-
Investment not subject to fair value hierarchy				
California Local Agency Investment Fund	132,705			
Money Market Mutual Funds	43,993			
Total Investments not suject to fair value hierarchy	176,698			
Total Investments with fiscal agents	223,958	8,899	38,361	-
Total Citywide investments (excluding Retirement Systems and the SARA)	2,305,578	$ 140,690	$ 1,914,180	$ 39,270
Trust Funds:				
Total investments in Retirement Systems (See page 69)	6,133,897			
Total investments in the SARA (See page 175)	174,134			
Total investments	$ 8,613,609			

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

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, 2019, 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, 2019, 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 Home Loan Mortgage Corporation	10.76%
Federal Home Loan Banks	9.96%
International Bank for Reconstruction & Development	7.46%
Federal Farm Credit Banks	5.72%

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, 2019:

Airport:	
Federal Home Loan Banks	11.92%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2019, the City’s Policy does not permit investments in the pool to hold foreign currency; as such the investments in the City’s investment pool were not subject to foreign currency risk.

2. Retirement Systems

Investment Policies – The City's Municipal Code delegates authority to the Boards of Administration of PFDRP and FCERS ("the "Retirement Boards") to invest monies of the respective plans as provided in the Municipal Code. Each Retirement Board has adopted detailed investment guidelines consistent with the conditions and limitations set forth in the Municipal Code.

For the year ended June 30, 2019, the investment policy for the PFDRP Defined Benefit Pension Plan, as shown in the following table, which the PFDRP's Board reviewed and approved on April 4, 2019. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and PFDRP's adopted actuarial assumed rate of return as utilized as of the June 30, 2019 measurement date.

The PFDRP's investment allocation for the Defined Benefit Pension Plan is as follows:

PFDRP - Pension

Asset Class	Target Asset Allocation	Asset Class	Target Asset Allocation
Public equity	31%	Emerging market bonds	3%
Short-term investment grade bonds	20%	Growth real estate	3%
Private equity	8%	Private real assets	3%
Market neutral strategies	7%	Sovereign bonds ex US	3%
Bonds (immunized cash flows)	5%	Commodities	2%
Core real estate	5%	Treasury inflation-protected securities	2%
Private debt	4%	Cash and cash equivalents	-
Venture / growth capital	4%		

On April 4, 2019, PFDRP's Board adopted the following asset allocation for the 115 healthcare trusts of the PFDRP Postemployment Healthcare Plan. The Postemployment Healthcare Plan investment policy was originally approved August 7, 2014. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and PFDRP's adopted actuarial assumed rate of return as utilized as of the June 30, 2019 measurement date.

PFDRP - Postemployment Healthcare

Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	25%	43%	50%
Real assets	12%	22%	25%
Global tactical asset allocation	-	20%	25%
Global fixed income	5%	15%	25%
Cash and cash equivalents	-	-	5%

Note: The real assets category includes allocations to commodities, real estate, and other infrastructure assets. The global tactical asset category is currently comprised of two global tactical asset allocation managers who run unconstrained global portfolios.

For the year ended June 30, 2019, the investment policy for the FCERS Defined Benefit Pension Plan was updated, as shown in the following table, which FCERS' Board approved on April 18, 2019. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and FCERS' adopted actuarial assumed rate of return as utilized as of the June 30, 2019 measurement date.

The FCERS' Defined Benefit Pension Plan investment asset allocation is as follows:

FCERS - Pension

Asset Class	Target Asset Allocation	Asset Class	Target Asset Allocation
Public equity	30%	Commodities	3%
Short-term investment grade bonds	20%	Emerging market bonds	3%
Private equity	10%	Growth real estate	3%
Market neutral strategies	7%	Private real assets	3%
Bonds (immunized cash flows)	5%	Treasury inflation-protected securities	2%
Core real estate	5%	Cash and cash equivalents	-
Venture / growth capital	5%	International currency contracts, net	-
Private debt	4%		

On April 19, 2018, the FCERS' Board adopted a new asset allocation for the 115 healthcare trust of the Postemployment Healthcare Plan. The Postemployment Healthcare Plan investment policy was originally approved on March 21, 2013. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and FCERS' adopted actuarial assumed rate of return as utilized as of the June 30, 2019 measurement date.

FCERS - Postemployment Healthcare

Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	40%	55%	54%
Fixed income	20%	28%	40%
Real assets	15%	17%	30%

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

At June 30, 2019, the Retirement Systems held the following investments (in thousands):

	PFDRP	FCERS	Total
Securities and other:			
Fixed income:			
Short-term investment grade bonds	$ 722,360	$ 477,812	$ 1,200,172
Treasury inflation-protected securities	74,200	44,438	118,638
Sovereign bonds ex US	102,860	-	102,860
Emerging market bonds	116,277	70,416	186,693
High yield debt	17,678	-	17,678
Bonds (immunized cash flows)	178,976	104,988	283,964
Cash and cash equivalents	51,340	41,177	92,517
Total fixed income	1,263,691	738,831	2,002,522
Commodities	79,835	75,975	155,810
Core real estate	148,683	98,717	247,400
Growth real estate	101,577	52,440	154,017
International currency contracts, net	65	39	104
Market neutral strategies	263,211	173,354	436,565
Private debt	189,201	72,576	261,777
Private equity	460,412	381,075	841,487
Private real assets	34,679	22,277	56,956
Public equity	1,185,780	791,479	1,977,259
Total investments	$ 3,727,134	$ 2,406,763	$ 6,133,897

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 fluctuates 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. However, the Retirement Systems do settle on a transaction plus one day basis (T+1), therefore limiting the Retirement Systems' exposure to counterparty risk.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2019 (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	Cost
Short-term investment grade bonds	$ 722,360	$ -	$ -	$ -	$ -	$ -	$ 722,360	$ 722,342
Treasury inflation-protected securities	2,171	-	9,312	62,717	-	-	74,200	73,190
Sovereign bonds ex US	-	-	-	35,724	27,602	39,534	102,860	103,681
Emerging market bonds	-	-	-	-	116,277	-	116,277	91,077
High yield debt	90	-	-	17,588	-	-	17,678	2,555
Bonds (immunized cash flows)	5,802	9,320	15,209	148,645	-	-	178,976	178,363
Cash and cash equivalents	51,340	-	-	-	-	-	51,340	51,340
Total fixed income	$ 781,763	$ 9,320	$ 24,521	$ 264,674	$ 143,879	$ 39,534	$ 1,263,691	$ 1,222,548

	FCERS							
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years	Total Fair Value	Cost
Treasury inflation-protected securities	$ 1,406	$ -	$ 5,562	$ 37,470	$ -	$ -	$ 44,438	$ 44,485
Short-term investment grade bonds	477,812	-	-	-	-	-	477,812	477,810
Emerging market bonds	-	-	-	-	70,416	-	70,416	67,147
Bonds (immunized cash flows)	4,861	7,400	12,327	80,400	-	-	104,988	104,587
Cash and cash equivalents	41,177	-	-	-	-	-	41,177	40,246
Total fixed income	$ 525,256	$ 7,400	$ 17,889	$ 117,870	$ 70,416	$ -	$ 738,831	$ 734,275

Custodial Credit Risk – Custodial credit risk is the risk that the Retirement Systems will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party, if that outside party fails. The Retirement Systems do not have a policy regarding custodial credit risk. As of June 30, 2019, all of the Retirement Systems' investments are held in the Retirement Systems' names and/or are not exposed to custodial credit risk.

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

The table provides information for the portfolios as of June 30, 2019 concerning credit risk (in thousands) and reflect only securities held in the Retirement Systems' names.

S&P Quality Rating	PFDRP Fair Value	PFDRP Fair Value as a % of Total Fixed Income	FCERS Fair Value	FCERS Fair Value as a % of Total Fixed Income
AAA	$ 16,917	1.34%	$ -	0.00%
AA+	297,773	23.56%	631,994	85.54%
AA	703,117	55.64%	-	0.00%
A+	1,008	0.08%	-	0.00%
A	34,080	2.70%	-	0.00%
A-	841	0.07%	-	0.00%
BBB	10,171	0.80%	-	0.00%
BB+	716	0.06%	-	0.00%
BB	34	0.00%	-	0.00%
Not Rated	199,034	15.75%	106,837	14.46%
Total	$ 1,263,691	100.00%	$ 738,831	100.00%

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, 2019, the Retirement Systems' net positions in these contracts are recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Retirement Systems' commitments relating to international currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2019, concerning the fair value of investments that are subject to foreign currency risk (in thousands):

PFDRP

Currency Name	Cash	Public Equity	Global Fixed Income	International Currency Contracts, Net	Growth Real Estate	Total Exposure
Australian dollar	$ 8	$ 7,183	$ 2,827	$ -	$ -	$ 10,018
Canadian dollar	40	8,446	2,743	-	-	11,229
Chinese yuan renminbi	-	-	-	65	-	65
Danish krone	2	722	757	-	-	1,481
Euro member countries	81	22,005	54,538	-	23,096	99,720
Hong Kong dollar	-	2,176	-	-	-	2,176
Japanese yen	46	8,368	32,877	-	-	41,291
Korean (South) won	-	13,461	-	-	-	13,461
Mexican peso	42	-	1,059	-	-	1,101
Norwegian krone	14	911	350	-	-	1,275
Poland zloty	22	-	878	-	-	900
Singapore dollar	2	-	1,216	-	-	1,218
South African rand	9	-	785	-	-	794
Swedish krona	7	3,035	506	-	-	3,548
Swiss franc	-	25,031	-	-	-	25,031
United Kingdom pound	32	27,714	9,017	-	-	36,763
Total	$ 305	$ 119,052	$ 107,553	$ 65	$ 23,096	$ 250,071

FCERS

Currency Name	Cash	Public Equity	International Currency Contracts, Net	Private Equity	Growth Real Estate	Total Exposure
Australian dollar	$ -	$ 3,965	$ -	$ -	$ -	$ 3,965
British pound	-	16,354	-	-	-	16,354
Canadian dollar	1	4,850	-	-	-	4,851
China yuan renminbi	-	-	39	-	-	39
Danish krone	-	399	-	-	-	399
Euro currency	101	12,772	-	1,194	11,698	25,765
Hong Kong dollar	-	1,185	-	-	-	1,185
Japanese yen	-	4,612	-	-	-	4,612
Korean won	-	8,137	-	-	-	8,137
Norwegian krone	-	503	-	-	-	503
Swedish krona	-	1,675	-	-	-	1,675
Swiss franc	-	15,137	-	-	-	15,137
Taiwanese new dollar	8	-	-	-	-	8
Total	$ 110	$ 69,589	$ 39	$ 1,194	$ 11,698	$ 82,630

***Investment Concentration Risk* –** The Retirement Systems' investment policies specify that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 15% of the applicable plan's assets without approval by the applicable Retirement Board, with the exception of passive management, where the applicable plan's assets are not held in the applicable plan's name at the applicable plan's custodial bank. In such cases, there is no concentration limit. As a general rule, assets placed with an investment manager should not represent more than 10% of the total assets of the applicable plan managed by that firm, without prior approval of the applicable Retirement Board. As of June 30, 2019, none of the Retirement Systems held investments in any one issuer, excluding U.S. Government guaranteed investments, that represented 5% or more of the total applicable plan's net position or total investments.

Derivatives – The Retirement Systems' investment policies allow for investments in derivative instruments that comply with the Retirement Systems' objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The Retirement Systems are currently authorized to use derivative strategies to equitize cash during portfolio transitions until physical securities are in place and to reproduce or replicate a physical holding that corresponds to the applicable Retirement Board's approved policy benchmark. In addition to the Retirement Systems' internal derivative policies, it is understood that the mandates of certain investment managers retained by the Retirement Systems may use derivatives.

Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. 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, 2019. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on 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 derivative instruments outstanding as of June 30, 2019, 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 (in thousands):

PFDRP

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2019		Fair Value at June 30, 2019		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Fixed income futures long	Investment income	$ (51)	Futures	$ -	$ -
Fixed income futures short	Investment income	28	Futures	-	-
FX forwards	Investment income	(4,770)	Long-term instruments	65	6,244
Index futures long	Investment income	2,892	Futures	-	10
Index futures short	Investment income	(1,112)		-	-
Rights	Investment income	3	Common stock	-	-
Total derivative instruments		$ (3,010)		$ 65	

FCERS

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2019		Fair Value at June 30, 2019		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Fixed income futures long	Investment income	$ (208)		$ -	$ -
Fixed income futures short	Investment income	30		-	-
FX forward	Investment income	255	Long-term instruments	39	3,774
Index futures long	Investment income	(452)	Futures	-	3
Index futures short	Investment income	(668)	Futures	-	-
Total derivative instruments		$ (1,043)		$ 39	

Derivative investments are also subject to counterparty credit risk (non-exchange traded). The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2019.

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

As of June 30, 2019, PFDRP had total commitments in forward currency contracts to purchase and sell international currencies were $6,244,000, with fair values of $6,262,000 and $6,197,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2019, FCERS had total commitments in forward currency contracts to purchase and sell international currencies were $3,774,000, with fair values of $3,785,000 and $3,746,000, respectively, held by counterparties with an S&P rating of A and above.

Fair Value Measurements – The Retirement Systems categorize their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

The Retirement Systems have the following recurring fair value measurements as of June 30, 2019:

PFDRP		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by fair value level					
Bonds (immunized cash flows)	$ 178,976	$ 96,983	$ 81,993	$ -	$ -
Cash and cash equivalents	51,340	51,340	-	-	-
Commodities	79,835	-	-	-	79,835
Core real estate	148,683	6,304	-	-	142,379
Emerging market bonds	116,277	-	-	-	116,277
Growth real estate	101,577	-	-	-	101,577
High yield debt	17,678	89	-	-	17,589
International currency contract, net	65	65	-	-	-
Market neutral strategies	263,211	-	-	-	263,211
Private debt	189,201	-	10,332	8,493	170,376
Private equity	460,412	-	-	2,580	457,832
Private real assets	34,679	-	-	-	34,679
Public equity	1,185,780	341,883	-	-	843,897
Short-term investment grade bonds	722,360	722,360	-	-	-
Sovereign bonds ex US	102,860	-	102,860	-	-
Treasury inflation-protected securities	74,200	74,200	-	-	-
Total investments measured at fair value level	**$ 3,727,134**	**$ 1,293,224**	**$ 195,185**	**$ 11,073**	**$ 2,227,652**

FCERS		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Bonds (immunized cash flows)	$ 104,988	$ 56,533	$ 48,455	$ -	$ -
Cash and cash equivalents	41,177	41,177	-	-	-
Commodities	75,975	-	-	-	75,975
Core real estate	98,717	-	-	-	98,717
Emerging market bonds	70,416	-	-	-	70,416
Growth real estate	52,440	-	-	-	52,440
International currency contracts, net	39	39	-	-	-
Market neutral strategies	173,354	-	-	-	173,354
Private debt	72,576	-	5,166	9,551	57,859
Private equity	381,075	-	-	2,511	378,564
Private real assets	22,277	-	-	-	22,277
Public equity	791,479	244,781	-	-	546,698
Short-term investment grade bonds	477,812	477,812	-	-	-
Treasury inflation-protected securities	44,438	44,438	-	-	-
Total investments measured at fair value	**$ 2,406,763**	**$ 864,780**	**$ 53,621**	**$ 12,062**	**$ 1,476,300**

Equity and Fixed Income Securities

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

Alternative Investments

For PFDRP, alternative investments include public equity, private equity, core real estate, growth real estate, high yield debt, market neutral strategies, emerging market bonds, commodities, private debt, and private real assets. For FCERS, alternative investments include public equity, private equity, market neutral strategies, core real estate, commodities, emerging market bonds, private debt, growth real estate, and private real assets. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner ("GP") of each investment firm retained by the Retirement Systems. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in the Retirement Systems' alternative investment programs are classified as Level 3 assets or at the NAV Level. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

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

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

The following tables present the category, fair value, unfunded commitments, redemption frequency and redemption notice period for investments for which fair value is presented using the NAV as of June 30, 2019:

PFDRP

Investments Measured at the NAV as of June 30, 2019 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commodities	$ 79,835	$ -	Daily	3 Days
Core real estate	142,379	14,880	Quarterly, N/A	14 - 60 Days, N/A
Emerging market bonds	116,277	-	Daily, Quarterly	1-45 Days
Growth real estate	101,577	77,123	N/A	N/A
High yield debt	17,589	-	Quarterly	60 Days
Market neutral strategies	263,211	-	Weekly, Monthly, Quarterly	14 - 75 Days
Private debt	170,376	88,855	N/A	N/A
Private equity	457,832	-	Daily, N/A	30 Days, N/A
Private real assets	34,679	15,188	N/A	N/A
Public equity	843,897	-	Daily, Monthly, Quarterly	1 - 90 Days
Total investments measured at the NAV	**$ 2,227,652**	**$ 196,046**		

FCERS

Investments Measured at the NAV as of June 30, 2019 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commodities	$ 75,975	$ -	Daily	3 Days
Core real estate	98,717	-	Quarterly, N/A	14 - 60 Days, N/A
Emerging market bonds	70,416	-	Daily, Quarterly	1-45 Days
Growth real estate	52,440	37,760	N/A	N/A
Market neutral strategies	173,354	-	Weekly, Monthly, Quarterly	14 - 75 Days
Private debt	57,859	88,580	N/A	N/A
Private equity	378,564	-	Daily, N/A	30 Days, N/A
Private real assets	22,277	7,652	N/A	N/A
Public equity	546,698	-	Daily, Monthly, Quarterly	1 - 90 Days
Total investments measured at the NAV	**$ 1,476,300**	**$ 133,992**		

Public equity

For PFDRP, this type includes investments in eight commingled investment funds, three long / short limited partnership funds and three separate accounts. Public equities are shares of ownership of a firm listed on an exchange; PFDRP holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. Five commingled funds offer daily liquidity with one day notice and one is monthly with two weeks' notice. One long / short fund offers monthly redemptions with three month notice. The remaining two long / short funds offer quarterly liquidity with notice periods ranging from one to two months.

For FCERS, this type includes investments in eight commingled investment funds and three long / short limited partnership funds. Public equities are shares of ownership of a firm listed on an exchange; FCERS holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. Seven commingled funds offer daily liquidity with one day notice and one is monthly with two weeks' notice. One long / short fund offers monthly redemptions with three month notice, one offers quarterly redemptions with one month notice, and one offers quarterly redemptions with two months' notice, subject to a 12.5% quarterly gate.

Private equity

For PFDRP, this type includes investments in one commingled investment fund and eighteen private equity limited partnership funds, which generally invest in privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The commingled investment offers daily liquidity with a thirty day notice.

For FCERS, this type includes investments in one commingled investment fund and nine private equity limited partnership funds, which generally invest in privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The commingled investment offers daily liquidity with a thirty day notice.

Market neutral strategies

For PFDRP and FCERS, this type includes their respective investments in eleven limited partnership hedge funds that invest both long and short in a wide array of securities, including listed and OTC derivatives, and typically use leverage and hedging to capture directional market movements or relative market mispricing. The redemption frequencies range from weekly to quarterly with notice periods of two weeks to 75 days. Three funds have 25% investor-level redemption gates, one fund has a 20% fund level gate, one fund has a fund-level gate of 8.33%, and one fund had a 2-year lock that was in effect until August 31, 2020.

Private debt

For PFDRP, this type includes investments in ten private debt limited partnership funds. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

For FCERS, this type includes investments in seven private debt limited partnership funds. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

Bonds (immunized cash flows)

For PFDRP and FCERS, this type includes their respective investments in one separate account. Bonds (immunized cash flows) are investments in cash flows of US governments and corporations where the payout of cash flows are matched against a forecasted liability stream. The goal of an immunized cash flow portfolio is to ensure the Retirement Systems have adequate liquidity to meet cash outflows.

Core real estate

For PFDRP and FCERS, this type includes their respective investments in one open-end real estate fund, one closed-end real estate fund and two real estate limited partnership funds. Core real estate funds typically invest in physical properties. The goal of core real estate is to produce price appreciation and income for the Retirement Systems while maintaining a low correlation to stocks and bonds held by the Retirement Systems. The closed-end real estate funds cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit both the closed end fund and the limited partnership fund is through a sale in a secondary market. The open-end real estate funds offer quarterly redemptions with notice periods of two weeks and three months.

Emerging market bonds

For PFDRP, this type includes investments in two limited partnership funds. Emerging market bonds funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations, and derivatives thereof in emerging market countries with a sovereign rating less than BBB-. One partnership has quarterly redemption period with a notice period of 45 days; the other has a daily redemption period with 1 day notice period.

For FCERS, this type includes investments in two limited partnership funds. Emerging market bonds funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations, and derivatives thereof in emerging market countries with a sovereign rating less than BBB-. One partnership has quarterly redemption period with a notice period of 45 days; the other has a daily redemption period with 1 day notice period.

Growth real estate

For PFDRP and FCERS, this type includes their respective investments in thirteen limited partnership real estate funds which generally invest in physical properties. The goal of growth real estate is to produce the Retirement Systems price appreciation and income while maintaining a low correlation to stocks and bonds. The only way to exit these funds is through a sale in a secondary market.

Sovereign bonds ex US

For PFDRP, this type includes investments in one commingled fund. Foreign bond funds typically invest in contractual cash flows of governments and other sovereign entities in developed market countries with a sovereign rating greater than BBB-. The commingled fund offer daily liquidity with notice periods of one day.

Commodities

For PFDRP and FCERS, this type includes their respective investments in one limited partnership commodities funds. Commodities are physical or tangible assets that have value due to their substance and properties. The goal of commodities is to help the portfolio maintain purchasing power through periods of inflation. The commodities funds offer daily liquidity with three business days' notice.

Treasury inflation-protected securities

For PFDRP and FCERS, this type includes their respective investments in one commingled investment fund. Treasury inflation-protected securities ("TIPS") funds typically invest in contractual cash flows of US governments where the amount of principal outstanding is indexed to inflation. The goal of TIPS is to help the portfolio maintain purchasing power through periods of inflation. The commingled funds offer daily liquidity with notice periods of one day.

Private real assets

For PFDRP and FCERS, this type includes their respective investments in three limited partnership real asset funds. Private real assets are physical or tangible assets that have value due to their substance and properties. The goal of real assets is to help the portfolio maintain purchasing power through periods of inflation. The only way to exit these funds is through a sale in a secondary market.

High yield debt

For PFDRP, this type includes investments in one commingled investment fund. High yield debt funds typically invest in contractual cash flows of corporations, securitizations, and derivatives thereof with a credit rating less than BBB-. The commingled fund has a quarterly redemption period with notice periods of 60 days.

B. Receivables, Net of Allowances

At June 30, 2019, receivables of the City's major individual funds and nonmajor funds taken in aggregate, including the applicable allowance for uncollectible accounts, are as follows (in thousands):

Receivables – Governmental Activities:	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Special Assessment Districts	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Taxes	$ 62,075	$ -	$ -	$ -	$ 10,251	$ -	$ 72,326
Accrued interest	2,536	680	2,246	122	4,759	154	10,497
Grants	1,106	1,963	-	-	4,910	-	7,979
Special assessments	-	-	-	27,400	-	-	27,400
Other	36,057	53	28	2,620	18,798	323	57,879
Less: allowance for uncollectibles	(23,618)	(3)	-	(5)	(3,732)	(2)	(27,360)
Total receivables, net	$ 78,156	$ 2,693	$ 2,274	$ 30,137	$ 34,986	$ 475	$ 148,721

Receivables – Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total Business-Type Activities
Accounts	$ 16,161	$ 8,215	$ 11,655	$ 130	$ 42,221	$ 78,382
Accrued interest	1,753	2,669	169	248	62	4,901
Grants	2,326	-	-	-	-	2,326
Less: allowance for uncollectibles	(283)	(398)	(1,162)	(25)	-	(1,868)
Total receivables, net	$ 19,957	$ 10,486	$ 10,662	$ 353	$ 42,283	$ 83,741

Special assessment receivables in the amount of $27,400,000 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 funds, net of the allowance for uncollectible accounts, as of June 30, 2019 is as follows (in thousands):

Type of Loan	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Nonmajor Governmental Funds	Total Governmental Activities
Housing Program Developer, rehabilitation, second mortgage and relocation loans	$ -	$ 50,612	$ 474,869	$ -	$ 525,481
Loans funded by federal grants	-	83,231	-	5,023	88,254
Economic development, real estate developer and other loans	1,241	-	-	-	1,241
Less: allowance for uncollectibles	-	(63,632)	(261,701)	(2,061)	(327,394)
Total loans, net	$ 1,241	$ 70,211	$ 213,168	$ 2,962	$ 287,582

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

Typical loans and related terms are summarized as follows:

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

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

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

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

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

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

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and Low and Moderate Income Housing Asset Fund loans receivable as of June 30, 2019.

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, 2019. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2019, amounts committed to extend credit under normal lending agreements totaled approximately $12,141,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the year ended June 30, 2019 (in thousands):

	Balance July 1, 2018	Additions	Deletions	Transfers	Balance June 30, 2019
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 409,022	$ 48,701	$ 28,954	$ 27,062	$ 455,831
Construction in progress	46,570	77,430	-	(16,917)	107,083
Total capital assets, not being depreciated	455,592	126,131	28,954	10,145	562,914
Capital assets, being depreciated:					
Buildings	1,654,217	146	38,053	2,364	1,618,674
Improvements, other than buildings	278,832	441	-	6,179	285,452
Infrastructure	11,543,605	14,177	-	3,128	11,560,910
Vehicles and equipment	143,121	18,459	2,963	5,246	163,863
Furniture and fixtures	27,498	311	-	-	27,809
Total capital assets, being depreciated	13,647,273	33,534	41,016	16,917	13,656,708
Less accumulated depreciation for:					
Buildings	653,865	42,290	17,593	-	678,562
Improvements, other than buildings	54,425	8,375	-	-	62,800
Infrastructure	7,950,287	161,331	-	-	8,111,618
Vehicles and equipment	100,240	13,867	2,960	-	111,147
Furniture and fixtures	27,120	168	-	-	27,288
Total accumulated depreciation	8,785,937	226,031	20,553	-	8,991,415
Total capital assets, being depreciated, net	4,861,336	(192,497)	20,463	16,917	4,665,293
Governmental activities capital assets, net	$ 5,316,928	$ (66,366)	$ 49,417	$ 27,062	$ 5,228,207
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 137,938	$ -	$ -	$ -	$ 137,938
Intangible assets	12,882	-	-	-	12,882
Construction in progress	183,980	168,423	-	(104,236)	248,167
Total capital assets, not being depreciated	334,800	168,423	-	(104,236)	398,987
Capital assets, being depreciated:					
Buildings	1,673,091	3,990	2,284	48,525	1,723,322
Improvements, other than buildings	1,292,092	36,745	-	16,749	1,345,586
Vehicles and equipment	278,805	11,640	813	38,962	328,594
Total capital assets, being depreciated	3,243,988	52,375	3,097	104,236	3,397,502
Less accumulated depreciation for:					
Buildings	627,083	40,574	2,013	-	665,644
Improvements, other than buildings	641,430	31,914	-	-	673,344
Vehicles and equipment	186,951	10,700	813	-	196,838
Total accumulated depreciation	1,455,464	83,188	2,826	-	1,535,826
Total capital assets, being depreciated, net	1,788,524	(30,813)	271	104,236	1,861,676
Business-type activities capital assets, net	$ 2,123,324	$ 137,610	$ 271	$ -	$ 2,260,663

2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the year ended June 30, 2019 is as follows (in thousands):

Governmental activities:		
General government	$	9,212
Public safety		10,246
Capital maintenance		169,139
Community services		35,019
Capital assets held by City's internal service funds		2,415
Total depreciation expense - governmental activities	$	226,031
Business-type activities:		
Norman Y. Mineta San José International Airport	$	49,026
Wastewater Treatment System		29,616
Municipal Water System		2,798
Parking System		1,748
Total depreciation expense - business-type activities	$	83,188

3. Capitalized Interest

Interest costs that are related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested taxable and tax-exempt debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. However, the City decided to early implement GASB Statement No. 89 that was issued in June 2018. This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported under business-type activities. The City has updated the Capitalized Interest policy to no longer capitalize interest for the Wastewater Treatment System Fund which had an immaterial impact to the financial statements. Application of Statement No. 89 is effective for the City’s fiscal year ending June 30, 2021, and will be applied to all remaining funds in subsequent years.

4. Construction Commitments

Commitments outstanding as of June 30, 2019, related to governmental and business-type activities construction in progress totaled approximately $10,734,000 and $164,544,000, respectively.

E. Leases

1. Operating Leases as Lessee

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

Governmental Activities

The City has ongoing commitments under operating lease agreements for business equipment, office facilities and land necessary for City operations, which expire at various dates through 2024. 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 year ended June 30, 2019 amounted to approximately $2,185,000 and $50,000, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2019, are as follows (in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
2020	$ 2,258	$ 29	$ 2,287
2021	1,506	-	1,506
2022	468	-	468
2023	329	-	329
2024	83	-	83
Totals	$ 4,644	$ 29	$ 4,673

Business-Type Activities

Airport Gas-Powered Buses. In September 2009, the City entered into a restated operating lease and maintenance agreement for ten compressed natural gas ("CNG") powered buses for the Airport. The term of the agreement is from December 2007 to May 2017. In May 2017, the restated agreement was amended to extend through May 2019, with a one year option to extend, which was exercised in May 2019. Rental and maintenance expense for the Airport buses for the year ended June 30, 2019 was $1,377,000.

Future Minimum Payments. The future minimum lease and maintenance payments required under the existing agreement for the ten CNG powered buses, as of June 30, 2019, are as follows (in thousands):

Fiscal Year Ending June 30,	Operating Leases
2020	$ 774
Total minimum lease payments	$ 774

2. Operating Leases as Lessor

Governmental Activities

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

Business-Type Activities – Airport

Airline-Airport Lease and Operating Agreements. The City has entered into an Airline-Airport Lease and Operating Agreement with the various passenger and cargo airlines serving the Airport. The airline lease agreement, which took effect on December 1, 2007, was originally set 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. On May 23, 2017, the City Council authorized the Director of Aviation, or Interim Director of Aviation, as applicable, to extend the term for two years through June 30, 2019, which allows the airlines to continue to conduct operations and occupy leased space through the extended term. The rates and charges structure remained unchanged through the extended term. The City entered into a new Airline-Airport Lease Agreement (“New Agreement”) with the various passenger and cargo airlines serving the Airport, effective July 1, 2019. The New Agreement has an initial term of ten years and is set to expire on June 30, 2029. The term of this New Agreement may be extended for two consecutive five-year renewal periods by the mutual written agreement of the airlines and the City.

The key provisions in the airline lease agreement in effect through June 30, 2019 include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The terminal rate per square foot is calculated based on expenses allocable to the Terminal for each fiscal year divided by the total amount of rentable terminal space. Should there be any remaining net revenues after all other obligations are satisfied, the airline’s share of the remaining net revenues shall be applied as a credit to the airline terminal rate for the following fiscal year, thus reducing the rates, or distributed as a refund once a final accounting of the Airport’s operations for the last fiscal year of the Airline-Airport Lease Agreement has completed. The landing fee rate is calculated by dividing the expenses allocable to the airfield, offset by airfield revenues, other than landing fees, by the projected aggregated maximum gross landed weight for all aircraft carrying passengers or cargo in commercial service at the Airport during the fiscal year.

For the year ended June 30, 2019, the Airport’s revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by $16,372,000. The surplus for year ended June 30, 2019 will be divided 50/50 between the Airport and all airlines in accordance with the revenue sharing provisions of the Airline-Airport Lease Agreement.

Other Airport Leases. In December 2013, the City entered into a ground lease and operating agreement with Signature Flight Support Corporation (“Signature”), which constructed a full-service, fixed based facility on 29-acres of the Airport’s west side (“Original Master Leasehold Parcel”). The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. On July 2, 2018, the City entered into the first amendment to the ground lease and operating agreement by adding a new parcel of land containing approximately 4 acres ("Additional Premises") bringing the total lease to approximately 33 acres. The base ground rental is subject to a consumer price index adjustment annually and by appraisal every five years. The annual base ground rental rate as of June 30, 2019 is $2.36 per square foot for the Original Master Leasehold Parcel and an interim rate of $1.18 per square foot for the Additional Premises. Rental revenues from the ground lease with Signature were $3,237,000 for the year ended June 30, 2019.

The City also enters into leases with concessionaires, cargo carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. As of June 30, 2019, the remaining terms of these operating leases range from one month to 19 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 aforementioned operating leases were $99,708,000 for the year ended June 30, 2019.

The future minimum rentals to be received from the Airport operating leases, as of June 30, 2019, are as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2020	$ 115,563
2021	97,690
2022	97,037
2023	95,957
2024	95,002
2025 - 2029	443,971
2030 - 2034	56,987
2035 - 2039	56,908
2040 - 2044	38,198
2045 - 2049	46,411
2050 - 2054	56,389
2055 - 2059	68,513
2060 - 2064	73,889
Total	$ 1,342,515

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. As of June 30, 2019, leased assets to tenants had total historical costs of $1,091,339,000 and accumulated depreciation of $277,499,000.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person, which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation, often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director of Aviation. The Director of Aviation has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying statements of net position. The Airport maintains on file copies of all security deposits, in the form of letter of credit or surety bond, which are not recorded in the financial statements. The amount on file as of June 30, 2019 totaled $34,540,000.

Rate Stabilization Fund and Ten-Year Lookback Distribution. The "Rate Stabilization Fund" is a fund of up to $9,000,000 that is maintained by the City to facilitate the deposit and collection of moneys from the rates and charges of users of the Airport in the amounts and at the times needed to satisfy the financial requirements and contractual obligations of the Airport and to insure the City's ability to meet its obligations under the Master Trust. Moneys in the Rate Stabilization Fund also may be applied by the City in order to facilitate administration of revenue sharing or rate stabilization provisions of contractual agreements with airlines or other tenants of the Airport. Once the "Rate Stabilization Fund" reaches a balance of $9,000,000, the City shall not deposit any additional sums into this fund until the balance falls below $9,000,000. Under the terms of the New Agreement, if certain conditions are met, the City shall distribute the entire balance remaining in the "Rate Stabilization Fund" under Section 9.11 of the Airline Lease Agreement in effect through June 30, 2019 among all the Signatory Airlines under the Airline Lease Agreement in the proportion to each airline's share, if any, of enplaned passengers for all Signatory Airlines for fiscal year 2014-15.

Under the terms of the New Agreement, the City shall also distribute any overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines resulted from the City's annual calculation of terminal rents in a manner that was not consistent with the terms of the Airline Lease Agreement between the passenger airlines and the City. Specifically, from fiscal year 2008 to the year ended June 30, 2017, the City did not include the City office and administrative space at the terminals that should have been counted as "Rentable Terminal Space" under the terms of the Airline Lease Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines.

All of the eligible airlines met the conditions for distribution by the June 30, 2019 deadline and the corresponding $16,266,000 expense from the Rate Stabilization Fund and overpayment of terminal rents by the airlines was recorded as a Special Item in the accompanying financial statements because it is infrequent in occurrence. In addition, the cash reserves for this payout were established under the Airport Lease Agreement and management made a decision to release the reserves as a result of airline lease negotiations for the New Agreement.

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 governmental activities as of June 30, 2019 (in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments ($ millions)	Balance June 30, 2019
Governmental Activities							
City of San José							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	$ 71,000	06/06/2001	09/01/2031	5.10-5.13%	2.37	$ 30,745
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	5.00%	3.87	54,170
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	5.00%	3.96	63,310
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	4.00-4.50%	1.55	26,265
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.63-5.00%	3.52	63,270
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.25-4.75%	3.00	57,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10-1.11	22,050
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-5.00%	0.30	6,300
							323,110
City of San José Financing Authority (SJFA)							
Lease Revenue Bonds:							
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	4.40-4.70%	1.42-1.61	7,400
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.38-5.00%	0.17-17.44	51,670
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.50-4.75%	1.29-1.88	18,550
Series 2011A (Convention Center)	Convention Center	30,985	04/12/2011	05/01/2042	4.00-5.75%	0.67-2.17	28,705
Series 2013A (Civic Center Project)	Refunding	305,535	05/28/2013	06/01/2039	4.00-5.00%	5.30-21.33	277,975
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.91-1.91	26,555
							410,855
Lease Revenue Bonds (Direct Placements):							
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/01/2025	Variable	0.91-1.26	6,550
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/01/2025	Variable	0.91-1.26	6,540
							13,090
Sub-total - Lease Revenue Bonds							**423,945**
Special Assessment Bonds							
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.75-5.88%	1.72-2.03	9,135
Special Tax Bonds							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.70%	0.27-0.30	1,090
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	5.88-6.00%	0.74-0.87	3,900
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	6.30-6.65%	0.44-0.95	9,015
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	5.10-5.25%	0.81-0.94	4,260
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	2.13-7.71	97,785
							125,185
Total Government Activities - Bonds Payable							**$ 872,240**

The following is a summary of long-term debt of the City for Business-Type activities as of June 30, 2019 (in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments ($ millions)	Balance June 30, 2019
Business-Type Activities							
Norman Y. Mineta San José International Airport							
Revenue Bonds:							
Series 2011A-1 (AMT)	Refunding	$ 150,405	07/28/2011	03/01/2034	5.00-6.25%	3.71-21.12	$ 122,100
Series 2011A-2 (Non-AMT)	Refunding	86,380	07/28/2011	03/01/2034	4.00-5.25%	2.11-12.22	70,230
Series 2011B (Taxable)	Refunding	271,820	12/14/2011	03/01/2041	4.90-6.75%	2.87-27.33	258,150
Series 2014A (AMT)	Refunding	57,350	10/07/2014	03/01/2026	3.38-5.00%	0.14-9.18	49,155
Series 2014B (Non-AMT)	Refunding	28,010	10/07/2014	03/01/2028	3.10-5.00%	7.98-10.37	28,010
Series 2014C (Non-AMT)	Refunding	40,285	10/07/2014	03/01/2031	5.00%	7.30-8.86	40,285
Series 2017A (AMT)	Refunding	473,595	04/11/2017	03/01/2047	4.00-5.00%	4.01-35.15	448,205
Series 2017B (Non-AMT)	Refunding	150,675	04/11/2017	03/01/2047	4.00-5.00%	1.28-11.18	142,595
							1,158,730
Clean Water Financing Authority							
Revenue Bonds:							
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	4.00-5.00%	5.41	10,585
Sub-total - Bonds Payable							**1,169,315**

	Purpose	Authorized Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments ($ millions)	Balance June 30, 2019
City of San José Financing Authority - SJFA (Direct Borrowings)							
Regional Wastewater Facility Notes Payable	Public Infrastructure	$ 300,000	10/01/2017	Anytime	Variable	Variable	$ 89,076
Total Business-Type Activities - Bonds and Notes Payable							**$ 1,258,391**

2. Summary of Default Provisions for Long-Term Debt

Governmental Activities – General Obligation Bonds

The City of San José has eight series of general obligation bonds outstanding as of June 30, 2019: Series 2001 Bonds, Series 2002 Bonds, Series 2004 Bonds, Series 2005 Bonds, Series 2006 Bonds, Series 2007 Bonds, Series 2008 Bonds and Series 2009 Bonds (collectively, "General Obligation Bonds"). The City issued each series of General Obligation Bonds pursuant to a fiscal agent agreement with Wells Fargo Bank, National Association ("Fiscal Agent Agreement). The events of default under the Fiscal Agent Agreements for the General Obligation Bonds are as follows, with exceptions as noted in footnotes: (i) failure to pay debt service, including principal, interest, and redemption premiums when due; (ii) failure to comply with covenants and conditions of the indentures and such default shall have continued for a period of 30 days following written notice to the City representative of the occurrence of such default[1]; and (iii) bankruptcy or similar debtor relief proceedings[2].

The Fiscal Agent Agreements provide any bondholder with the following remedies, with the exceptions as noted in the footnotes: (a) by mandamus, suit, action or proceeding, to compel the City and its members, officers, agents, or employees to perform each and every term, provision and covenant contained in the Fiscal Agent Agreement for the General Obligation Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it; (b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the bondowners' rights; and (c) to require the City and its members and employees to accounts as if it and they were the trustees of an express trust.[3]

[1] *Defined event of default in the Fiscal Agent Agreements for the 2001 and 2002 General Obligation Bonds.*
[2] *Defined event of default in the Fiscal Agent Agreements for the 2001 and 2002 General Obligation Bonds.*
[3] *This remedy is specified only in the Fiscal Agent Agreements for the 2001 and 2002 General Obligation Bonds.*

Governmental Activities – SJFA Lease Revenue Bonds

The Financing Authority has six series of lease revenue bonds outstanding as of June 30, 2019: Series 2003A Bonds, Series 2006A Bonds, Series 2007A Bonds, Series 2011A Bonds, Series 2013A Bonds and Series 2013B Bonds (collectively, "Lease Revenue Bonds"). The principal and interest payments on the Series 2003A Bonds, Series 2006A Bonds and the Series 2007A Bonds are insured under separate financial guaranty insurance policies ("Bond Insurance"). The Financing Authority issued each series of Lease Revenue Bonds pursuant to a trust agreement or an indenture of trust ("Trust Agreement") with a trustee bank ("Trustee"). The Series 2006A Bonds and Series 2013A Bonds are issued pursuant to the same Trust Agreement as supplemented and amended.

Each series of Lease Revenue Bonds has the same structure with the City leasing a City facility to the Financing Authority and the Financing Authority leasing it back to the City pursuant to a lease known as a Project Lease or a Facility Lease ("City Lease"). The City Lease for the Series 2006A Bonds and the Series 20013A Bonds is the same lease as amended. The City's lease payments under each City Lease are the Financing Authority's source of payment of debt service on the applicable series of Lease Revenue Bonds. The facilities subject to the City Leases are: (i) the City's main service yard (Series 2003A Bonds); (ii) two City golf courses (Series 2007A Bonds); (iii) City Hall (Series 2006A Bonds and Series 2013A Bonds); (iv) the first floor of the Convention Center expansion (Series 2011A Bonds); and (v) the City employees' parking garage (Series 2013B Bonds).

There are events of default under both the Trust Agreements and the City Leases. Generally, the events of default under each Trust Agreement are: (i) failure to pay debt service when due; (ii) failure to comply with covenants and conditions of the Trust Agreement and such default shall have continued for a specified period of days following the Financing Authority's receipt from the Trustee, or (except in the case of the Series 2011A Bonds) the owners of at least 25% of the aggregate principal amount of the applicable series of Lease Revenue Bonds outstanding, of written notice of the occurrence of such default, provided that such period may be extended as specified in the Trust Agreement; (iii) bankruptcy or similar debtor relief proceedings; or (iv) City's failure to pay a lease payment under the applicable City Lease, or in the case of the Series 2011A Bonds, any event of default under the City Lease related to the Series 2011A Bonds.

Except for the Series 2011A Bonds, following an event of default under the Trust Agreement, the Trustee may declare payment of the outstanding principal of the applicable series of Lease Revenue Bonds and accrued interest to be immediately due and payable. However, acceleration is subject to the Financing Authority's deposit with the Trustee sufficient funds for the Trustee to pay the outstanding principal and accrued interest on the applicable series of Lease Revenue Bonds. For the Series 2003A Bonds, Series 2006A Bonds and the Series 2007A Bonds, such acceleration is subject to the direction or consent of the Bond Insurance provider. Each Trust Agreement provides for the application of funds upon an event of default or acceleration in the order of priority set forth in the particular Trust Agreement.

Generally, the events of default under the City Leases are: (i) failure to pay a lease payment under the City Lease when due; (ii) failure to comply with covenants and conditions of the City Lease and such default shall have continued for a specified period of days following the City's receipt of written notice of the occurrence of such default from the Financing Authority, provided that such period may be extended as specified in the City Lease; (iii) assignment or transfer of the City Lease; (iv) bankruptcy or similar debtor relief proceedings; or (v) vacation or abandonment of the facility subject to the City Lease.

Upon an event of default under the City Lease, the Financing Authority or the Trustee as the Financing Authority's assignee may (i) terminate the City Lease and re-enter the facility subject to the City Lease, remove the persons and personal property occupying the facility and re-let the facility to another lessee; or (ii) without terminating the City Lease, keep the City Lease in effect and continue to collect lease payments from the City or re-enter the facility and re-let the facility to another lessee.

Governmental Activities – Special Assessment Bonds, Series 24Q Hellyer-Piercy

The City issued its special assessment bonds, Series 24Q (Hellyer-Piercy) ("24Q Bonds") to finance certain public improvements pursuant to provisions of State law, the San José Municipal Code and a fiscal agent agreement ("Fiscal Agent Agreement") with a banking institution as fiscal agent (Fiscal Agent). The 24Q Bonds are a limited obligation of the City. In the Fiscal Agent Agreement, the only financial obligation of the City is to transfer amounts available in the reserve fund to make debt service payments on the 24Q Bonds. The City may, at its sole option and at its sole discretion, elect to advance available surplus funds of the City to pay for any delinquent installments pending sale, reinstatement or redemption of any delinquent property.

In the Fiscal Agent Agreement, the City covenants for the benefit of the bondowners that it will foreclose the lien of any assessment which has been billed, but has not been paid, pursuant to State law; provided, however, that the institution of such proceedings may be delayed at the sole option of the City Council if certain conditions in the Fiscal Agent Agreement are met. The City may, at its sole option and at its sole discretion, elect to advance available surplus funds of the City to pay for any delinquent installments pending sale, reinstatement or redemption of any delinquent property. The principal of the 24Q Bonds is not subject to acceleration under the Fiscal Agent Agreement as a result of a delinquent or unpaid assessments.

Governmental Activities – Special Tax Bonds, CFD 1 Capitol Expressway Auto Mall

The City issued its special tax bonds, CFD 1 (Capitol Expressway Auto Mall) ("CFD 1 Bonds") to finance certain public improvements pursuant to provisions of State law, the San José Municipal Code and a fiscal agent agreement ("Fiscal Agent Agreement") with a banking institution as fiscal agent. The CFD 1 Bonds are a limited obligation of the City of San José. The only financial obligation of the City is to transfer amounts available in the reserve fund to make debt service payments on the bonds.

A taxpayer's inability to pay special taxes associated with the CFD 1 Bonds is not a defined event of default in the Fiscal Agent Agreement for the CFD 1 Bonds, but there are remedies for delinquent special taxes and the remedies are limited. In the Fiscal Agent Agreement, the City covenants for the benefit of the bondowners that it will foreclose the lien of any special tax which has been billed, but has not been paid, pursuant to State law, as provided in the Fiscal Agent Agreement.

No provision in the bond documents for the CFD 1 Bonds requires the City to expend or risk its own general funds or otherwise incur any financial liability. The principal of the CFD 1 Bonds is not subject to acceleration under the Fiscal Agent Agreement as a result of delinquent or unpaid special taxes.

Governmental Activities – Special Tax Bonds, CFD 6 Great Oaks-Route 85

The City issued its special tax bonds, CFD 6 (Great Oaks-Route 85) ("CFD 6 Bonds") to finance certain public improvements pursuant to provisions of State law, the San José Municipal Code and a fiscal agent agreement ("Fiscal Agent Agreement") with a banking institution as fiscal agent. The CFD 6 Bonds are a limited obligation of the City of San José. The only financial obligation of the City is to transfer amounts available in the reserve fund to make debt service payments on the bonds.

A taxpayer's inability to pay special taxes associated with the CFD 6 Bonds is not a defined event of default in the Fiscal Agent Agreement for the CFD 6 Bonds, but there are remedies for delinquent special taxes and the remedies are limited. In the Fiscal Agent Agreement, the City covenants for the benefit of the bondowners that it will foreclose the lien of any special tax which has been billed, but has not been paid, pursuant to State law, as provided in the Fiscal Agent Agreement.

No provision in the bond documents for the CFD 6 Bonds requires the City to expend or risk its own general funds or otherwise incur any financial liability. The principal of the CFD 6 Bonds is not subject to acceleration under the Fiscal Agent Agreement as a result of delinquent or unpaid special taxes.

Governmental Activities – Special Tax Bonds, CFD 9 Bailey/Highway 101

The City issued its special tax bonds, CFD 9 (Bailey/Highway 101) ("CFD 9 Bonds") to finance certain public improvements pursuant to provisions of State law, the San José Municipal Code and a fiscal agent agreement ("Fiscal Agent Agreement") with a banking institution as fiscal agent. The CFD 9 Bonds are a limited obligation of the City of San José. The only financial obligation of the City is to transfer amounts available in the reserve fund to make debt service payments on the bonds.

A taxpayer's inability to pay special taxes associated with the CFD 9 Bonds is not a defined event of default in the Fiscal Agent Agreement for the CFD 9 Bonds, but there are remedies for delinquent special taxes and the remedies are limited. In the Fiscal Agent Agreement, the City covenants for the benefit of the bondowners that it will foreclose the lien of any special tax which has been billed, but has not been paid, pursuant to State law, as provided in the Fiscal Agent Agreement.

No provision in the bond documents for the CFD 9 Bonds requires the City to expend or risk its own general funds or otherwise incur any financial liability. The principal of the CFD 9 Bonds is not subject to acceleration under the Fiscal Agent Agreement as a result of delinquent or unpaid special taxes.

Governmental Activities – Special Tax Bonds, CFD 10 Hassler-Silver Creek

The City issued its special tax bonds, CFD 10 (Hassler-Silver Creek) ("CFD 10 Bonds") to finance certain public improvements pursuant to provisions of State law, the San José Municipal Code and a fiscal agent agreement ("Fiscal Agent Agreement") with a banking institution as fiscal agent. The CFD 10 Bonds are a limited obligation of the City of San José. The only financial obligation of the City is to transfer amounts available in the reserve fund to make debt service payments on the bonds.

A taxpayer's inability to pay special taxes associated with the CFD 10 Bonds is not a defined event of default in the Fiscal Agent Agreement for the CFD 10 Bonds, but there are remedies for delinquent special taxes and the remedies are limited. In the Fiscal Agent Agreement, the City covenants for the benefit of the bondowners that it will foreclose the lien of any special tax which has been billed, but has not been paid, pursuant to State law, as provided in the Fiscal Agent Agreement.

No provision in the bond documents for the CFD 10 Bonds requires the City to expend or risk its own general funds or otherwise incur any financial liability. The principal of the CFD 10 Bonds is not subject to acceleration under the Fiscal Agent Agreement as a result of delinquent or unpaid special taxes.

Governmental Activities – Special Hotel Tax Revenue Bonds, Convention Center

The City issued its Special Hotel Tax Revenue Bonds, Convention Center ("Hotel Tax Bonds") to finance expansion to its convention center pursuant to provisions of State law, the San José Municipal Code and an indenture of trust agreement ("Indenture") with a banking institution as trustee ("Trustee"). The Hotel Tax Bonds are a limited obligation of the City. Under the Indenture, the City has the obligation to collect and remit the Special Tax revenues to the Trustee for the Trustee to deposit in various funds held by the Trustee in the order of priority specified in the Indenture, including a Revenue Fund. Under certain circumstances as specified in the Indenture, the City Manager has the obligation to request the City Council to appropriate certain transient occupancy tax revenues in the City's annual budget for the following fiscal year for deposit in the Revenue Fund; provided however, that the City Council is not obligated to appropriate such funds and failure to do so is not a default under the Indenture.

The City covenants in the Indenture to monitor the collection of the Special Taxes and to engage in certain collection actions, including instituting foreclosure proceedings of a hotel property that is delinquent in the payment of the Special Hotel Tax in accordance with foreclosure procedures under State law.

The principal of the Hotel Tax Bonds is not subject to acceleration under the Indenture as a result of delinquent or unpaid Special Hotel Taxes.

Business Type Activities – Clean Water Financing Authority Revenue Bonds

The Clean Water Financing Authority has one series of bonds outstanding as of June 30, 2019, the Series 2009A Bonds. The Clean Water Financing Authority issued the Series 2009A Bonds pursuant to a Master Indenture as supplemented and amended ("Master Indenture") with a trustee bank ("Trustee"). The source of repayment of the Series 2009A Bonds consists of Revenues (defined below) paid under the Improvement Agreement by and among the City, the City of Santa Clara and the Clean Water Financing Authority as supplemented and amended ("Improvement Agreement). For purposes of the Series 2009A Bonds, Revenues consist of payments made under the Improvement Agreement solely by the City from Net System Revenues (as defined in the Improvement Agreement) derived from the operation of the City's sewer and wastewater treatment system.

There are events of default under both the Master Indenture and the Improvement Agreement. Generally, the events of default under the Master Indenture are: (i) failure to pay debt service when due; (ii) failure to comply with covenants and conditions of the Master Indenture and such default shall have continued for a specified period of days following the Clean Water Financing Authority's receipt from the Trustee, or the owners of at least 10% of the aggregate principal amount of the Series 2009A Bonds outstanding, of written notice of the occurrence of such default, provided that such period may be extended as specified in the Master Indenture; (iii) bankruptcy or similar debtor relief proceedings; or (iv) an event of default by the City under the Improvement Agreement. The Master Indenture does not provide for acceleration of payment of the Series 2009A Bonds. The Master Indenture, however, provides for application of Revenues upon an event of default in the order of priority set forth in the Master Indenture.

Generally, the events of default under the Improvement Agreement are: (i) failure to make a payment when due; (ii) failure to comply with covenants and conditions of the Improvement Agreement and such default shall have continued for a period of 30 days following the City's receipt of written notice of the occurrence of such default from the Clean Water Financing Authority, provided that such period may be extended as specified in the Improvement Agreement; or (iii) bankruptcy or similar debtor relief proceedings. Following an event of default under the Improvement Agreement, the Clean Water Financing Authority or the Trustee may pursue its rights and remedies at law or in equity. With respect to payment defaults, the Trustee may demand payment of amounts past due with interest, to the extent permitted by law, at the effective rate of interest on the Series 2009A Bonds until such amount has been paid.

3. 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.

4. 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 FY 2019 tax roll was $188.6 billion, which results in a total debt limit of $28.3 billion. As of June 30, 2019, the City had $327,591,000 which includes premium of General Obligation bonds outstanding which represents approximately 1.2% of the General Obligation bonds' debt limit. On July 25, 2019, the City issued $502,020,000 of General Obligation bonds. (See Note IV.D.1)

5. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service ("IRS") at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the City's tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, there was no rebate liability outstanding as of June 30, 2019.

6. 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, 2019, the City has recorded approximately $27,400,000 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.

7. Conduit Debt

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with IRS requirements in order to meet the tax-exempt status, the owner is required to set aside a certain percentage of all units built for very low to moderate-income households. The bonds are payable solely from payments made on the related secured loans. These tax-exempt housing bonds have maturity dates that are due at various dates through March 1, 2052. As of June 30, 2019, the total principal amount outstanding of conduit multi-family housing revenue bonds is $771,988,000.

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

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

Long-Term Direct Placements (Governmental Activities)

On December 18, 2013, the Financing Authority directly placed its Lease Revenue Bonds, Series 2008C (Hayes Mansion Refunding Project) (the "Series 2008C Bonds") and Taxable Lease Revenue Bonds, Series 2008D Bonds (Hayes Mansion Refunding Project) (the "Series 2008D Bonds" and together with the Series 2008C Bonds, the "Series 2008 C/D Bonds") and its Taxable Lease Revenue Bonds, Series 2008E-1 (Ice Centre Refunding Project) and Taxable Lease Revenue Bonds, Series 2008E-2 Bonds (Ice Centre Refunding Project) (collectively, the "Series 2008E 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 two separate continuing covenant agreements (collectively, the "Continuing Covenant Agreements") for the direct placement of the Series 2008C/D Bonds and the Series 2008E Bonds. Prior to the execution of the Continuing Covenant Agreements on December 18, 2013, the Series 2008C/D Bonds and the Series 2008E Bonds were publicly-marketed variable rate "demand" bonds supported by credit facilities and were payable upon demand of the bondholder on certain dates and after certain notice specified in the Indenture (defined below) at a purchase price equal to principal plus accrued interest. Concurrent with the direct placement of the Series 2008C/D Bonds and the Series 2008E Bonds with U.S. Bank, such credit facilities were terminated and the Series 2008C/D Bonds and the Series 2008E Bonds ceased to be remarketed on the open market.

The Financing Authority issued the Series 2008C/D Bonds pursuant to an Indenture of Trust dated as of June 1, 2008 (the "Original Series 2008C/D Indenture"), by and between the Financing Authority and Wells Fargo Bank, N.A., as trustee, as amended by a First Supplemental Indenture of Trust, dated as of October 1, 2010, and as subsequently amended and restated by an Amended and Restated Indenture of Trust, dated as of December 1, 2013. In connection with the Original Series 2008C/D Indenture, the City and the Financing Authority entered into a Project Lease dated as of June 1, 2008, as subsequently amended by the First Amendment to Project Lease dated as of December 1, 2013 under which the Financing Authority leased the facility known as the Dolce Hayes Mansion to the City, in exchange for lease payments used that were the source of repayment of the Series 2008C/D Bonds.

On February 5, 2019, the sale of the Dolce Hayes Mansion closed. The City received sufficient proceeds from the sale to fully redeem the then outstanding Series 2008C Bonds and Series 2008D Bonds in the principal amount of $10,915,000 and $17,545,000, respectively, on February 6, 2019.

The Financing Authority issued its Taxable Lease Revenue Bonds, Series 2008E (Ice Centre Refunding Project) (the “Original Series 2008E Bonds”), pursuant to an Indenture of Trust by and between the Financing Authority and Wells Fargo Bank, N.A., as trustee, dated as of July 1, 2008, (the “Original Series 2008E Indenture”). The Original 2008E Indenture was supplemented and amended pursuant to a First Supplemental Indenture of Trust, dated as of October 1, 2010 which, among other things, re-designated the Original Series 2008E Bonds as the Financing Authority’s Taxable Lease Revenue Bonds, Series 2008E-1 Bonds (Ice Centre Refunding Project) and Taxable Lease Revenue Bonds, Series 2008E-2 Bonds (Ice Centre Refunding Project). The Original Series 2008E Indenture was subsequently amended and restated by an Amended and Restated Indenture of Trust, dated as of December 1, 2013. In connection with the Original Series 2008E Indenture, the City and the Financing Authority entered into a Site and Facility Lease dated as of July 1, 2008, as subsequently amended by the First Amendment to Site and Facility Lease dated as of December 1, 2013 (together, the “Site Lease”) pursuant to which the City leases a facility currently known as Solar4America Ice Centre (the “Ice Centre”) to the Financing Authority. Pursuant to a Project Lease dated as of July 1, 2008, as subsequently amended by the First Amendment to Project Lease dated as of December 1, 2013, the Financing Authority leases the Ice Centre back to the City in exchange for lease payments that are the source of repayment on the Series 2008E Bonds.

The outstanding Series 2008E Bonds are considered to be “Direct Placements” according to GASB Statement No. 88, which was implemented in this fiscal year. The scheduled redemption of the Series 2008E Bonds is incorporated in the Annual Requirements to Maturity schedules (see Note III.F.10).

The principal balances of the Financing Authority’s variable-rate bonds as of June 30, 2019 are as follows (in thousands):

	Privately-Placed Bonds				
	Balance June 30, 2019	Purchaser	Agreement Expiration	Fixed Fee/ Spread	Interest Index Rate
City of San José Financing Authority:					
Lease Revenue Bonds:					
Series 2008E (Taxable) (Ice Centre)	$ 13,090	U.S. Bank	12/13/2019	0.530%	1-Month LIBOR

Pursuant to the Continuing Covenant Agreement for the Series 2008E Bonds, the Financing Authority is required to pay a fixed fee, or spread of 0.53% (as noted above) that is subject to increase in the event that the long-term unenhanced ratings of any of the Financing Authority’s lease revenue bonds are downgraded. The applicable interest rate index plus the fixed fee comprise the combined interest rate that is applied to outstanding principal and billed to the Financing Authority monthly. As of June 30, 2019, the direct placement of the Series 2008E Bonds expires as set forth in the table above.

The Series 2008E Bonds are subject to mandatory tender upon expiration of the Continuing Covenant Agreement for the Series 2008E Bonds on December 13, 2019, at which time the Financing Authority has the obligation to purchase the Series 2008E Bonds unless an extension is negotiated with U.S. Bank or the Financing Authority places the Series 2008E Bonds with a different purchaser or remarkets the Series 2008E Bonds publicly. If the Financing Authority fails to place the Series 2008E Bonds with a different purchaser or fails to remarket the Series 2008E Bonds, assuming there are no events of default, then the principal of the bonds will be amortized over a three-year period in equal (as nearly as possible) principal payments and will bear interest at a minimum rate of interest at 8% per annum (“Amortization Payments”).

Under state law, the City's lease payments may not exceed the fair rental value of the Ice Centre. In the event that the City or the Financing Authority reasonably foresee that the lease payments for the Ice Centre will be insufficient to repay the Amortization Payments or other amounts owed to U.S. Bank, then the staff of the City and the Financing Authority shall use their best efforts to (i) substitute other property to be leased with sufficient value to make such payments: (ii) support the issuance of bonds or certificates of participation in an amount sufficient to repay the amounts owed to U.S. Bank; or (iii) request an appropriation of legally available funds from the City's General Fund.

Additionally, in the event U.S. Bank does not extend the date for mandatory tender of the Series 2008E Bonds, then the City Manager and the Executive Director of the Financing Authority shall use their best efforts to bring forward a plan of finance for the conversion of the Series 2008E Bonds or issuance of bonds or certificates of participation in a sufficient amount to pay U.S. Bank for the amount owed to U.S. Bank prior to the 3rd anniversary of the mandatory tender date.

Upon the occurrence and continuation of event of default under the Continuing Covenant Agreement, U.S. Bank may direct Wells Fargo Bank, N.A. as the trustee for the Series 2008E Bonds to accelerate the Series 2008E Bonds; however, the Continuing Covenant Agreement also provides that the City's lease payments may not be accelerated. Additionally, in the event of default, the City may not issue any additional Debt (as defined in the Continuing Covenant Agreement) without the prior consent of U.S. Bank and may not issue any additional notes under the Financing Authority's lease revenue commercial paper program except additional notes to pay interest and to refund maturing principal.

Events of default under the continuing covenant agreement for the Series 2008E Bonds include: (i) default under any the underlying documents for the Series 2008E Bonds, (ii) non-payment; (iii) a breach of various covenants; (iv) bankruptcy; and (v) ratings events including downgrades by any of Moody's, S&P, or Fitch of its long term ratings on the Financing Authority's lease revenue bonds below "Baa1," "BBB+" and "BBB+," respectively; or (vi) a suspension or withdrawal of the long-term ratings on the Financing Authority's lease revenue bonds for a credit related reason.

9. Summary of Changes in Long-term Obligations

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2019 are as follows (in thousands):

	July 1, 2018	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2019	Principal Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	$ 342,770	$ -	$ (19,660)	$ 323,110	$ 19,660
Issuance premiums:					
For issuance premiums	4,760	-	(279)	4,481	-
Lease-purchase agreements	15,311	-	(1,420)	13,891	1,460
San José Financing Authority					
Direct Placements					
Series 2008C	10,915	-	(10,915)	-	-
Series 2008D	17,545	-	(17,545)	-	-
Series 2008E-1	7,460	-	(910)	6,550	960
Series 2008E-2	7,450	-	(910)	6,540	955
Lease revenue bonds	425,515	-	(14,660)	410,855	14,250
Issuance premiums/discounts:					
For issuance premiums	37,173	-	(1,781)	35,392	-
For issuance discounts	(539)	-	23	(516)	-
Special assessment and special tax bonds with Limited governmental commitment	130,765	-	(5,580)	125,185	5,885
Issuance discounts:					
For issuance discounts	(1,537)	-	66	(1,471)	-
Total long-term debt payable	997,588	-	(73,571)	924,017	43,170
Other Long-term obligations:					
Hayes Mansion construction loan	1,200	-	(1,200)	-	-
NMTC financing obligation	18,394	-	(18,394) *(1)*	-	-
Accrued vacation, sick leave and compensatory time	76,528	55,586	(54,891)	77,223	49,855
Accrued landfill postclosure costs	4,650	-	(465)	4,185	465
Estimated liability for self-insurance	135,326	14,295	(20,961)	128,660	21,151
Pollution remediation obligation	279	1,958	-	2,237	-
Total other long-term obligations	236,377	71,839	(95,911)	212,305	71,471
Governmental activities long-term obligations	$ 1,233,965	$ 71,839	$ (169,482)	$ 1,136,322	$ 114,641

(1) Includes principal payment of $222 with the remaining $18,172 forgiven.

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. On November 6, 2018, the voters of San José approved ballot Measure T that authorized the total issuance of $650,000,000 of GO bonds for disaster preparedness, public safety and infrastructure projects. GO bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount (except certain personal property which is taxable at limited rates). 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, 2019, the City had issued $589,590,000 of prior GO bonds with $323,110,000 outstanding. Total principal and interest remaining on the bonds as of June 30, 2019 is approximately $455,006,000 with the final payment due on September 1, 2039 (see Note IV.D.1).

Lease Revenue/Revenue Bonds are issued by the Financing Authority primarily to finance various capital improvements, which are leased to the City and are secured by lease revenue from "lessee" departments in the General Fund and Nonmajor Governmental Funds. 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, 2019 are approximately $665,223,000, with the final payment due on May 1, 2042.

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, 2019 is approximately $223,732,000, with the final payment due on May 1, 2042.

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

The City entered into a $19,300,000 taxable Lease with the Lessor on May 29, 2014 to finance the acquisition and installation of energy conservation equipment at City-owned facilities including community centers, pools, joint community centers/libraries, the South Service Yard, the Museum of Art, and, most significantly, for the replacement of streetlights. Due to unanticipated cost increases of the streetlight replacement project, most of the Lease proceeds were expended on the streetlight replacement project that was accepted by the City in June 2017. The unexpended Lease proceeds in the approximate amount of $2,852,000 that remained at the completion of the streetlight replacement project were used to pay debt service on the Lease through calendar year 2018.

The other projects anticipated to be funded under the Lease will be financed through the Finance Authority's Lease Revenue Commercial Paper Program described in Note III.F.10. The total blended interest rate for the 20-year taxable Lease is 5.01%, and interest rates ranged from 3.21% for improvements with 5-year useful lives to 6.01% for improvements with 20-year useful lives. Total principal and interest outstanding on the Lease as of June 30, 2019 is approximately $17,249,000, with the final payment due on June 1, 2034.

Events of default under the Lease include (i) non-payment; (ii) a breach of various covenants; (iii) a misrepresentation or breach of warranty made in connection with the Lease; (iv) bankruptcy; (v) default on payment of an obligation involving credit provided by the Bank or an affiliate of the Bank and (vi) default on payment of an obligation in excess of $1 million payable from the City's General Fund.

In the event of default, the Lessor may exercise its rights under the law to collect lease payments owed or bring a writ of mandamus to enforce the City's obligations under the Lease. The Bank may also enter the premises on which the leased equipment is located and take possession of and sell such equipment with the proceeds of such sales less the Bank's costs applied to lease payments owed by the City, subject to the limitations specified in the Lease. The Lessor's remedies in the event of default; however, do not include acceleration of lease payments under the Lease.

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 was paid from the Integrated Waste Management fund. The New Market Tax Credit Financing obligation terminated in fiscal year 2018-19 (see Note IV.B.4).

Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2019 are as follows (in thousands):

	July 1, 2018	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2019	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San José International Airport:					
Revenue bonds	$ 1,187,645	$ -	$ (28,915)	$ 1,158,730	$ 31,040
Issuance premiums/discounts:					
For issuance premiums	79,547	-	(3,818)	75,729	3,818
For issuance discounts	(5,283)	-	233	(5,050)	(233)
Clean Water Financing Authority:					
Revenue bonds	15,550	-	(4,965)	10,585	5,175
Issuance premiums:					
For issuance premiums	296	-	(125)	171	125
Regional Wastewater Facility:					
Direct Borrowings					
State of California - Revolving Fund Loan	1,772	-	(1,772)	-	-
City of San José Financing Authority Subordinate Wastewater Revenue Notes:					
Direct Borrowings					
Notes payable	18,490	70,586	-	89,076	-
Accrued vacation, sick leave and compensatory time	7,115	5,499	(5,634)	6,980	6,142
Estimated liability for self-insurance	7,062	6,795	(1,633)	12,224	7,973
Business-type activities long-term obligations	$ 1,312,194	$ 82,880	$ (46,629)	$ 1,348,445	$ 54,040

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 (as defined in the Master Trust Agreement) in year ended June 30, 2019 totaled $151,368,000, which is composed of $88,623,000 of Net General Airport Revenues (as defined in the Master Trust Agreement) and $62,746,000 of Other Available Funds (as defined in the Master Trust Agreement). Other Available Funds include surplus carryover of $25,530,000, rolling debt service coverage of $18,512,000, and CFC Revenues of $18,704,000. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to

$65,475,000, which is net of $27,026,000 of bond Debt Service paid from the accumulated PFC funds.

The City has covenanted in the Master Trust Agreement that net revenues available to pay Debt Service for each fiscal year plus certain other available funds held or made available under the Master Trust Agreement 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 for such fiscal year. Total principal and interest remaining on the bonds is $2,135,084,000, with the final payment due on March 1, 2047.

Events of default under the Master Trust Agreement include: (a) non-payment of the principal; (b) non-payment of interest; (c) a breach of a covenant if the default shall have continued for a period of sixty days after written notice specifying such default and requiring the same to be remedied shall have been given to the City by the Trustee or by a Municipal Bond Insurer (as defined in the Master Trust Agreement), or to the City and the Trustee by the bond owners who held not less than 25% in aggregate principal amount of the Bonds at the time outstanding; and (d) reorganization or bankruptcy. There is no acceleration remedy in the event of default for any current Airport Revenue Bonds that are outstanding.

San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds are issued primarily to finance the construction of capital improvements at the Plant and the City has pledged its net system revenues as security for its obligations under the Improvement Agreement to make base payments and additional payments with respect to the Clean Water Financing Authority sewer revenue bonds. The net system revenues available to pay debt service in the year ended June 30, 2019 totaled approximately $60,432,000. Bond debt service, plus debt service on the State Revolving Fund Loans (subordinate to the outstanding Clean Water Financing Authority sewer revenue bonds), payable from net system revenues in the fiscal year totaled approximately $10,344,000. The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service on the outstanding parity obligations under the Improvement Agreement. The City's allocable percentage of annual debt service is currently 100%. Total principal and interest remaining on (1) the bonds as of June 30, 2019 is approximately $11,053,000, with the final payment due on November 15, 2020. The final State Revolving loan payment of approximately $1,804,000 was made on May 1, 2019.

City of San José Financing Authority Subordinate Wastewater Revenue Notes

Long-Term Direct Borrowings (Business-Type Activities)

On October 19, 2017, pursuant to a Credit Agreement dated as of October 1, 2017 ("Credit Agreement") by and among the City, the Financing Authority, and Wells Fargo Bank, National Association (the "Bank"), the Financing Authority issued to the Bank (i) a subordinate tax-exempt wastewater revenue note in an amount not to exceed $300 million and (ii) a subordinate taxable wastewater revenue note in an amount not to exceed $300 million outstanding at any one time. The Credit Agreement effectively established an interim financing program under a three-year contract that enables the issuance of subordinate wastewater revenue notes that can be outstanding at any one time in an amount not to exceed $300 million to finance capital improvements at the RWF. Advances on the notes will be made on a regular basis to reimburse the City for capital costs incurred at the RWF. Upon issuance of the notes, $174,500 was advanced under the tax-exempt note to pay for transactional closing costs and total advances through FY 2019 are $89,076,000. It is anticipated that the amounts outstanding on the notes will be refinanced during fiscal year 2020-21.

In the event that the notes are not refinanced as anticipated, the Credit Agreement provides for repayment of the notes following the termination of the Credit Agreement. Assuming no events of default under the Credit Agreement have occurred and subject to the City and the Financing Authority making certain representations and warranties, if the Financing Authority fails to repay the loans on the Termination Date (as defined in the Credit Agreement), the unpaid notes will bear interest at the Bank Rate (as defined in the Credit Agreement) and will be amortized in equal quarterly installments over a period ending three years following the Termination Date of the Credit Agreement.

The source of repayment of the notes, including associated fee and interest costs, are installment payments made to the Financing Authority from pledged net system revenues received by the City related to the wastewater treatment system, pursuant to a Subordinate Installment Purchase Contract, dated as of October 1, 2017, by and between the City and the Financing Authority, and City Resolution No. 78382 (the "Master Resolution"), which provides for the allocation and pledge of net system revenues to secure the payment of wastewater revenue obligations. Payments on the notes are subordinate to payments on previously issued, currently outstanding obligations payable from net system revenues (the San José-Santa Clara Clean Water Financing Authority, Sewer Revenue Refunding Bonds, Series 2009A (the "CWFA 2009A Bonds")) and will be subordinate to payments on long-term bonds issued in the future. Based on the current ratings of the CWFA 2009A Bonds, the current fee rate for undrawn amounts under the notes is 0.25%.

In June 2018, the City Council and the Financing Authority Board authorized amendments to the Credit Agreement, specifically the margin rate factor, as a result of the reduction in the federal corporate tax rate from 35% to 21% enacted by The Tax Cuts and Jobs Act in December, 2017. The Financing Authority Board also authorized the amendment and restatement of the fee letter agreement between the Financing Authority and the Bank. The margin rate factor is a common provision in bank credit facility agreements where tax-exempt notes are in direct placement or ownership by a bank. The margin rate factor serves to adjust the rate of a tax-exempt note upon changes in the federal corporate tax rate, thereby preserving the economic benefit of the bank owning a tax-exempt note. The Credit Agreement had a margin rate factor based on the 35% federal corporate tax, which left unchanged would have increased interest costs to the City by 22%. The amendment to the Credit Agreement authorized in June 2018 changed the formula for calculating the interest rate on amounts advanced under the tax-exempt note from (i) 0.35% plus 70% of 1-month LIBOR to (i) 0.39% plus 80% of 1-month LIBOR, effectively reducing the increase in interest cost from 22% to 14%. The provisions in the Credit Agreement related to the calculation of interest on amounts advanced under the taxable note were not changed by amendment to the Credit Agreement (0.45% plus 100% of 1-month LIBOR) since the margin rate factor only applies to the tax-exempt note. The fee rate for undrawn amounts under the notes remains at 0.25%.

Events of default under the Credit Agreement by the City or the Financing Authority include: (i) non-payment; (ii) default under any the Related Documents (as defined in the Credit Agreement) (iii) bankruptcy; (iv) a breach of various covenants, including financial covenants to maintain 115% of Debt Service on Parity Obligations (as defined in the Master Resolution) and 110% of Debt Service on Parity Obligations and Subordinate Obligations (as defined in the Master Resolution); (v) breach of representations and warranties, (vi) default with respect to a Material Debt (as defined in the Master Resolution); (vii) final judgment of $10 million or more against the City or the Financing Authority payable from System Revenues; (viii) City or Financing Authority contesting validity of obligations related to payment of the notes or a determination by a court of competent jurisdiction that the obligations of the City or the Financing Authority related to payment of the notes are not valid or binding; (ix) invalidity of a Lien (as defined in the Credit Agreement) created by the Credit Agreement or the Related Documents; and (x) ratings events including downgrades by any of Moody's, S&P, or Fitch of its long term ratings on the CWFA 2009A Bonds or long-term debt issued in the future that constitutes Parity Obligations under the Master Resolution below "Aa3," "A-" and "A-," respectively.

The Bank has certain rights and remedies upon the occurrence and continuance of specified events of default in the Credit Agreement including (i) by notice to the Financing Authority and the City to terminate the Bank's commitment to make advances under the notes; (ii) to exercise rights and remedies under the Related Documents (as defined in the Credit Agreement); (iii) exercise rights and remedies at law or in equity; (iv) bring action in mandamus or other action or proceeding to compel performance by the Financing Authority and/or the City under the Master Resolution or Installment Purchase Agreement; and (v) appointment of a trustee to protect and enforce Bank's rights.

In addition to these rights and remedies, the Bank has the right to accelerate repayment of the notes, which is automatic in the case of bankruptcy. The Credit Agreement includes subjective acceleration provisions in the event that: (i) City fails to comply with laws and contracts, which in the reasonable opinion of the Bank, would materially adversely affect the rights of the Bank or the City's ability to perform its obligations under the Credit Agreement; (ii) either the City or the Financing Authority fails to promptly pay taxes, assessments or government charges which if not paid would likely result in a Material Adverse Effect (defined below); and (iii) either the City or the Financing Authority breaches its covenant to promptly inform the Bank of an event that could reasonably be expected to result in a Material Adverse Change (defined below) or which could be expected to result in a Material Adverse Effect. Under the Credit Agreement, Material Adverse Change and Material Adverse Effect are defined as any event or change, in the Bank's sole discretion, which materially and adversely effects (i) the enforceability of the Credit Agreement or any Related Document; (ii) the ability of the City or the Financing Authority to perform their respective obligations under the Credit Agreement or any Related Document; or (iii) the Bank's rights and remedies.

July 1, 2018	Additions	Deletions	June 30, 2019	Interest Rate
$18,490	$70,586	$ -	$89,076	2.34%

10. Annual Requirements to Maturity

The annual requirements to amortize all bonds and loans outstanding as of June 30, 2019 are as follows (in thousands):

	Governmental Activities							
	City of San José General Obligation Bonds		City of San José Financing Authority Bonds [2,3]		City of San José Financing Authority Bonds - Direct Placement [1]		Special Assessment & Tax Bonds with Limited Governmental Commitment	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 19,660	$ 15,175	$ 14,250	$ 20,012	$ 1,915	$ 359	$ 5,885	$ 7,613
2021	19,660	14,260	14,955	19,318	2,040	340	6,205	7,287
2022	19,660	13,333	15,575	18,706	2,035	279	6,550	6,936
2023	19,660	12,400	16,355	17,940	2,205	217	6,915	6,568
2024	19,660	11,460	17,165	17,139	2,375	151	6,970	6,181
2025 - 2029	98,280	42,980	89,555	73,532	2,520	77	18,575	27,398
2030 - 2034	89,640	19,195	105,980	50,393	-	-	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	$ 323,110	$ 131,895	$ 410,855	$ 239,855	$ 13,090	$ 1,423	$ 125,185	$ 98,547

	Governmental Activities		Business-Type Activities			
	Lease-Purchase Agreement		Airport Revenue Bonds [3]		Wastewater Treatment System Revenue Bonds and Loans [4]	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 1,460	$ 678	$ 31,040	$ 62,218	$ 5,175	$ 352
2021	1,500	605	33,205	60,702	5,410	116
2022	1,576	529	34,975	59,035	-	-
2023	1,656	449	24,630	57,296	-	-
2024	1,740	364	26,755	56,034	-	-
2025 - 2029	5,267	641	155,735	258,346	-	-
2030 - 2034	692	92	245,075	206,665	-	-
2035 - 2039	-	-	239,630	136,935	-	-
2040 - 2044	-	-	235,220	65,662	-	-
2045 - 2049	-	-	132,465	13,462	-	-
Total	$ 13,891	$ 3,358	$ 1,158,730	$ 976,355	$ 10,585	$ 468

[1] Projected interest payments for variable rate debt are based on the following rates in effect on June 30, 2019:
- Financing Authority Lease Revenue Bonds, Series 2008E (2.97%)

[2] Includes fixed spread/fee in addition to index rate in effect on June 30, 2019. Does not include projection of future spreads/fees or expenses.

[3] Does not include commercial paper notes.

[4] Does not include the City of San José Financing Authority Subordinate Wastewater Revenue Notes.

11. New Debt Issuances and Short-Term Debt Activities

Governmental Activities

City of San José Financing Authority Lease Revenue Commercial Paper Notes Payable (Short-Term Direct Borrowings)

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") on a tax-exempt and federally taxable basis 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 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 Letter of Credit and Reimbursement Agreements by and among the Financing Authority, the City, and each Bank, as amended (together, the "Reimbursement Agreements"). Per the original terms of the respective Reimbursement Agreements, each Bank's LOC was scheduled to expire on November 30, 2018 (the "Letter of Credit Expiration Date"). In August 2018, the City Council and Financing Authority Board authorized actions necessary to extend the Letter of Credit Expiration Date of each LOC, with a new scheduled expiration dates of February 23, 2022 and to increase the total principal amount available under both LOCs from $85 million to $125 million. Under each Reimbursement Agreement, the Financing Authority has executed a Revolving Note payable to each Bank each in the amount of $67,123,000 that is equal to the principal of each Bank's commitment under its LOC and interest calculated at the rate of 12% per annum for a period of 270 days.

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 and decreasing the program's capacity and authorizing the issuance of taxable lease revenue commercial paper notes. As of June 30, 2019, the maximum principal amount of commercial paper notes authorized to be issued is $125 million.

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 trustee, as amended and supplemented from time to time (as so 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, as paying agent ("Issuing and Paying Agent Agreement"). 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 Lease and Sublease are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, the South San José Police Substation, and the Tech Museum (the "Pledged Properties").

The annual commitment fee payable to each Bank equals 0.42% per annum of the daily average Stated Amount of the Letter of Credit; provided, however, that in the event that the long-term unenhanced lease revenue debt ratings of the City are downgraded as specified in the agreements with the Banks, the annual commitment fee shall increase from a range of 0.52% to a maximum of 2.37%, depending on the level of rating downgrade.

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

Interest on any Term Loan draws that are not reimbursed by the City one hundred eighty-one days after a Principal Advance or the Letter of Credit Expiration Date, whichever comes first (such date the "Term Loan Conversion Date") 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 Pledged Property 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 Reimbursement Agreements, the Banks have the right to require that the rent payable for any of the Pledged Properties be re-determined in order to increase the amount of the rent payable.

Each Bank has certain rights and remedies upon the occurrence and continuance of specified events of default in its Reimbursement Agreement, including the ability, by notice to the Financing Authority and the Issuing and Paying Agent (i) to deliver a notice to the Issuing and Paying Agent (a "No-Issuance Notice") requiring the Issuing and Paying Agent to cease authenticating CP Notes of the applicable series unless and until such No-Issuance Notice is rescinded, (ii) to reduce the unutilized portion of the applicable commitment to zero (0), (iii) to declare the applicable Revolving Note, in whole or in part, all or some advances, as well as any other reimbursement obligations under the applicable Reimbursement Agreement and all interest thereon to be a default advance under the applicable Reimbursement Agreement due and payable at the Default Rate (as defined in the applicable Reimbursement Agreement) and payable as set forth therein, or (iv) to take any other action permitted by law. Upon any action by a Bank, as contemplated in the foregoing clauses (i) and (ii), the applicable Stated Amount under the applicable LOC shall be permanently reduced upon, and by the amount of, each drawing under the applicable LOC following the occurrence of an event of default. Notwithstanding the foregoing, the occurrence of an event of default shall not affect a Bank's obligations under its LOC with respect to CP Notes of the applicable series that are outstanding at the time of the occurrence of such event of default, and the Issuing and Paying Agent shall continue to have the right to draw under the applicable LOC to pay the principal of and accrued interest on maturing CP Notes of the applicable series that are outstanding at the time of the occurrence of such event of default.

Upon the occurrence and continuation of an event of default under the applicable Reimbursement Agreement, each Bank may accelerate payment due under the applicable Revolving Note; however, the amount of the Default Advance shall be paid by the Financing Authority in each year only to the extent of the then fair rental value with respect to the Pledged Properties subject to the Sublease for such period.

Events of default under the Reimbursement Agreements include: (i) default under any the underlying documents for the CP Notes, (ii) non-payment; (iii) a breach of various covenants; (iv) bankruptcy; and (v) ratings events including downgrades by any of Moody's, S&P, or Fitch of its long-term ratings on the Financing Authority's lease revenue debt below "Baa1," "BBB+" and "BBB+," respectively; or (vi) a suspension or withdrawal of the long-term ratings on the Financing Authority's lease revenue debt for a credit related reason.

As of June 30, 2019, $3,865,000 of tax-exempt CP Notes was outstanding at an interest rate of 1.48% and $74,104,000 of taxable CP Notes was outstanding at an interest rate of 2.40%. The remaining amount of principal available under both LOCs as of June 30, 2019 is $47,031,000. The changes in commercial paper notes during the year ended June 30, 2019 are as follows (in thousands):

July 1, 2018	Additions	Deletions	June 30, 2019
$39,650	$46,210	$7,891	$77,969

2018 Tax and Revenue Anticipation Note

The City issued a short-term note (the "2018 Note") to facilitate the prefunding of employer retirement contributions in FY 2019. The $150,000,000 note was purchased by Bank of America, N.A. on July 2, 2018 at a variable interest rate. Security for repayment of the 2018 Note was a pledge of the City's FY 2019 secured property tax plus all other legally available General Fund revenues available to the City, if required. The City fully repaid the 2018 Note on April 1, 2019.

<u>Business-Type Activities</u>

Airport Commercial Paper Notes Payable (Short-Term Direct Borrowings)

In November 1999, the City authorized the issuance from time to time of the Airport's Subordinated Commercial Paper Notes, Series A-1, Series A-2, Series B, and Series C ("Subordinated CP Notes") that are secured by a lien on Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues. Surplus Revenues 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. The Subordinated CP Notes may be issued for periods of maturity not to exceed 270 days. The Series A-1, Series A-2, and Series B Notes may be sold at an interest rate not to exceed 12% per annum. The Series C Notes may be issued and sold either as interest bearing notes or at a discount. If sold as interest bearing notes, then interest will accrue at a rate to be determined upon their issuance calculated on the basis of a 360-day year and actual number of days elapsed.

The Subordinated CP Notes are issued pursuant to a Third Amended and Restated Issuing and Paying Agent Agreement, dated as of February 1, 2014, as subsequently amended, by and between the City and U.S. Bank National Association, as issuing and paying agent. Credit support for the timely payment of the principal and interest on the Subordinated CP Notes at maturity is provided through a letter of credit ("LOC") as described below. The City Council has authorized the Subordinated CP Notes to be issued in an aggregate principal amount of up to $600 million outstanding at any one time. However, the City has determined to limit its issuance of Subordinated CP Notes to the total credit support provided by a LOC as described below.

In February 2014, the City and Barclays Bank PLC ("Barclays") entered into a LOC and Reimbursement Agreement ("Barclays Reimbursement Agreement") and a fee letter to specify the facility fee rate and other charges payable by the Airport. Pursuant to the Barclays Reimbursement Agreement, Barclays issued a $65.0 million LOC supporting the Subordinated CP Notes, effective on February 11, 2014 with an initial expiration date of February 10, 2017. On September 16, 2015, the City reduced the LOC stated amount from $65.0 million to approximately $41.0 million. Subsequently, the expiration date of the LOC provided by Barclays was extended to February 8, 2019.

On September 12, 2018, the City substituted the LOC supporting the Subordinated CP Notes issued by Barclays with a LOC issued by Bank of America, N.A ("BofA") and the Barclays Reimbursement Agreement and associated fee letter and LOC were terminated. Pursuant to a LOC and Reimbursement Agreement between the City and BofA ("BofA Reimbursement Agreement"), BofA issued its irrevocable transferrable LOC in the initial stated amount of $81.7 million (to cover principal of $75.0 million and interest on the Subordinated CP Notes accruing calculated at a rate of 12% for 270 days based on a 365-day year) that is scheduled to expire on September 10, 2021 unless sooner terminated or extended pursuant to its terms. The $75.0 million principal amount of the LOC was secured in order to provide additional capacity for the issuance of the Subordinated CP Notes to finance proposed terminal area projects.

In connection with BofA's issuance of its LOC, other agreements governing the Subordinated CP Notes were executed, including the First Amendment to the Third Amended and Restated Issuing and Paying Agent Agreement between the City and U.S. Bank National Association and the Fourth Amended and Restated Dealer Agreement between the City and each of the dealers of the Subordinated CP Notes, a fee letter between the City and BofA and a promissory note payable to BofA in the amount of $81.7 million under which the City promises to pay principal and interest on the unpaid principal amount of all Unreimbursed Drawings (as defined in the BofA Reimbursement Agreement) and Term Loans (as defined in the BofA Reimbursement Agreement) evidenced by the note on the dates and at the rates provided for in the BofA Reimbursement Agreement (“Bank Note”). The ratings of the outstanding Airport Subordinated CP Notes, are “A-1”, “P-1”, and “F1+” by Moody’s, S&P, and Fitch, respectively, based on the credit support provided by BofA pursuant to its LOC.

The terms of the BofA LOC are specified in the BofA Reimbursement Agreement. In general, BofA agrees to advance funds to the issuing and paying agent for the Subordinated CP Notes to pay the principal and interest on maturing Subordinated CP Notes in an amount not to exceed the stated amount of the LOC. In the event that the CP dealer is unable to find investors to purchase Subordinated CP Notes to repay the advance from BofA, the City is obligated to pay interest to BofA based on a formula specified in the BofA Reimbursement Agreement and repay principal in accordance with the schedule and the terms also specified in the BofA Reimbursement Agreement. In the event that the CP dealer is unable to find investors to purchase Subordinated CP Notes to repay the advance from BofA, the City is obligated to pay interest to BofA based on a formula specified in the BofA Reimbursement Agreement and repay principal in accordance with the schedule and the terms also specified in the BofA Reimbursement Agreement. All amounts payable by the City to BofA under the BofA 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 Airport Revenue Bonds.

Events of default under the BofA Reimbursement Agreement include, among others: (i) a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated CP Notes; (ii) non-payment; (iii) a breach of a various covenants; (iv) bankruptcy; (v) breach of representations and warranties; (vi) default on a Secured Debt (as defined in the BofA Reimbursement Agreement); (vii) final judgment of $10 million or more against the City payable from General Airport Revenues; (viii) the City contesting validity of obligations related to payment of the Subordinated CP Notes or a determination by a court of competent jurisdiction that the obligations of the City related to payment of the Subordinated CP Notes are not valid or binding; (ix) Surplus Revenues are not subject to a security interest in favor of the City's obligations under the BofA Reimbursement Agreement; (x) ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Airport Revenue Bonds (other than where the Airport Revenue Bonds shall continue to be rated by any two of Moody's, S&P, or Fitch), or downgrades by any of Moody’s, S&P, or Fitch of its ratings on the Airport Revenue Bonds below “Baa2”, “BBB”, and “BBB”, respectively, for a period of 120 consecutive calendar days; and (xi) any legislation is enacted, repealed, reenacted, amended or otherwise modified which has, in the sole judgment of the BofA, a material adverse effect on the obligation of the City to make payments under the BofA Reimbursement Agreement or the security granted to secure such payments.

An event of default under the BofA Reimbursement Agreement would entitle BofA to demand that no additional Subordinated CP Notes be issued, that the City reimburse BofA immediately for draws under the LOC and that all other amounts owed by the City to BofA be accelerated and become due immediately. The BofA Reimbursement Agreement includes a subjective acceleration provision in the event that any legislation is enacted, repealed, reenacted, amended or otherwise modified which has, in the sole judgment of the BofA, a material adverse effect on the obligation of the City to make payments under the BofA Reimbursement Agreement or the security granted to secure such payments.

In connection with the LOC issued by Barclays and BofA, the City entered into a fee letter 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 each fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the associated 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 respective Reimbursement Agreements. The facility fee rate under the fee letter with BofA was 0.35% as of June 30, 2019.

The change in Subordinated CP Notes payable during FY 2019 was as shown in the table below. The principal amount available under the LOC issued by BofA as of June 30, 2019 is $22.8 million.

July 1, 2018	Additions	Deletions	June 30, 2019	Interest Rates
$7,509	$55,000	$10,293	$52,216	1.45% - 1.54%

Clean Energy Revolving Credit Agreement (Long-Term Direct Borrowings)

On September 25, 2018, the City Council authorized the City Manager, the Director of Finance, the Assistant Director of Finance or their authorized designees to negotiate, execute, and deliver a Revolving Credit Agreement ("Credit Agreement") by and between the City and Barclays Bank PLC (the "Bank"), and a promissory note (the "Note"), evidencing the City's obligations thereunder in the aggregate principal amount not to exceed $50,000,000 for the purpose of financing start-up costs of the City of San José Clean Energy program ("SJCE"), purchase power, and in the case of standby letters of credit, secure payments under power purchase agreements and other costs associated with the Community Energy Implementation Plan. The Note qualifies as a "Direct Borrowing" under GASB Statement No. 88.

Effective on November 27, 2018, the Bank and the City entered into the Credit Agreement providing a credit facility in the form of a commitment by the Bank to (i) issue revolving loans to the City under the Revolving Line of Credit Facility in an aggregate principal amount not to exceed $20,000,000 (the "Revolving Line of Credit Facility Sublimit") for the period commencing November 27, 2018 and ending no later than November 26, 2021, with all outstanding revolving loans thereunder due and payable to the Bank on November 27, 2021, and (ii) issue standby letters of credit for the account of the City under the Standby Letter of Credit Facility in an aggregate principal amount not to exceed $35,000,000 (the "Standby Letter of Credit Facility Sublimit") for the period commencing November 27, 2018 and ending no later than October 28, 2023, with all unrepaid draws under such letters of credit due and payable to the Bank on November 27, 2023; provided, however, that the aggregate principal amount outstanding under the Revolving Line of Credit Facility and the Standby Letter of Credit Facility shall not to exceed $50,000,000 at any one time (the "Aggregate Commitment"). The City's obligations under the Credit Agreement are secured solely by a pledge and lien on revenues of SJCE, including revenues deposited in an operating reserve account held by the City pursuant to the Credit Agreement.

On April 30, 2019, the City Council authorized the City Manager, the Director of Finance, the Assistant Director of Finance or their authorized designees to negotiate, execute and deliver the First Amendment to the Revolving Credit Agreement with the Bank to increase the sublimit for the Revolving Line of Credit Facility thereunder from an aggregate principal amount not to exceed $20,000,000 to $30,000,000, increase the sublimit for the Standby Letter of Credit Facility thereunder from an aggregate principal amount not to exceed $35,000,000 to $65,000,000, increase the Aggregate Commitment to issue revolving loans and standby letters of credit from an aggregate principal amount not to exceed $50,000,000 to $80,000,000 outstanding at any one time, and increase certain fees payable by the City to the Bank in connection with the credit facilities under the Credit Agreement and to clarify that the City is allowed to draw on the revolving line of credit to fund the operating reserve account as discussed herein. Effective May 10, 2019, the Bank and the City entered into the First Amendment to the Revolving Credit Agreement to issue revolving loans and standby letters of credit for the purposes and within the limits mentioned above. The City's obligations under the First Amendment to the Revolving Credit Agreement continue to be secured solely by a pledge and lien on revenues of SJCE, including revenues deposited in an operating reserve account held by the City pursuant to the Credit Agreement.

Unchanged by the terms of the First Amendment to the Revolving Credit Agreement, the City agreed, among other things, that, so long as the Bank has any commitment thereunder or any amount payable thereunder remains unpaid from and including: (a) August 31, 2019, to but excluding November 15, 2019, to maintain not less than $10,000,000 in an operating reserve account held by the City established pursuant to and identified under the Credit Agreement (the “Operating Reserve Account”) at all times during such period; (b) November 15, 2019, to but excluding December 31, 2019, to maintain not less than $15,000,000 in the Operating Reserve Account at all times during such period; and (c) December 31, 2019 and thereafter, to maintain at all times $20,000,000 in the Operating Reserve Account (collectively, the “Operating Reserve Requirement”). On August 27, 2019, the City transferred $10,000,000 to the Operating Reserve (See Note IV.D.4).

Events of default under the Credit Agreement include, among others: (i) default under any of the underlying Financing Documents (as defined in the Credit Agreement), (ii) non-payment, (iii) breach of various covenants, (iv) bankruptcy, (v) breach of representations and warranties (vi) failure to maintain the required debt service coverage ratio (which, commencing with the fiscal quarter ended March 31, 2020, and as of the last day of each fiscal quarter thereafter, shall be not less than 2.00 to 1), (vii) failure to maintain the required amounts in the Operating Reserve Account, as discussed above, (viii) the long-term, unenhanced ratings by any of Moody’s, S&P, or Fitch on any general-obligation bonded indebtedness of the City is withdrawn or suspended (but excluding withdrawals or suspensions if the rating agency stipulates in writing that the rating action is being taken for non-credit related reasons) or reduced below “A1” (or its equivalent) by Moody’s, “A+” (or its equivalent) by S&P, or “A+” (or its equivalent) by Fitch; (ix) the dissolution or termination of SJCE, (x) one or more final, unappealable judgments or orders for the payment of money in excess of certain threshold amounts (i.e., $2 million through December 30, 2019, and $5 million thereafter) where such judgment or order remains unsatisfied and unstayed for a period of 60 days and which is payable from revenues of SJCE, (xi) PG&E defaults in the performance of its agreement with the City for billing services related to charges for the cost of energy provided by SJCE, (xii) any event of default under any Other Credit Agreement (as defined in the Credit Agreement) secured by revenues of SJCE, (xiii) a Material Adverse Effect (as defined in the Credit Agreement) occurs with respect to SJCE or the City’s ability to repay its obligations under the Credit Agreement; (xiv) failure to pay when due any principal of or interest on any Debt (as defined in the Credit Agreement) secured by revenues of SJCE, (xv) failure to pay when due any amount owing under any power purchase agreement, unless the City disputes payment in good faith, or (xvi) if Debt secured by revenues of SJCE has been accelerated or required to be prepaid prior to its maturity.

When an event of default occurs, the Bank may exercise all of its rights and remedies available to it under the Credit Agreement and as otherwise permitted by law. The Bank’s rights and remedies include, among others, taking one or more of the following actions: (i) declare the commitment and the obligation of the Bank to make Credit Extensions to be terminated, (ii) by written notice to City, declare the outstanding amount of the obligations of the City under the Credit Agreement to be immediately due and payable, (iii) require the City to cash collateralize 105% of the letter of credit obligations (broadly defined to include the amounts available to be drawn under any letters of credit plus any amounts drawn by beneficiaries under such letters of credit but which are not reimbursed by the City as required under the Credit Agreement (“Unreimbursed Amounts”) as applicable, (iv) and at the expense of the City, cure any event of default; provided, however that the Bank shall have no obligation to effect such a cure. Upon the occurrence and during the continuance of an event of default under the Credit Agreement, any outstanding loan amounts or Unreimbursed Amounts will accrue interest at the Default Rate as defined in the Credit Agreement. Certain other per annum rates payable by the City under the Credit Agreement also increase upon the occurrence and during the continuance of an event of default.

In the case of bankruptcy where the City obtains an entry of order for relief under the Bankruptcy Code, the obligation of the Bank to make Credit Extensions shall automatically terminate and all unpaid principal amounts of all outstanding loans and Unreimbursed Amounts and all interest and other amounts payable to the Bank by the City shall automatically become due and payable, and City shall be required to cash collateralize 105% of the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, without further action by the Bank.

12. Landfill Postclosure Costs

The City has five closed landfills for which postclosure and monitoring services may be required for approximately a 30 year period, which began in fiscal year 1996, coinciding with the closure of the last landfill. An estimated liability of $4,185,000 related to the closed landfills is recorded in the government-wide statement of net position as of June 30, 2019. The City's Environmental Compliance group 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 2018-19, 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, 2018 to October 1, 2019 is provided below:

Coverages	Limit per Occurence	Deductible Per Occurrence
Property, including Business Interruption	$1.5 billion	$100,000
Flood Zone, Special Flood Hazard Area as defined by the Federal Emergency Management Agency (FEMA)	$25 million per occurrence and annual aggregate	$500,000 per location, except: $10,000,000 at Airport and Convention Center; and $5,000,000 at Water Treatment Plant
Flood, Other Locations	$100 million annual aggregate	$100,000 combined all coverages

For the policy period of October 1, 2018 to October 1, 2019, the City maintained an Airport Liability policy covering the Airport including Control Tower Operators, which provides a $200,000,000 combined single limit for bodily injury and property damage subject to a deductible of $0 each occurrence and annual aggregate, with a sublimit of $50,000,000 each occurrence and in the annual aggregate for personal injury, and a limit of $200,000,000 each occurrence and in the annual aggregate as respects to war liability.

In addition, the Airport Liability policy also provides excess liability coverage with a limit of $50,000,000 in excess of the underlying limit of $1,000,000, which is provided by a separate automobile policy issued to provide coverage for the off-premise operations of scheduled 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 five fiscal years.

For the policy period of October 1, 2018 to October 1, 2019, the City purchased government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a $5,000,000 per occurrence limit for losses resulting from employee theft, forgery or alteration and inside the premises - theft of money and securities, and provides for a $1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders, and counterfeit money. All claims have a $100,000 deductible per occurrence.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, newly discovered information and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends (including frequency and amount of pay-outs), economic and social factors, newly discovered information and changes in the law. The estimate of the claims liability also includes increases or decreases to previously reported unsettled claims. The workers' compensation estimate includes allocated loss adjustment expenses, which represent the direct cost associated with the defense of individual claims, which may be years into the future and have been discounted to their present value using a rate of 2.0% 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, 2019. 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 is self-insured and 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 (in thousands):

Liability as of June 30, 2017	$	151,769
Claims and changes in estimates during 2018		16,427
Claims payments		(25,808)
Liability as of June 30, 2018		142,388
Claims and changes in estimates during 2019		21,090
Claims payments and other adjustments		(22,594)
Liability as of June 30, 2019	$	140,884

Owner Controlled Insurance Programs - On March 31, 2004, the City bound certain liability insurance coverage for the major components of the Airport's North Concourse Project through an owner-controlled insurance program ("OCIP") with American International Group ("AIG"), AIU Holdings, Inc. and AIU LLC ("AIU"), formerly known as Chartis Insurance. The OCIP is a single insurance program that provides commercial general liability, excess liability and worker's compensation insurance coverage for construction job site risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

The City was also required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of $3,900,000 available in a cash working fund. The full amount of the claims loss reserve had been deposited with AIG and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. The claims loss reserve funds were available to AIG to pay claims within the City's deductible of up to $250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of $3,900,000. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term.

The North Concourse Project was completed in fall of 2008 and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project were completed during FY 2019. AIG returned the balance of the reserve fund to the Airport in the amount of $831,000 and the balance of the North Concourse reserve fund as of June 30, 2019 is now $0.

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

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

The liability under the TAIP OCIP is based upon an estimated payroll of $92,500,000 for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP required the City to fund a claims loss reserve fund with AIG in the amount of $8,900,000. The claims loss reserve fund is available to AIG 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 negotiated funding at 74% of the claims loss reserve with interest generated remaining in the fund. The full amount of $6,500,000 was deposited with AIG in FY 2009 and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. Since August 2013, as part of the annual loss reserve analysis by AIG, a total amount of $2,297,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2019 is $1,460,000.

The City was obligated to maintain the TAIP OCIP through final acceptance of the TAIP, pursuant to the terms of its design-build contract with Hensel Phelps (HP). The TAIP Project has been completed and the policies expired on June 30, 2011. AIG 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.

On June 30, 2017, the City bound certain liability insurance coverage for the major components of the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program through an owner-controlled insurance program ("RWF OCIP") with the primary carrier Old Republic General Insurance Corporation ("Old Republic"). The RWF OCIP is a single insurance program that the City sponsors and provides commercial general liability, excess liability and worker's compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site. In addition, the City procured builder's risk, contractor's pollution liability, and owners protective indemnity insurance to cover liabilities associated with the work.

The City was also required to establish and post a cash collateral fund of $2,657,000, to be paid in five annual installments and subject to the Old Republic's quarterly requests to adjust based on expenditure of funds up to the maximum aggregate loss of $4,385,000. The cash collateral fund is available to Old Republic to pay claims within the City's deductible of up to $250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of $4,385,000. The amount in the cash collateral fund as of June 30, 2019 was $1,063,000.

	RWF Capital 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	$100 million	None

The premiums of the RWF OCIP are calculated based on the estimated hard cost of construction valued at $535,000,000 for the covered capital improvement projects to be enrolled and for work to be performed up to March 30, 2023.

14. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including one active leaking petroleum storage tank sites: Las Plumas Warehouse. Both Fire Station #5 and Family Shelter are currently being reviewed for closure by the Santa Clara County Department of Environmental Health. They are expected to be closed in fiscal year 2019-20. In late 2018, a new pollution liability was discovered at the San José Fire Training Facility where soil and groundwater contaminated with the per- and polyfluoroalkyl substances was discovered. The investigation is just underway so the pollution liability amount is at a very preliminary stage. 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, 2019, the government-wide statement of net position reported a net pollution remediation obligation in the amount of $2,237,000 in governmental activities.

Convention Center South Hall Site – On October 10, 2018, the City purchased the Convention Center South Hall Site ("South Hall Site") from the SARA in "as-is" condition. The South Hall Site is contaminated with gasoline and diesel products and lead. The San Francisco Regional Water Quality Control Board ("Water Board") has listed the South Hall Site as an open-inactive case. The Water Board is not requiring further investigation or possible remediation at this time based upon the current use of the property as a Convention Center that is completely paved. There are no immediate plans to redevelop the South Hall Site which would likely require environmental mitigation, the cost of which is unknown and would depend on the specific redevelopment plans for the South Hall Site.

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

The NMTC Financing obligation was unwound on November 9, 2018 and December 6, 2018. The San José Environmental Innovation Center ("EIC") is no longer subject to the ground lease or the master lease entered into in connection with the NMTC Financing (See Note IV.B.4).

G. Interfund Transactions

The composition of interfund balances as of June 30, 2019, with explanations of transactions, is as follows (in thousands):

1. Due from/Due to other funds

Receivable Fund	Payable Fund	Amount	
General Fund	Nonmajor Governmental Funds	$ 1,653	(1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	2,035	(2)
		$ 3,688	

(1) $1,174 represents accrual of gas tax transfers and $479 represents accrual of construction and conveyance tax transfer .

(2) Represents short-term borrowing for working capital.

2. Advances to/Advances from other funds

Receivable Fund	Payable Fund	Amount	
General Fund	San José Financing Authority Debt Service	$ 3,297	(1)
		$ 3,297	

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

3. Long-term Receivables from SARA

On July 24, 2009, the State Legislature passed AB 26X4, which required redevelopment agencies statewide to deposit a total of $2,050,000,000 of property tax increment in county Supplemental Educational Revenue Augmentation Funds ("SERAF") to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's SERAF obligation was $62 million in FY 2010 ("2010 SERAF Obligation") and $12.8 million in FY 2011 ("2011 SERAF Obligation"). Payments were made by May 10th of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of $75 million to pay the 2010 SERAF Obligation and the 2011 SERAF Obligation ("SERAF Loan"). The sources of the SERAF Loan to pay the 2010 SERAF Obligation ($62 million) were $40million from the City's Low and Moderate Income Housing Fund that had been made available following the issuance of the 2010 Housing Series C Bonds, which was specifically authorized by the legislation, and idle moneys from City special funds ($10 million) and funds from the Financing Authority's Commercial Paper Program ($12 million). The source of the SERAF Loan to pay the 2011 SERAF Obligation was $12.8 million from the City's Low and Moderate Income Housing Fund. The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA as more particularly discussed below in Note IV.C.4. As such, the $10 million used to pay a portion of the 2010 SERAF Obligation and its related accumulated interest in the amount $160,000 from the City made by funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the

SARA's extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of $2.9 million was also invalidated in 2012.

The remaining source of the SERAF Loan used to pay the 2010 SERAF Obligation ($40 million of 2010 Series C Housing Bonds and $12 million from the Financing Authority's Commercial Paper program), (See Note IV.C.4), were assumed by the SARA and were listed in the Recognized Obligation Payment Schedule ("ROPS") as enforceable obligations. The source of funds used to pay the 2011 SERAF Obligation was determined to be a housing asset and was transferred to the City as the Successor Housing Agency and was also listed on the ROPS as an enforceable obligation.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan used to pay a portion of the 2010 SERAF Obligation ($40 million of 2010 Housing Series C Bonds and $12 million from the Financing Authority's Commercial Paper program) should not be reported in the ROPS as an enforceable obligation since the sources of the SERAF Loan were already listed on the ROPS.

On May 26, 2016, the Oversight Board approved a partial reinstatement of the SERAF Loan used to pay the 2010 SERAF Obligation to restore the moneys from the City's special funds in the amount of $10 million and also approved the repayment schedule for the source of funds used to pay the 2011 SERAF Obligation in the amount of $12.8 million plus accrued interest. The Oversight Board determined that the remaining portion of the SERAF Loan used to pay the 2010 SERAF Obligation in the amount of $52 million plus accrued interest in the amount of $905,000 is not an enforceable obligation and directed the SARA to remove that portion of the loan from its financial statements. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

On May 17, 2017, the DOF approved the ROPS 17-18, which included the SERAF loans from the City in the principal amount of $22,816,000.

As of June 30, 2019, the remaining portion of the SERAF Loan has an outstanding principal and accumulated accrued interest balance of $22,816,000 and $5,871,000, respectively, and bears a simple interest rate of 3%. The SARA is anticipated to pay the amount owed in full to the City in FY 2020.

The terms and repayment schedule of the SERAF Loan, as reinstated, were revised to conform with the Redevelopment Dissolution Law. The City's remedies against the SARA in the event of SARA's default on the SERAF Loan would also be subject to the Redevelopment Dissolution Law. See Note I.A. for general information about the SARA and the Redevelopment Dissolution Law.

As of June 30, 2019, total long-term receivables from SARA are as follows (in thousands):

Description		
Advances receivable from SARA:		
SERAF Loan	$ 28,687	(1)
Other long-term receivables from SARA:		
Parking Fund Loans	17,862	(2)
Total long-term receivables from SARA	$ 46,549	

(1) The amount includes $15,945,000 from Low and Moderate Income Housing Asset Fund and $12,742,000 from the General Fund.
(2) The Parking Fund Loans were reinstated in FY 2017. See note IV.C.4

4. Long-term Advances from SARA

The City has a payable and SARA has a receivable related to an Agency advance of a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has a long-term receivable in the amount of $739,000 due from the City as of June 30, 2019.

5. Transfers in/Transfers out

Transfers are indicative of funding for capital projects, lease payments or debt service and subsidies of various City operations. The following schedules summarize the City's transfer activity for the year ended June 30, 2019 with explanations of transactions (in thousands):

Between governmental and business-type activities:

Transfer from	Transfer to	Amount	
Housing Activities	Parking System	$ 31	(1)
Wastewater Treatment System	Nonmajor Governmental Funds	2,084	(2)
Municipal Water System	General Fund	342	(3)
	Nonmajor Governmental Funds	242	(4)
Parking System	General Fund	1,207	(5)
	Nonmajor Governmental Funds	204	(6)
SJ Clean Energy	San José Financing Authority	93	(7)
General Fund	Norman Y. Mineta San José International Airport	673	(8)
Nonmajor Governmental Funds	Wastewater Treatment System	327	(9)
		$ 5,203	

(1) Transfer for costs associated with availability of public usage facilities in San José downtown.
(2) Transfer for City Hall debt service payments.
(3) Transfer for late fee collections from water utility customers.
(4) Transfer for City Hall debt service payments.
(5) Transfer of $210 for San José Downtown Association and $997 for strategic support.
(6) Transfer of $127 for City Hall debt service payments and $77 for the Downtown Property and Business Improvement District.
(7) Transfer for City Hall debt service payments.
(8) Transfer for local sale taxes for jet fuel.
(9) Transfer for sanitary sewer charges.

Between governmental activities:

Transfer from	Transfer to	Amount	
General Fund	San José Financing Authority	$ 889	(1)
	Nonmajor Governmental Funds	36,361	(2)
	Internal Service Funds	4,200	(3)
	Special Assessment Districts	4,300	(4)
Housing Activities	Nonmajor Governmental Funds	38	(5)
Low & Moderate Income Housing Asset Fund	Nonmajor Governmental Funds	479	(6)
Special Assessment Districts	General Fund	150	(7)
	San José Financing Authority	8,333	(8)
Nonmajor Governmental Funds	General Fund	17,032	(9)
	Nonmajor Governmental Funds	18,215	(10)
	San José Financing Authority	60,409	(11)
Internal Service Funds	General Fund	20	(12)
	Nonmajor Governmental Funds	192	(13)
San José Financing Authority	Nonmajor Governmental Funds	46,210	(14)
		$ 196,828	

(1) Transfer for debt service towards the Energy Conservation Equipment.
(2) Transfer of $21,685 for City Hall debt service, $4,722 for the Parks & Recreation Bond project from the sales proceeds of the Coleman property, and $9,954 for operations and subsidies.
(3) Transfer of $1,200 to fund vehicle and fleet replacement purchases, $3,000 to the self-insured medical fund.
(4) Transfer to the South Hall Site Acquisition Debt Service Reserve.
(5) Transfer for City Hall debt service payment.
(6) Transfer for City Hall debt service payment.
(7) Transfer for administrative expenses.
(8) Transfer for interest, principal and fees for the Series 2011 Convention Center bonds payments.
(9) Various transfer for operations, interest earnings, and capital projects.
(10) Transfer of $3,111 for City Hall debt service payments and $15,104 for operations, capital projects, and project savings.
(11) Transfer for fee disbursements and debt service payments.
(12) Transfer for City Hall debt service payment.
(13) Transfer for City Hall debt service payment.
(14) Transfer of $42,400 for the South Hall Project and $3,810 for Flood Improvement Project.

H. Deferred Inflows of Resources

As of June 30, 2019, total deferred inflows of resources in the governmental funds related to the following unavailable resources (in thousands):

Description	
General Fund SERAF loans receivable	$ 12,742
Housing Activities loans receivable	18,265
Low and Moderate Income Housing Asset loans receivable	7,934
Special Assessments receivables	27,400
Community Development Block Grant (CDBG) loans receivable	1,888
Total deferred inflows of resources	$ 68,229

I. Governmental Fund Balances

As of June 30, 2019, total fund balances for the City's major and nonmajor governmental funds are as follows (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	$ 153	$ -	$ -	$ -	$ -	$ -	$ 153
Subtotal	153	-	-	-	-	-	153
Restricted for:							
Affordable Housing	-	148,190	397,648	-	-	-	545,838
Capital Projects & Improvements	1,063	-	-	46,629	-	237,394	285,086
Emplyoment/ Training Services	-	-	-	-	-	1,197	1,197
Drug Abuse Prevention & Control	300	-	-	-	-	712	1,012
Community Development Services	-	-	-	-	-	4,201	4,201
Library Services & Facilities	-	-	-	-	-	8,759	8,759
Small Business Loans	-	-	-	-	-	7	7
Parks, Recreation, & Neighborhood Development	7	-	-	-	-	90,899	90,906
Underground Utility Projects	-	-	-	-	-	9,453	9,453
Storm Drainage Projects	-	-	-	-	-	35,728	35,728
Supplemental Law Enforcement Services	-	-	-	-	-	92	92
Debt Service	-	-	-	-	-	33,558	33,558
Subtotal	1,370	148,190	397,648	46,629	-	422,000	1,015,837
Committed to:							
Building Development Fee Program	26,140	-	-	-	-	-	26,140
Capital Projects and Improvements	27,401	-	-	-	-	1,885	29,286
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	2,720	2,720
Development Enhancement	-	-	-	-	-	330	330
Convention Center, Auditorium, Theaters	-	-	-	-	-	16,761	16,761
Employee Compensation Planning	9,182	-	-	-	-	-	9,182
Fire Development Fee Program	7,203	-	-	-	-	-	7,203
Development Fee Program Technology	1,093	-	-	-	-	-	1,093
Residential Program Administration	-	-	-	-	-	2,338	2,338
Government Functions/Services	9,358	-	-	-	-	-	9,358
Public Safety	3,779	-	-	-	-	-	3,779
Community Development Services	5,330	-	-	-	-	9,667	14,997
Fee Supported Programs- Public Works	5,592	-	-	-	-	-	5,592
Salaries & Benefits	5,000	-	-	-	-	-	5,000
Sanitation Projects	69	-	-	-	-	35,746	35,815
Debt Service	-	-	-	-	-	4	4
Subtotal	100,147	-	-	-	-	69,451	169,598
Assigned to:							
Financing Authority Debt Service	13,608	-	-	-	-	-	13,608
Developement Enhancement	-	-	-	-	-	20	20
Community & Culture Projects	-	-	-	-	-	4,202	4,202
Hayes Mansion Operations	-	-	-	-	-	4,862	4,862
Ice Center Operations	-	-	-	-	-	3,185	3,185
Loans to Other Agencies	1,241	-	-	-	-	-	1,241
Capital Projects & Improvements	-	-	-	-	-	81,231	81,231
Government Functions/Services	154,112	-	-	-	-	-	154,112
Subtotal	168,961	-	-	-	-	93,500	262,461
Unassigned	143,868	-	-	-	(32,647)	(21)	111,200
Total Fund Balance	**$ 414,499**	**$ 148,190**	**$ 397,648**	**$ 46,629**	**$ (32,647)**	**$ 584,930**	**$ 1,559,249**

City Reserves Policy. The City Council-approved Operating Budget and Capital Improvement Program Policy (Policy Number 1-18) incorporates direction on contingency funding, including general purpose reserves, the Cash Reserve Fund and the Emergency Reserve Fund. Within the General Fund, general purpose reserves are to be set aside as a safety net for general city operations. Currently, the General Fund Contingency Reserve, the General Fund Budget

Stabilization Reserve, and the General Fund Workers' Compensation/General Liability Catastrophic Reserve are available for general purposes. Each of these reserves is described below. With the exception of the General Fund Contingency Reserve Fund, use of these reserves requires a majority vote of the City Council.

Within capital project and special revenue funds, general purpose reserves may be set aside as a safety net for City operations pertaining to the respective fund or to provide stability for customer rates when there are fluctuations to revenues and expenditures.

The Policy also identifies the Cash Reserve Fund and the Emergency Reserve Fund, which are mandated by the City Charter described below.

The section of Council Policy 1-18 addressing contingency funds was amended in June 2019.

The ***General Fund Contingency Reserve Fund*** was created to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. The policy established a minimum of three percent of the General Fund operating budget as the reserve balance. Any use of the General Fund Contingency Reserve shall require a two-third vote of approval by the City Council. As of June 30, 2019, the contingency amount accounts for $37,000,000 of the unassigned fund balance.

The ***General Fund Budget Stabilization Reserve*** may be maintained at a level as determined by the City Council to be adequate. The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. As of June 30, 2019, the budget stabilization reserve accounts for $17,000,000 of the unassigned fund balance.

The ***General Fund Workers' Compensation/General Liability Catastrophic Reserve*** may be maintained at a level as determined by the City Council to be adequate. The purpose of this reserve is to provide funding for potential workers' compensation or general liability claims that exceed the budgeted amounts as the City, for the most part, is self-insured. As of June 30, 2019, the workers' compensation and general liability catastrophic reserve accounts for $15,000,000 of the unassigned fund balance.

The ***Cash Reserve Fund*** was created for the payment of any authorized expenditures of the City for any fiscal year in anticipation of and before the collection of taxes and other revenues of the City for such fiscal year, and for the payment of authorized expenses of the City for any fiscal year, which became due and payable and must be paid prior to the receipt of tax payments and other revenues for such fiscal year. A reserve shall be built up in said fund from any available sources other than restricted sources in an amount which the Council deems sufficient for said purposes. As of June 30, 2019, the cash reserve amount accounts for $6,000 of the unassigned fund balance.

The ***Emergency Reserve Fund*** was created for the purpose of meeting any public emergency involving or threatening the lives, property or welfare of the people of the City or property of the City. A reserve shall be built up in said fund from any available sources, other than restricted sources, in an amount which the Council deems desirable. As of June 30, 2019, the emergency reserve amount accounts for $1,215,000 of the unassigned fund balance.

IV. Other Information

A. Defined Benefit Retirement Plans

A. 1. City Sponsored Defined Benefit Pension Plan

1. General Information about the Pension Plans

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

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

The separately issued annual reports of PFDRP and FCERS, together with various chapters in Title 3 of the City's Municipal Code, provide more detailed information about the Retirement Systems. Those reports may be obtained from the City of San José Office of Retirement Services at http://www.sjretirement.com.

Benefits

The Defined Benefit Pension Plans provide general retirement benefits including pension, death, and disability benefits to members. The contribution and benefit provisions and all other requirements are established by the City Charter and the City's Municipal Code. Benefits are based on average Final Compensation, years of service, and cost-of-living increases as specified by the City's Municipal Code.

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act ("Measure B"). Measure B amended the City Charter to, among other changes, (1) increase pension contribution requirements for current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for current employees (the "Voluntary Election Plan" or "VEP") subject to Internal Revenue Service (IRS) approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the cost-of-living adjustments if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within the Retirement Systems; (6) codify in the City Charter contribution requirements for current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within the Retirement Systems; and (8) reserve to the voters the right to approve future changes to retirement benefits. Measure B has subsequently been the subject of various forms of litigation and the City Council directed the City Administration to settle the litigation with the City's eleven (11) bargaining units. The legal challenges to Measure B are resolved. The settlement of the legal challenges brought by or on behalf of the City's active employees is discussed below.

On August 25, 2015, the City Council approved the terms of the Alternative Pension Reform Settlement Framework (Public Safety Framework) for the two sworn bargaining units, the San José Police Officers' Association (SJPOA) and the San José Fire Fighters, International Association of Fire Fighters, Local 230 (IAFF).

On December 15, 2015 and January 12, 2016, the City and the bargaining units representing employees in FCERS reached a settlement agreement on the Federated Alternative Pension Reform Settlement Framework (Federated Framework). The terms of the Federated Framework also applied to unrepresented employees, including unrepresented management and executive employees in Unit 99.

The Public Safety and Federated Frameworks (the "Frameworks") include, among other things, revised Tier 2 pension benefits that include increased pension benefits for Tier 2 employees while preserving the 50/50 cost sharing between the City and Tier 2 employees; closing the defined benefit retiree healthcare benefit to new employees, as well as agreement on a new lowest cost medical plan associated with retiree healthcare; allowing Tier 1 and some Tier 2 employees to opt out of the applicable Postemployment Healthcare Plan to a Voluntary Employee Benefit Association for retiree healthcare subject to legal and Internal Revenue Service approval (which has since been received); allowing Tier 1 employees who terminated employment with the City and either subsequently returned or who return in the future to return as Tier 1 employees; and continuing the elimination of the Supplemental Retiree Benefit Reserve (SRBR). The Frameworks also included an agreement that a ballot measure would be placed on November 8, 2016, election for the voters to replace Measure B as described below. On November 8, 2016, the voters approved the Alternative Pension Reform Act known as Measure F. Measure F included, among other things, prohibiting any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closing the defined benefit retiree healthcare plan; and prohibiting retroactive defined retirement benefit enhancements.

The specific terms of PFDRP and FCERS are set forth in the Municipal Code. Both have different benefit tiers.

Prior to June 18, 2017, FCERS had Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B and Tier 2C had the same reduced pension benefits as compared to Tier 1. Tier 2 had the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B originally consisted of employees who were newly hired or rehired on or after September 27, 2013, and they were not eligible for the defined benefit retiree health care benefits; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid for retiree health care had those employees been eligible. Tier 2C had retiree dental benefits but no retiree medical benefits. Prior to June 18, 2017, the PFDRP had Tier 1 and Tier 2 for both police and fire members with reduced pension benefits for the Tier 2 police and fire members as compared to the Tier 1 members, and until July 30, 2017, Tier 1 and Tier 2 members of PFDRP had the same retiree healthcare (medical and dental benefits). The City Manager on August 2, 2017 exercised his discretion under the Municipal Code to terminate the PFDRP Postemployment Healthcare Plan for Police and Fire Tier 2 employees. On August 3, 2017, the PFDRP Board took action to terminate the PFDRP Postemployment Healthcare Plan for Tier 2 Police and Fire employees effective July 30, 2017. As of July 30, 2017, the City's contribution rate to the PFDRP Postemployment Healthcare Plan for Police and Fire Tier 2 employees did not change; however, the contribution rates made by the Police and Fire Tier 2 employees were reduced to 0%.

Subsequent ordinances amending the Municipal Code implementing the terms of Measure F and the Frameworks have since been adopted by the City Council and the changes described below became effective on June 18, 2017, which was the commencement date of the first pay period of FY2018.

As implementation issues arise, minor modifications to the provisions of PFDRP and FCERS in the Municipal Code have been made to address these issues.

Effective June 18, 2017, the FCERS has several Tiers as follows:

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	▪ On or before September 29, 2012 ▪ Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental(2)(4)
Tier 1 Rehire	▪ Former Tier 1 rehired on or after September 30, 2012 through June 17, 2018(1)	Tier 1	Medical/Dental(2)(4)(5)
Tier 1 Classic	▪ "Classic" membership with CalPERS/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013 ▪ "Classic" membership with CalPERS/reciprocal agency hired on or after September 27, 2013(6)	Tier 1	Medical/Dental(3)(4) Not Eligible(3)(4)
Tier 2 (or Tier 2A)	▪ Hired/rehired/reinstated on or after September 30, 2012	Tier 2	Medical/Dental(2)(4)
Tier 2B	▪ Hired/rehired/reinstated after September 27, 2013 and have not met City's eligibility for retiree healthcare	Tier 2	Not Eligible(3)(4)
Notes	*(1) Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.* *(2) Employees in these tiers were provided a one-time irrevocable election to remain in the FCERS Postemployment Healthcare Plan or opt in to the defined contribution Voluntary Employees' Beneficiary Association (VEBA). Please note that those who opted in to the VEBA are no longer eligible for FCERS Postemployment Healthcare Plan. The VEBA was implemented on March 25, 2018.* *(3) Employees in these tiers were mandatorily placed into the VEBA.* *(4) Unrepresented employees were eligible to opt in to the VEBA but are not eligible to make ongoing contributions to the VEBA.* *(5) All Tier 1 rehires formerly in Tier 1B and Tier 1C who opted to remain in the FCERS Postemployment Healthcare Plan began contributing to retiree healthcare on March 25, 2018.* *(6) Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.*		

Effective June 18, 2017, the PFDRP has several Tiers as follows:

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Police Tier 1	▪ Before August 4, 2013 ▪ Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental[(2)(4)]
Police Tier 1 Rehire	▪ Tier 1 employee rehired between August 4, 2013 through June 17, 2017[(1)].	Tier 1	Medical/Dental[(2)(4)]
Fire Tier 1	▪ Before January 2, 2015 ▪ Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental[(2)(4)]
Fire Tier 1 Rehire	▪ Tier 1 employee rehired between January 2, 2015 through June 17, 2017[(1)].	Tier 1	Medical/Dental[(2)(4)]
Tier 1 Classic	▪ "Classic" membership with CalPERS/reciprocal agency hired on or after August 4, 2013 for Police and January 2, 2015 for Fire.[(5)]	Tier 1	Not eligible
Police Tier 2	▪ On or after August 4, 2013	Tier 2	Not Eligible[(3)(4)]
Fire Tier 2	▪ On or after January 2, 2015	Tier 2	Not Eligible[(3)(4)]
Notes	(1) *Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.* (2) *Employees in these tiers were provided a one-time irrevocable election to remain in the PFDRP Postemployment Healthcare Plan or opt in to the defined contribution Voluntary Employees' Beneficiary Association (VEBA). Please note that those who opted in to the VEBA are no longer eligible for the PFDRP Postemployment Healthcare Plan. The VEBA was implemented on March 25, 2018.* (3) *Employees in these tiers were mandatorily placed into the VEBA.* (4) *Unrepresented employees were eligible to opt in to a VEBA but are not eligible to make ongoing contributions to the VEBA.* (5) *Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.*		

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

	PFDRP		
	Police Tier 1 [(1)]	**Police Tier 1 Classic [(2)]**	**Police Tier 2 [(3)]**
Pension			
Service required to leave contributions in retirement plan	10 years of service (20 years must have elapsed from date of entry into retirement system to collect pension)	10 years of service (20 years must have elapsed from date of entry into retirement system to collect pension)	5 years service with the City in the Police and Fire Department Plan (Years of Service = 2080 hours worked within applicable 12-month period)
Service Retirement			
Age/Years of Service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan A reduction factor of 7.0% per year for each year between age 57 and Tier 2 member's age at retirement, prorated to the closest month
Early Retirement	50-54 with 20 years of service (Discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (Discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred Vested Retirement	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with least 25 years of service.)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with at least 25 years of service.)	At least 5 years of service with the City in the Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction fact of 7.0% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Allowance	First 20 years of service: 50% of Final Compensation (2.5% per year) Next 21-30 years service: 4% per year of service X Final Compensation (90% max)	First 20 years of service: 50% of Final Compensation (2.5% per year) Next 21-30 years service: 4% per year of service X Final Compensation (90% max)	First 20 years of service: 2.4% per year of service x Final Compensation Beginning of 21st year of service: 3.0% per year of service x Final Compensation Beginning of 26th year of service: 3.4% per year of service x Final Compensation Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service Maximum benefit is 80% of Final Compensation
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.
Cost-of-Living Adjustments			
Cost-of-Living Adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per fiscal year. The first COLA will be prorated based on the number of months retired.

(1) Police Tier 1 employees are those hired before August 4, 2013.

(2) Employees with "Classic" membership from a CalPERS or reciprocal agency hired on or after August 4, 2013. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013. 2. AND is hired by the City of San José after a break in service of less than six months. 3 AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity election form must be submitted within thirty days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

(3) Police Tier 2 employees are those hired after August 4, 2013.

	PFDRP		
	Fire Tier 1 [(1)]	**Fire Tier 1 Classic [(2)]**	**Fire Tier 2 [(3)]**
Pension			
Service required to leave contributions in retirement system	10 years of service (20 years must have elapsed from date of entry into Retirement System to collect pension)	10 years of service (20 years must have elapsed from date of entry into Retirement System to collect pension)	5 years of service with the City in the Plan (Year of Service = 2080 hours worked in the applicable 12-month period)
Service Retirement			
Age/Years of Service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan. 50 with 5 years of service with the City in the Plan. A reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month
Early Retirement	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred Vested	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	At least 5 years of service with the City in the Plan. (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Allowance	First 20 years of service: 50% of Final Compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X Final Compensation (90% max) – All years convert to 3% after 20 years of service.	First 20 years of service: 50% of Final Compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X Final Compensation (90% max) – All years convert to 3% after 20 years of service.	First 20 years of service: 2.4% per year of service x Final Compensation Beginning of 21st year of service: 3.0% per year of service x Final Compensation Beginning of 26th year of service: 3.4% per year of service x Final Compensation Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service Maximum benefit is 80% of Final Compensation
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.
Cost-of-Living Adjustments			
Cost-of-Living Adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per fiscal year. The first COLA will be prorated based on the number of months retired.

(1) Fire Tier 1 employees are those hired before January 2, 2015

(2) Employees with "Classic" membership from a CalPERS or reciprocal agency hired on or after January 2, 2015. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013. 2. AND is hired by the City of San José after a break in service of less than six months. 3 AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity election form must be submitted within thirty days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

(3) Fire Tier 2 employees are those hired after January 2, 2015.

The following table summarizes the survivorship pension benefits for the PFDRF members. Please consult the Municipal Code for complete information.

	Police Tier 1/Tier 1 Classic
Death Before Retirement	
Nonservice-connected death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or $1,000, whichever is greater
Nonservice-connected death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner: 24.0% + 0.75% for each year in excess of 2 years x Final Compensation (37.5% maximum) and to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000 whichever is greater
Non-service connected death before retirement, but while eligible for service retirement	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on years of service For example: Member's benefit = 76.0% Survivorship benefit = 38.0% of Final Compensation Member's benefit = 80.0% Survivorship benefit = 40.0% of Final Compensation Member's benefit = 82.0% Survivorship benefit = 41.0% of Final Compensation Member's benefit = 85.0% Survivorship benefit = 42.5% of Final Compensation and to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000, whichever is greater
Service connected death regardless of year of service	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on years of service And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 50.0% 3 Children: Final Compensation x 75.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000 whichever is greater
Death After Retirement	
Service retirement and service connected disability retirees	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on years of service And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Non-service connected disability retirees	To surviving spouse/domestic partner: Final Compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum) And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children:Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	If a retiree marries after retirement, the retiree can elect to take a reduction of on his pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Note: The maximum total combined benefit payable to a surviving spouse/domestic partner and surviving children is 75% of final compensation. If necessary, the children's survivorship allowance will be reduced so that the total benefit does not exceed 75% of final compensation.

	Police Tier 2
Death Before Retirement	
Non-service connected death with less than 2 years of services	Greater of: (1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children, to the member's estate or (2) $1,000, whichever is greater
Non-service connected death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner: 24.0% of Final Compensation + 0.75% of Final Compensation for each year in excess of 2 years of service (37.5% maximum) And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children : Final Compensation x 37.5% 3 or more Children: Final Compensation x 50.0% There is an 80% cap on Final Compensation that can be paid to survivors. If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or $1,000 whichever is greater
Non-service connected dealth before retirement, but while eligible for service retirement	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on the years of service For example: Member's benefit = 76.0% survivorship benefit = 38.0% of Final Compensation Member's benefit = 80.0% survivorship benefit = 40.0% of Final Compensation Member's benefit = 82.0% survivorship benefit = 41.0% of Final Compensation Member's benefit = 85.0% survivorship benefit = 42.5% of Final Compensation And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 or more Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or $1,000, whichever is greater
Service Connected Death	
Service connected death regardles of years of service	To surviving spouse/domestic partner: 37.5% to 42.5% of member's Final Compensation depending on years of service And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 50.0% 3 or more Children: Final Compensation x 75.0% There is an 80.0% cap on Final Compensation that can be paid to survivors If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or $1,000 whichever is greater

	Police Tier 2
Death After Retirement	
Service retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the plan's actuaries.
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post- Retirement Marriage	
Post- retirement Marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Note: The maximum total combined benefit payable to a surviving spouse/domestic partner and surviving children is 80% of Final Compensation. If necessary, children's survivorship allowance will be reduced so that the total benefit does not exceed 80% of Final Compensation.

	Fire Tier 1/ Tier 1 Classic
Death Before Retirement	
Non-service connected death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or $1,000, whichever is greater
Non-service connected death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner: 24.0% + 0.75% for each year in excess of 2 x Final Compensation (45.0% maximum) And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000, whichever is greater
Non-service connected death before retirement, but while eligible for service retirement	To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final Compensation depending on years of service For example: Member's benefit = 81.0% Survivorship benefit = 40.5% of Final Compensation Member's benefit = 84.0% Survivorship benefit = 42.0% of Final Compensation Member's benefit = 87.0% Survivorship benefit = 43.5% of Final Compensation Member's benefit = 90.0% Survivorship benefit = 45.0% of Final Compensation And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000, whichever is greater
Service connected death regardless of years of service	To surviving spouse/domestic partner: 37.5% to 45% for member's Final Compensation depending on the years of service And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or $1,000, whichever is greater

	Fire Tier 1/ Tier 1 Classic
Death After Retirement	
Service retirees and service connected disability retirees	To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final Compensation depending on years of service And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Non-service connected disability retirees	To surviving spouse/domestic partner: Final Compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum) And to surviving children: 1Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children: $1,000 death benefit to estate
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.
Post-Retirement Marriage	
Post-retirement marriage	If a retiree marries after retirement, the retiree can elect to take a reduction of their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Note: The maximum total combined benefit payable to a surviving spouse/domestic partner and surviving children is 75% of Final Compensation. If necessary, the children's survivorship allowance will be reduced so that the total benefit does not exceed 75% of Final Compensation.

	Fire Tier 2
Death Before Retirement	
Service connected death regardless of years of service	To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final Compensation depending on the years of service And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 50.0% 3 or more surviving Children: Final Compensation x 75.0% There is an 80.0% cap on Final Compensation that can be paid to survivors If no surviving spouse/domestic partner nor surviving children, to the estate: Return of contributions, plus interest, or $1,000, whichever is greater.
Non-service connected death with less than 2 years of service	Greater of: (1) Return of contributions, plus interest, to surviving spouse/domestic partner; where there is no surviving spouse/domestic partner to member's surviving children, or where there are no surviving children either, to the member's estate, or (2)$1,000, whichever is greater
Non-service connected death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner: 24.0% + 0.75% for each year in excess of 2 years x Final Compensation (45% maximum) And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 or more children: Final Compensation x 50.0% There is an 80.0% cap on Final Compensation that can be paid to survivors If no surviving spouse/domestic partner nor surviving children to the estate: Return contributions, plus interest, or $ 1,000 whichever is greater
Non-service connected death before retirement, but while eligible for service retirement	To surviving spouse/domestic partner: 37.5% to 45.0% of member's Final Compensation depending on the years of service For example: Member's benefit = 81.0% Survivorship benefit = 40.5% of Final Compensation Member's benefit = 84.0% Survivorship benefit = 42.0% of Final Compensation Member's benefit = 87.0% Survivorship benefit = 43.5% of Final Compensation Member's benefit = 90.0% Survivorship benefit = 45.0% of Final Compensation And to surviving children: 1 Child: Final Compensation x 25.0% 2 Children: Final Compensation x 37.5% 3 or more Children: Final Compensation x 50.0% If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or $1,000, whichever is greater
Death After Retirement	
Service Retirees	To surviving spouse/domestic partner Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries
Non-service connected disability retirees	To surviving spouse/domestic partner: Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the Plan's actuaries
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner
Post-Retirement Marriage	
Post-Retirement Marriage	If a retiree marries after retirement, the retiree can elect to take a reduction on their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

	FCERS			
	Tier 1 (1)	Tier 1 Classic (2)	Tier 2A (3)	Tier 2B (4)
Pension				
Service required to leave contributions in retirement system	5 years		5 years Federated City Service (Year of Service = 2080 hours worked in the applicable 12-month period)	
Service Retirement:				
Age/Years of Service	55 with 5 years service 30 years service at any age		62 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
"Deferred Vested" retirement	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)		May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction factor of 5% per year for each year between age 55 and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
Allowance	2.5% x Years of Service x Final Compensation (75.0% max) If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months		2.0% x Years of Federated City Service x Final Compensation (70.0% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service Excludes premium pay or any other forms of additional compensation	
Disability Retirement (Service Connected)				
Minimum Service	None		None	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation. (Minimum of 40.0% and maximum of 70.0% of Final Compensation)	

	FCERS			
	Tier 1 [(1)]	Tier 1 Classic [(2)]	Tier 2A [(3)]	Tier 2B [(4)]
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years		5 years	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75.0% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55. For those entering the System 9/1/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service. (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70.0% of Final Compensation)	
Reciprocity				
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Final eligibility for reciprocity is determined at the time of retirement.			
Cost-of-Living Adjustments (COLA)				
Cost-of-Living adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each April. There is no prorating of COLA.		Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPIU, December to December), or a back loaded 2.0% COLA per fiscal year. The back loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year The first COLA will be prorated based on the number of months retired.	

(1) Federated Tier 1 applies to employees hired on or before September 29, 2012.

(2) Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San José on or after September 30, 2012. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San José after a break in service of less than six months 3. AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

(3) Tier 2A applies to Employees hired between September 30, 2012 and September 27, 2013.

(4) Tier 2B are employees who were newly hired after September 27, 2013.

	Tier 1/Tier 1 Classic
Death Before Retirement	
Non-service-connected death with less than 5 years of service	Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (Benefit may not exceed 50.0% of the salary earned in year prior to death.)
Greater than 5 years of service or service-connected death	To surviving spouse/domestic partner: Years of Service x 2.5% x Final Compensation (40.0% minimum, 75.0% maximum, except that "deferred vested" members not eligible for 40.0% minimum) If no surviving spouse/domestic partner, to surviving children: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50.0% of the salary earned in year prior to death.)
Death After Retirement	
Standard allowance to surviving spouse/domestic partner or children (Minimum 5 years of service)	To surviving spouse/domestic partner: 50.0% of retiree's allowance If no surviving spouse/domestic partner, to surviving children: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.
Special Death Benefit	$500 death benefit paid to estate or designated beneficiary in addition to benefits above.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, it will last until death if member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death. If there is an allowance payable to a surviving spouse/domestic partner, no allowance will be paid to surviving children. Surviving children receive a monthly survivorship allowance only when there is no surviving spouse/domestic partner.

	Tier 2A and 2B
Death Before Retirement	
Non-service connected death not eligible for Retirement	Return of employee contributions, plus interest.
Eligible for Retirement	To surviving spouse/domestic partner: 2.0% x Years of Federated Service x Final Compensation (70.0% max) If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50.0% of the salary earned in year prior to death.) Employees killed in the line of duty – To surviving spouse/domestic partner: Monthly benefit equivalent to 50.0% of Final Compensation.
Death After Retirement	
Survivorship allowance to surviving spouse/domestic partner or children that was elected by the member at retirement. (Minimum 5 years of service)	To surviving spouse/domestic partner: 50.0% of Retiree's Allowance If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death, remarriage, or establishment of a domestic partnership if member was at least 62 with at least 20 years of service (or 55 with a reduction factor of 5.0%) at the time of death. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

Employees Covered - The current membership in the Defined Benefit Pension Plans as of June 30, 2019, is as follows:

FCERS	Tier 1 Pension Only[(2)]	Tier 1 Pension & Medical[(3)]	Tier 2 Pension Only[(2)]	Tier 2 Pension & Medical[(3)]	Totals
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits[(1)]	697	3,654	8	-	4,359
Terminated vested members not yet receiving benefits	840	165	530	-	1,535
Active members	168	1,501	1,867	81	3,617
Total	1,705	5,320	2,405	81	9,511

(1) The combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count.
(2) Includes members that are eligible for the catastrophic disability medical benefits only (VEBA) from the Postemployment Healthcare Plan.
(3) Eligible for full retiree medical benefits.

	Retirees and Beneficiaries [(1)]		Terminated Vested Members not yet Receiving Benefits		Active Members		
PFDRP	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Totals
Police							
Pension & Medical [(2)]	1,322	-	14	-	630	-	1,966
Pension only [(3)]	110	-	200	74	41	367	792
Police Total	1,432	-	214	74	671	367	2,758
Fire							
Pension & Medical [(2)]	831	-	2	-	512	-	1,345
Pension only [(3)]	55	-	38	5	29	121	248
Fire Total	886	-	40	5	541	121	1,593
Total	2,318	-	254	79	1,212	488	4,351

(1) Retiree counts do not include combined domestic relations orders.
(2) Members are eligible for full retiree medical benefits.
(3) Includes members that are eligible for the catastrophic disability medical benefits only (VEBA) from the Postemployment Healthcare Plan.

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

2. Contributions

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plans are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution ("ADC") sufficient to provide adequate assets to pay benefits when due.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending 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 to PFDRP and FCERS. Subsequently, in October 2014, the Boards of Administration for PFDRP and FCERS approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, the Retirement Systems reduce the City's incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the Tier 1 members to be paid by the City at the beginning of the fiscal year ended June 30, 2019.

As noted above, the San José Municipal Code has been amended to set forth the terms of Measure F and the Frameworks regarding, among other issues, Tier 2 pension benefits for members in PFDRP and FCERS. The contribution rates for PFDRP and FCERS Tier 2 members are calculated based on a 50/50 split of all costs, including the unfunded actuarial liability (UAL). However, the member's UAL contribution rate cannot increase by more than .33% of pay each year. Currently, PFDRP and FCERS Tier 1 members split normal cost with approximately 72.7% paid by the City and approximately 27.3% paid by Tier 1 members. The responsibility for funding the UAL is generally not shared with the Tier 1 employees. Tier 1 members who were former Tier 1 members and then rehired as Tier 2 members or who had “Classic” membership with a CalPERS/reciprocal agency are responsible for 50% of the amortization costs for the prior years of service as Tier 2 members.

In fiscal year 2010-11, the Retirement Systems' Boards approved the establishment of a “floor funding method”, commencing with fiscal year 2011-12, setting the City's funding policy contribution amount to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. The “floor funding method” applies to Tier 1 members of both PFDRP and FCERS.

In January and February 2016, the Retirement Systems' Boards approved the City's request that the floor methodology for Tier 1 pension contributions be used only for the annual employer normal cost contribution (which includes administrative expenses) and that the annual employer UAL contribution be set at the dollar amount recommended by the actuary for FCERS and PFDRP, as applicable, and adopted by the applicable Board in the annual actuarial valuation report beginning fiscal year 2016-17.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the fiscal year ended June 30, 2019 were based on the actuarial valuations performed as of June 30, 2017. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2019 are as follows (in thousands):

	PFDRP							
	City(1)				Participants (2)			
Defined Benefit Pension Plan	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Actuarial Rate:								
07/01/18-06/30/19	97.55%	13.71%	98.49%	15.13%	10.28%	13.71%	11.09%	15.13%

	FCERS			
	City(1)		Participants (3)	
Defined Benefit Pension Plan	Tier 1(1)	Tier 2	Tier 1	Tier 2
Actuarial Rate:				
07/01/18-06/30/19	99.16%	8.28%	6.81%	8.28%

(1) The actual contribution rates paid by the City for fiscal year ended June 30, 2019 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

(2) Under Measure F, certain Tier 2 members who had previous Tier 1 service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30145, which became effective October 12, 2018, amended the Municipal Code to reflect these changes. Effective 3/24/2019, reclassified Tier 1 members paid an additional 1.96% in contributions, reclassified members with prior Federated Service reclassified to Tier 1 paid an additional 0.87% in contributions, and Classic Tier 1 members paid an additional 0.47% in contributions.

(3) Under Measure F, certain Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30183, which became effective January 4, 2019, amended the Municipal Code to reflect these changes. Effective 3/24/19, reclassified Tier 1 members paid an additional 3.00% in contributions. Classic Tier 1 members paid an additional 1.46% effective 8/12/18.

	Annual Pension Contribution as of 06/30/19		
Defined Benefit Pension Plan	City	Participants	Total
PFDRP	$ 176,618	$ 24,811	$ 201,429
FCERS	$ 173,006	$ 22,606	$ 195,612

3. Net Pension Liability

The City's net pension liability for each Defined Pension Plan is measured as the total pension liability, less the pension plans' fiduciary net position as of the measurement date of June 30, 2018. The City's net pension liability as of June 30, 2019 of each of the Defined Pension Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 and rolled forward to June 30, 2018 using standard update procedures by the actuary for the respective plans. In summary, the City's net pension liability at June 30, 2019 is as follows (in thousands):

PFDRP	$ 1,139,746
FCERS	1,988,015
CalPERS	1,334
Total net pension liability	$ 3,129,095

Changes in Net Pension Liabilities - The components of the net pension liabilities of the PFDRP and FCERS plans (i.e., the PFDRP's and FCERS's liabilities determined in accordance with GASB Statement No. 68 less the plans' fiduciary net positions) as of the measurement date, June 30, 2018, were as follows[4] (in thousands):

	Increase (Decrease)		
PFDRP	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2017	$ 4,533,776	$ 3,293,257	$ 1,240,519
Changes for the Year:			
Service costs	75,481	-	75,481
Interest	300,378	-	300,378
Changes of benefit terms	178	-	178
Contributions-employer	-	157,712	(157,712)
Contributions-employees	-	23,841	(23,841)
Net investment income	-	233,475	(233,475)
Difference between expected and actual experience	33,082	-	33,082
Changes of assumptions	(100,328)	-	(100,328)
Benefit payments, including refunds of member contributions	(206,630)	(206,630)	-
Administrative expenses	-	(5,464)	5,464
Net changes	102,161	202,934	(100,773)
Balance at 6/30/2018	$ 4,635,937	$ 3,496,191	$ 1,139,746

	Increase (Decrease)		
FCERS	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2017	$ 3,923,210	$ 1,972,792	$ 1,950,418
Changes for the Year:			
Service costs	59,628	-	59,628
Interest	265,199	-	265,199
Changes of benefit terms	1,781	-	1,781
Contributions-employer	-	156,770	(156,770)
Contributions-employees	-	20,501	(20,501)
Net investment income	-	117,493	(117,493)
Difference between expected and actual experience	16,512	-	16,512
Changes of assumptions	(15,582)	-	(15,582)
Benefit payments, including refunds of member contributions	(193,400)	(193,400)	-
Administrative expenses	-	(4,823)	4,823
Net changes	134,138	96,541	37,597
Balance at 6/30/2018	$ 4,057,348	$ 2,069,333	$ 1,988,015

[4] *The schedules of changes in the net pension liability as of June 30, 2019 are presented in the Required Supplementary Information.*

Sensitivity of the Net Pension Liabilities to Changes in Discount Rates - The discount rates used to measure the total pension liabilities were 6.875%, for both the PFDRP and FCERS plans for the valuations dated June 30, 2017. It is assumed that PFDRP and FCERS members' contributions and City's contributions will be made based on the actuarially determined rates based on the funding policy of each board. Based on those assumptions, the PFDRP's and FCERS's fiduciary net positions are expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities.

The following presents the net pension liabilities, calculated using the discount rates of 6.875% in effect as of the measurement date, as well as what the net pension liabilities would be if they were calculated using discount rates that are one percentage point lower (5.875%) or one percentage point higher (7.875%) than the rates used, for the PFDRP and FCERS plans, respectively (in thousands):

PFDRP - Sensitivity Analysis	1% Decrease (5.875%)	Measurement Date Rate (6.875%)	1% Increase (7.875%)
Total pension liability	$ 5,310,175	$ 4,635,937	$ 4,090,473
PFDRP fiduciary net position	3,496,191	3,496,191	3,496,191
Net pension liabiltiy	$ 1,813,984	$ 1,139,746	$ 594,282
PFDRP fiduciary net position as a percentage of the total pension liability	65.8%	75.4%	85.5%

FCERS - Sensitivity Analysis	1% Decrease (5.875%)	Measurement Date Rate (6.875%)	1% Increase (7.875%)
Total pension liability	$ 4,619,958	$ 4,057,348	$ 3,598,634
FCERS fiduciary net position	2,069,333	2,069,333	2,069,333
Net pension liabiltiy	$ 2,550,625	$ 1,988,015	$ 1,529,301
FCERS fiduciary net position as a percentage of the total pension liability	44.8%	51.0%	57.5%

Pension Expense – For the year ended June 30, 2019, the City recognized pension expense as follows (in thousands):

	FCERS	PFDRP	Total
Service costs	$ 59,628	$ 75,481	$ 135,109
Interest	265,199	300,378	565,577
Changes of benefit terms	1,781	178	1,959
Difference between expected and actual experience	33,526	30,040	63,566
Changes of assumptions	111,975	18,534	130,509
Contributions-employee	(20,501)	(23,841)	(44,342)
Expected return on assets	(134,921)	(225,379)	(360,300)
Current year amortization of net difference between projected and actual investment earnings	36,811	38,773	75,584
Administrative expenses	4,823	5,464	10,287
Total pension expense	**$ 358,321**	**$ 219,628**	**$ 577,949**

Deferred outflows/inflows of resources – As of June 30, 2019, the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

Schedule of Deferred Inflows and Outflows of Resources - PFDRP

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 176,618	$ -
Differences between expected and actual experience	60,125	2,168
Changes in assumptions	70,147	66,886
Net difference between projected and actual earnings on pension plan investments	90,495	-
Total	**$ 397,385**	**$ 69,054**

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2020	$ 128,776
2021	43,163
2022	(18,607)
2023	(1,619)
	$ **151,713**

Schedule of Deferred Inflows and Outflows of Resources - FCERS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 173,006	$ -
Differences between expected and actual experience	26,713	-
Changes in assumptions	20,078	11,686
Net difference between projected and actual earnings on pension plan investments	100,792	-
Total	**$ 320,589**	**$ 11,686**

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2020	$ 98,442
2021	33,873
2022	96
2023	3,486
	$ **135,897**

As of June 30, 2019, $176,618,000 and $173,006,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the PFDRP and FCERS, respectively, will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense shown in the tables above (in thousands).

Recognition of Deferred Outflows and Deferred Inflows of Resources for PFDRP and FCERS

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

One fifth of the net earnings is recognized in the first year when the gain or loss occurred. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (6.0 Years at June 30, 2017)

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rates of return on PFDRP and FCERS investments of 6.875% for the valuations dated June 30, 2017 was selected by estimating the median nominal rates of return based on long-term capital market assumptions adopted by the respective Boards, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns.

Best estimates of geometric real rates of return for each major asset class included in the target asset allocation for each plan as of the measurement date of June 30, 2018, are summarized in the following tables:

	PFDRP	
	Target Asset Allocation	**Long-Term Expected Real Rate of Return**
Public equity	34%	4.8%
Private equity	8%	6.4%
Market neutral strategies	6%	2.9%
Private debt	8%	3.9%
Emerging market bonds	4%	2.4%
Private real assets	2%	3.8%
High yield debt	4%	2.6%
Sovereign bonds ex US	20%	0.6%
Real estate	8%	3.9%
Commodities	6%	1.9%
Cash and cash equivalents	-	0.2%
	100%	

	FCERS	
	Target Asset Allocation	**Long-Term Expected Real Rate of Return**
Public equity	28%	4.0%
Private equity	9%	6.4%
Market neutral strategies	11%	2.8%
Private debt	6%	3.9%
Commodities	4%	1.9%
Emerging market bonds	4%	2.4%
Core bonds	25%	1.0%
High yield debt	4%	2.6%
infrastructure	1%	3.0%
Real estate	8%	3.9%
Cash	-	-
	100%	

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

4. Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability as of June 30, 2019 are from the actuarial valuation report with a valuation date of June 30, 2017.

	PFDRP	FCERS
Description	**Method/Assumption**	**Method/Assumption**
Measurement date	June 30, 2018	June 30, 2018
Valuation date	June 30, 2017	June 30, 2017
Inflation rate	2.75%	2.50%
Discount rate	6.875% per annum	6.875% per annum
Post-retirement mortality (a) Service:	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using Scale MP-2017 on a generational basis from the base year of 2009.	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table. Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected from 2009 on a generational basis using the MP-2017 scale.
(b) Disability:	CALPERS 2009 Industrial Disability Mortality Table for males and females multiplied by 0.903 and projected using SOA MP-2017 on a generational basis from the base year of 2009.	
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2017, actuarial experience analysis	Tables based on current experience
Salary increases		
Wage Inflation	3.25% per annum (.50% real wage growth).	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Merit Increase	Merit component added based on an individual year's of service ranging from 6.00% to .50%	For the amortization schedule, payroll is assumed to grow 3.00% per year.
Cost-of-Living Adjustment	Tier 1 – 3% per year Tier 2 – 2% per year	Tier 1 – 3% per year Tier 2 - 1.25% to 2.00% depending on years of service

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

Plan Description. The Mayor and members of the City Council are eligible to participate in the State of California's Public Employees' Retirement System ("CalPERS") Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the "Plan"). CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Plan provides retirement, disability and death benefits based on the employee's years of service, age and Final Compensation. Benefit provisions and other requirements are established by the California Public Employees' Retirement Law, employer contract with CalPERS and by City resolution. Retiree health benefits are not provided to Mayor/Councilmembers. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information. Reports can be found on CalPERS' website at http://www.calpers.ca.gov/page/home.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on a final average compensation period of 36 months. Members with five years of total service are eligible to retire at age 50 for Classic members and at age 52 for the Public Employees' Pension Reform Act of 2013 plan ("PEPRA") members with statutorily reduced benefits. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for the plan are applied as specified by the Public Employees' Retirement Law, California Government Code Sections 20000-21703.

The CalPERS Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Classic Rate Plan	**PEPRA Rate Plan**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.892% + $136,012 for unfunded liability	6.842%

As of June 30, 2019, there were two current San José City Council members enrolled in the Classic rate plan and six current members in the PEPRA rate plan.

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

For the year ended June 30, 2019, the amount contributed to the CalPERS plan was as follows (in thousands):

	Classic Rate Plan	PEPRA Rate Plan	Total
Contributions - employer	$ 155	$ 33	$ 188
Contributions - employee	20	31	51
Total	$ 175	$ 64	$ 239

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

Information in this section is derived from the GASB Statement No. 68 Accounting Valuation Report for the miscellaneous risk pool at the measurement date of June 30, 2018 prepared by CalPERS. As of June 30, 2019, the City reported a net pension liability of $1,334,000 for its proportionate share of the net pension liability of the Plan. The proportion was determined based on the City's shares of actuarial accrued liability and market value of assets as of June 30, 2017.

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures by CalPERS' actuary. The City's proportion of the net pension liability was actuarially determined at the valuation date. The City's proportionate share and proportionate percentage of the net pension liability as of June 30, 2017 and 2018 was as follows (in thousands):

	Plan		
Proportion - June 30, 2017	$	1,419	0.03597%
Proportion - June 30, 2018		1,334	0.03540%
Change - Increase (Decrease)	$	(85)	(0.00057%)

For the year ended June 30, 2019, the City recognized pension expense of $145,000. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Pension contributions subsequent to measurement date	$	188	$	-
Differences between actual and expected experience		48		17
Changes in assumptions		150		35
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		-		46
Net differences between projected and actual earnings on plan investments		38		-
Total	$	424	$	98

$188,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the measurement year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources	
2020	$	107
2021		84
2022		(42)
2023		(11)
	$	138

Actuarial Assumptions – The collective total pension liability for the June 30, 2018 measurement period was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The collective total pension liability was based on the following assumptions:

Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2018 prepared by CalPERS.

	Plan
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Method
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies

(1) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as followed:

Asset Class	Assumed Asset Allocation	Real Return Years 1 - 10(1)	Real Return Years 11+(2)
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	(0.92%)
	100%		

(1) An expected inflation of 2.00% used for this period.
(2) An expected inflation of 2.92% used for this period.

Discount Rate – The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the proportionate share of the net pension liability calculated using a discount rate of 7.15%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate (in thousands):

Sensitivity Analysis	1% Decrease (6.15%)	Measurement Date Discount Rate (7.15%)	1% Increase (8.15%)
Net pension liabiltiy	$ 2,143	$ 1,334	$ 666

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. Reports can be found on CalPERS' website at http://www.calpers.ca.gov/page/home.

A. 3. Defined Contribution Retirement Plan

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

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

There were 110 participants in the 401(a) plan as of June 30, 2019. In FY 2019, the City and the participating employees contributed $374,000 to the 401(a) plan. As of June 30, 2019, the balance of the 401(a) plan was $1,636,000.

A. 4. Postemployment Benefit Plans Other than Pension Plans

1. General Information about the Postemployment Healthcare Plans

In addition to the Defined Benefit Pension Plans, the City also sponsors and administers two single employer defined benefit postemployment healthcare plans, the Police and Fire Department Postemployment Healthcare Plans (PFDRP), 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 (FCERS), which includes 401(h) Plan and a Section 115 Trust, together the Postemployment Healthcare Plans. These Postemployment Healthcare Plans cover eligible full-time and certain part-time employees of the City, and are accounted in the Pension Trust Funds.

Generally, the defined benefit 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 available to an active City employee, and 100% of the premium cost for a dental insurance plan available to an active City employee.

Per the terms of the Frameworks discussed in Note IV A.1, the City established two separate Voluntary Employee Beneficiary Associations (VEBA) for retiree healthcare for the members of the PFDRP and FCERS in fiscal year 2017-18. The City does not make contributions into the VEBAs and the VEBAs are not subject to the jurisdiction of the Retirement Boards.

In November 2017, the Internal Revenue Service and City entered into a Closing Agreement whereby Tier 1 members of both PFDRP and FCERS and some Tier 2 members of FCERS were eligible for an irrevocable opt-out of the applicable Postemployment Healthcare Plan into a VEBA. The transfer of their retiree healthcare contributions (medical and dental) from the applicable Postemployment Healthcare Plan to their individual VEBA accounts remained subject to Internal Revenue Service approval. The VEBA opt-in election period was October 18, 2017 through December 15, 2017. In February 2018, the Internal Revenue Service issued favorable private letter rulings with respect to the transfer of retiree healthcare contributions from both the PFDRP and FCERS Postemployment Healthcare Plans for those employees opting into a VEBA and in March 2018, the retiree healthcare contributions of members who opted in to a VEBA were transferred from the applicable Postemployment Healthcare Plan into their individual VEBA accounts. The Internal Revenue Service also approved allowing eligible employees who are rehired by the City during calendars years 2018 through 2022 to opt into the applicable VEBA and transfer the retiree healthcare contributions from the applicable Postemployment Healthcare Plan to their individual VEBA accounts.

The current membership in the Postemployment Healthcare Plans as of June 30, 2019, is as follows:

	Police		Fire		
PFDRP	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Totals**
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits*	1,322	-	831	-	2,153
Terminated vested members not yet receiving benefits	14	-	2	-	16
Active members	630	-	512	-	1,142
Total	1,966	-	1,345	-	3,311

** Retiree counts do not include combined domestic relations orders*

FCERS	**Tier 1**	**Tier 2A****	**Totals**
Postemployment Healthcare Plan:			
Retirees and beneficiaries currently receiving benefits*	3,654	-	3,654
Terminated vested members not yet receiving benefits	165	-	165
Active members	1,501	81	1,582
Total	5,320	81	5,401

**Payees that have health and/or dental coverage*
*** Eligible for full retiree medical benefits*

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

2. Contributions

Contribution amounts to the Postemployment Healthcare Plans for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, Actuarially Determined Contributions ("ADC") were calculated beginning with the fiscal year ending June 30, 2019. The Retirement Systems transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending 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.

Subsequently, in October 2014, the Boards of Administration for PFDRP and FCERS approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, the Retirement Systems reduce the City's incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the participating members to be paid by the City at the beginning of the fiscal year ended June 30, 2019.

The FCERS Board on February 15, 2018 and the PFDRP Board on March 1, 2018 approved a contribution policy for the respective Postemployment Healthcare Plans that sets the City's contribution as a flat dollar amount.

Funding Policy

Historically, member and City contributions to the Postemployment Healthcare Plans were negotiated through collective bargaining and were not actuarially determined. Until the City entered into agreements with various bargaining groups in 2009 and prior to implementation of Measure F, contributions for the health and dental benefits for both the City and the participating employees of both Postemployment Healthcare Plans were based upon an actuarially determined percentage of employees' base salary sufficient to provide adequate assets to pay benefits when due over the next 10 years for the PFDRP and the next 15 years for the FCERS. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the ARC for the retiree health and dental benefits provided by both Postemployment Healthcare Plans as calculated pursuant to GASB Statement No. 43 and GASB Statement No. 45 then in effect. However, the contribution rates for the City and members of the Postemployment Healthcare Plans were capped before the full ARC was reached.

The annual contribution costs for the Postemployment Healthcare Plans' benefits are allocated to both the City and the active employee members. Contributions to the Healthcare Plans for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, member contributions are fixed as a percentage of pay and the City's contribution toward the explicit subsidy (premium subsidy) is an ADC determined by the Postemployment Healthcare Plans. The ADC for the Postemployment Healthcare Plans is the normal cost plus the amortization payment on the unfunded actuarial liability, less expected member contributions. The City has an option to limit its ADC for each Postemployment Healthcare Plan to a fixed percentage of the payroll of all active members of the respective pension plan. The ADC for each Postemployment Healthcare Plan is calculated beginning with FY 2019.

The City will pay the implicit subsidy on a pay-as-you go basis as part of active health premiums. An implicit subsidy for retiree health benefits exists because the medical experience for retirees under age 65 are pooled with the experience for active employees thereby resulting in a lowering of the premium paid for retirees under age 65. The implicit subsidy is included in the actuarial valuations of each Postemployment Healthcare Plan. The implicit subsidy is shown as both a contribution and payment from the Postemployment Healthcare Plans. However, the implicit subsidy is not actually contributed to or paid from the Postemployment Healthcare Plan. Rather, it is paid directly by the City on a pay-as-you-go basis as a part of active member health plan premiums. The actuary for each Postemployment Healthcare Plan separately calculates the total unfunded actuarial liability being the aggregate unfunded actuarial liability for both implicit and explicit subsidies, and the unfunded actuarial liability for only the explicit subsidy. The unfunded actuarial liability for the explicit subsidy is used to calculate the City's ADC to each Postemployment Healthcare Plan.

Effective March 25, 2018, members remaining in the PFDRP Postemployment Healthcare Plan make contributions fixed at 8.0% of pay. The City continued to pay the phased-in contribution rate until the beginning of fiscal year 2018-19 when it commenced paying the ADC as determined by the PFDRP Board subject to a cap of 11% of payroll of all active members of PFDRP.

Also as of March 25, 2018, members remaining in the FCERS Postemployment Healthcare Plan contribute 7.5% of pay. The City continued to pay the phased-in contribution rate until the beginning of fiscal year 2018-19 when it commenced paying the ADC as determined by the FCERS Board subject to a cap of 14% of payroll of all active members of FCERS.

The contribution rates/amount in effect in FY 2019 are shown below:

PFDRP	**City - Board Adopted**		**Member**			
	Police Tier 1 / Tier 2	**Fire Tier 1 / Tier 2**	**Police Tier 1**	**Police Tier 2**	**Fire Tier 1**	**Fire Tier 2**
Actuarial Rate:						
Postemployment Healthcare Plan:						
07/01/2018 - 06/30/2019	$13,471,000*	$8,591,000*	8.00%	-	8.00%	-

** In March 2018, the Board approved the contribution policy that sets the City health care contributions as a flat dollar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment prefunded contributions that covered Tier 1 in the amount of $22,062,000.*

FCERS	**City - Board Adopted**		**Member with Healthcare**
	Tier 1	**Tier 2**	**Tier 1 and Tier 2**
Actuarial Rate:			
Postemployment Healthcare Plan:			
07/01/2018 - 06/30/2019	$20,856,000*		7.50%

** In February 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment Healthcare Plan during the fiscal year ended June 30, 2019 of prefunded contributions that covered Tier 1 and Tier 2 in the amount of $20,856,000.*

3. Net OPEB Liability

The City's net OPEB liability for each Postemployment Healthcare Plan is measured as the total OPEB liability, less the plans fiduciary net position as of the June 30, 2018 measurement date. The City's net OPEB liability as of June 30, 2019 for each of the Postemployment Healthcare Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 and rolled forward to June 30, 2018 using standard update procedures by the actuary for the respective plans. In summary, the City's net OPEB liability at June 30, 2019 is as follows (in thousands):

PFDRP	$	549,312
FCERS		373,965
Total net OPEB liability	$	923,277

Actuarial Methods and Assumptions

	PFDRP	FCERS
Measurement Date	June 30, 2018	June 30, 2018
Valuation Date	June 30, 2017	June 30, 2017
Actuarial Cost Method:	Entry Age Normal, level of percentage of pay	Entry Age Normal, level of percentage of pay
Actuarial Assumptions:		
Discount Rate	6.875%	6.875%
Inflation Rate	2.75%	2.50%
Merit Increase	Merit component added based on an individual's years of service ranging from 6.00% to 0.50%.	Merit component added based on an individual's years of service ranging from 4.5% at hire to 0.25%.
Wage Inflation Rate	3.25%	3.25%
Rate of Mortality*	Mortality is projected from 2009 on a generational basis using the MP-2017 scale.	Mortality is projected from 2009 on a generational basis using the MP-2017 scale.
Pre-Retirement Turnover**	Please see below table	Please see below table
Healthcare Trend Rate - Medical	The valuation assumes that future medical inflation will be at a rate of 8.00% to 4.25% per annum graded down over a 14 year period for medical pre-age 65 and 6.00% to 4.25% per annum graded down over 14 year period for medical post-age 65.	The valuation assumes that future medical inflation will be at a rate of 8.50% to 4.25% per annum graded down over a 15 year period for medical pre-age 65 and 6.00% to 4.25% per annum graded down over a 15 year period for medical post-age 65.
Healthcare Trend Rate - Dental	Dental inflation is assumed to be 4.0%	Dental inflation is assumed to be 3.5%

*Actuarial Methods and Assumptions – PDFRP Mortality Rates

Category	Male	Female
Healthy Annuitant	0.948 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male).	1.048 times the CalPERS 2009 Healthy Annuitant Mortality table (Female).
Healthy Non-Annuitant	0.948 times the CalPERS 2009 Employee Mortality Table (Male).	1.048 times the CalPERS 2009 Employee Mortality Table (Female).
Disabled Annuitant	0.903 times the CalPERS 2009 Industrial Disability Mortality Table (Male).	0.903 times the CalPERS 2009 Industrial Disability Mortality Table (Female).

** Rates of Pre-Retirement Turnover. Sample rates of termination are shown in the following table.

	Rate of Termination	
Service	Police	Fire
0	16.00%	25.00%
1	11.75	7.00
2	9.85	3.50
3	8.35	1.75
4	7.00	1.25
5	5.75	1.00
6	4.75	0.90
7	4.00	0.80
8	3.50	0.70
9	3.50	0.60
10	3.50	0.50
11	3.50	0.50
12	3.00	0.50
13	2.50	0.50
14	2.00	0.50
15+	2.00	0.50

Termination rates do not apply once a member is eligible for unreduced retirement.

The assumption for the long-term expected rate of return on Postemployment Healthcare Plan investments of 6.875% for the valuation year ended June 30, 2017 was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the PFDRP 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 geometric real rates of return for each major asset class included in the PFDRP's target asset allocation as of June 30, 2018 measurement date are summarized in the following table:

Asset Class	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**
Public equity	43.0%	4.7%
Core real estate	10.0%	3.9%
Commodities	9.0%	1.9%
Cash	0.0%	0.2%
Global fixed income	15.0%	0.9%
Infrastructure	3.0%	3.8%
Global tactical asset allocation	20.0%	2.3%

* Actuarial Methods and Assumptions – FCERS Mortality Rates

Category	Male	Female
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table	0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table
Healthy Non-Annuitant	0.919 times the CalPERS 2009 Employee Mortality Table	0.918 times the CalPERS 2009 Employee Mortality Table
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table

** Rates of Pre-Retirement Turnover. Sample rates of termination are shown in the following table.

	Rate of Termination		
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	18.00%	17.50%	9.00%
25	18.00	15.50	9.00
30	18.00	13.50	7.00
35	18.00	11.50	5.50
40	18.00	9.50	4.50
45	18.00	8.00	3.50
50	18.00	7.00	3.00
55	18.00	6.00	3.00
60	18.00	5.00	0.00
65	0.00	0.00	0.00

Withdrawal/terminations do not apply once a member is eligible for retirement

The assumption for the long-term expected rate of return on OPEB plan investments of 6.875% for the valuation year ended June 30, 2017, 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 geometric real rates of return for each major asset class included in FCERS's target asset allocation as of June 30, 2018 measurement date are summarized in the following table. The assets were invested both in a 401(h) account within the FCERS pension plan and in a 115 trust account. The table below refers only to the 115 trust account. The 401(h) account was depleted during FY 2019.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	55.0%	4.7%
Short-term investment grade bonds	28.0%	0.8%
Core real estate	8.0%	2.7%
Commodities	5.0%	1.9%
Cash	0.0%	0.2%
Natural resources	4.0%	4.4%

Discount Rate for PFDRP and FCERS

The discount rate used to measure the total OPEB liability was 6.875% for the measurement year ended June 30, 2018 and is based on the long-term expected rate of return on investments. It is assumed that PFDRP/FCERS member contributions will continue at the current contribution rates and that the City will contribute the actuarially determined contribution of a fixed amount toward the explicit subsidy up to a maximum of 11% of the total payroll of the employees in PFDRP and up to 14% of the total payroll of the employees in FCERS and that the City will contribute the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the PFDRP's and FCERS's fiduciary net positions are expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 6.875% on OPEB plan investments for PFDRP and FCERS was applied to all periods of projected benefit payments to determine the total OPEB liability.

Change in the OPEB Liability

The changes in the net OPEB liability for the Postemployment Healthcare Plans are as follows (dollar amounts in thousands):

PFDRP (Consolidated with Police and Fire)	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2018 (Valuation Date June 30, 2016)	$ 714,517	$ 149,682	$ 564,835
Changes recognized for the measurement period:			
Service cost	13,001	-	13,001
Interest	45,314	-	45,314
Changes of benefit terms	(69,434)	-	(69,434)
VEBA transfer		(7,897)	7,897
Differences between expected and actual experience	14,877	-	14,877
Changes of assumptions	21,243	-	21,243
Contributions - employer	-	25,382	(25,382)
Contributions - member	-	16,127	(16,127)
Net investment income	-	7,070	(7,070)
Benefit payments, including refunds of member contributions	(27,686)	(27,686)	-
Administrative expense	-	(158)	158
Net changes	(2,685)	12,838	(15,523)
Balance at June 30, 2019 (Measurement Date June 30, 2018)	$ 711,832	$ 162,520	$ 549,312

FCERS	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2018 (Valuation Date June 30, 2016)	$ 766,801	$ 260,370	$ 506,431
Changes recognized for the measurement period:			
Service cost	7,889	-	7,889
Interest	42,669	-	42,669
Changes of benefit term	(57,623)	-	(57,623)
VEBA transfer		(13,497)	13,497
Differences between expected and actual experience	(995)	-	(995)
Changes of assumptions	(77,795)	-	(77,795)
Contributions - employer	-	32,397	(32,397)
Contributions - member	-	15,545	(15,545)
Net investment income	-	12,336	(12,336)
Benefit payments, including refunds of member contributions	(29,724)	(29,724)	-
Administrative expense	-	(170)	170
Net changes	(115,579)	16,887	(132,465)
Balance at June 30, 2019 (Measurement Date June 30, 2018)	$ 651,222	$ 277,257	$ 373,965

Sensitivity of the Net OPEB Liability to Changes in Discount Rates

The following presents the net OPEB liability of the City would be if it were calculated using discount rates that were one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2018:

PFDRP (consolidated with Police and Fire)

	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
Total OPEB liability	$ 815,278	$ 711,832	$ 628,112
PFDRP fiduciary net position	162,520	162,520	162,520
Net OPEB liability	$ 652,758	$ 549,312	$ 465,592
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	19.9%	22.8%	25.9%

FCERS

	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
Total OPEB liability	$ 743,145	$ 651,222	$ 576,449
FCERS fiduciary net position	277,257	277,257	277,257
Net OPEB liability	$ 465,888	$ 373,965	$ 299,192
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	37.3%	42.6%	48.1%

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the City would be if it were calculated using health care cost trend rates that were one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2018:

PFDRP (consolidated with Police and Fire)

	1% Decrease	Health Care Cost Trend Rates	1% Increase
Total OPEB liability	$ 617,229	$ 711,832	$ 829,268
Fiduciary net position	162,520	162,520	162,520
Net OPEB liability	$ 454,709	$ 549,312	$ 666,748
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	26.3%	22.8%	19.6%

FCERS

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$ 568,651	$ 651,222	$ 753,005
Fiduciary net position	277,257	277,257	277,257
Net OPEB liability	$ 291,394	$ 373,965	$ 475,748
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	48.8%	42.6%	36.8%

OPEB Fiduciary Net Position

The City issues the publicly available financial reports that may be obtained from the Office of Retirement Services, 1737 North First Street, Suite 600, San José, CA 95112-4505.

Recognition of Deferred Outflows and Deferred Inflows of Resources for PFDRP and FCERS

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

One fifth of the net earnings is recognized in the first year when the gain or loss occurred. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (6.0 Years at June 30, 2017)

PFDRP

For the year ended June 30, 2019, the City recognized a negative OPEB expense of $47,632,000. As of June 30, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources (dollar amounts in thousands):

PFDRP (consolidated with Police and Fire)	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 28,744	$ -
Difference between expected and actual experience	10,501	-
Changes in assumptions	14,811	-
Net Difference between projected and actual earnings on OPEB plan investments	632	-
Total	$ 54,688	$ -

The $28,744,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2020.

The City's contribution for the Postemployment Healthcare Plan during the year ended June 30, 2019, was $28,744,000. This consisted of prefunded City contributions in the amount of $22,062,000, $5,716,000 in implicit subsidy, and $966,000 in adjustments and accruals.

Other amounts reported as deferred outflows/(inflows) of resources related to OPEB will be recognized as expense as follows (dollar amounts in thousands):

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2020	$ 10,790
2021	10,790
2022	3,682
2023	682
	$ 25,944

FCERS

For the fiscal year ended June 30, 2019, the City recognized a negative OPEB expense of $78,712,000. As of year ended June 30, 2019, the City reported deferred outflows of resources related to OPEB from the following sources (dollar amounts in thousands):

FCERS	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 26,410	$ -
Difference between expected and actual experience	-	663
Changes in assumptions	-	51,864
Net Difference between projected and actual earnings on OPEB plan investments	4,025	-
Total	$ 30,435	$ 52,527

The $26,410,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2020.

The City's contributions for the Postemployment Healthcare Plan during the year ended June 30, 2019, was $26,410,000. This consisted of prefunded City contributions in the amount of $20,856,000, $4,082,000 in implicit subsidy, and $1,472,000 in adjustments and accruals.

Other amounts reported as deferred outflows/(inflows) of resources related to OPEB will be recognized as expense as follows (dollar amounts in thousands):

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2020	$ (25,305)
2021	(25,304)
2022	959
2023	1,148
	$ (48,502)

B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments. As of June 30, 2019, the Airport was obligated for purchase commitments of approximately $16,200,000 primarily for the Interim Facility, airfield electrical circuit rehabilitation, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately $222,300,000 million on capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, commercial paper proceeds, and other Airport revenues.

Master Plan. In 1997, after extensive planning and environmental studies and reports, the City Council approved the new Master Plan. In a Record of Decision issued on December 6, 1999, the FAA conditionally approved a new Airport Layout Plan for the Airport displaying the Master Plan projects and unconditionally approved all of the near-term projects. Both the Master Plan and the ALP have been amended several times since 1997 and currently are intended to provide facility improvements needed to accommodate forecast demand in the year 2027 for commercial passenger service, air cargo, and general aviation. Implementation of the Master Plan has been ongoing, collectively comprising improvements to the Airport's airfield, terminal, cargo, general aviation, roadway, parking, and support facilities. 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 TAIP, 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 TAIP and other Airport Development Program ("ADP") revisions. Funding for Master Plan projects is from several sources, including grants, PFC, airline rates and charges, airport revenue bonds, and subordinated commercial paper proceeds.

The most recent amendment to the Master Plan, approved by the City Council in August 2018, allows for the development of various aviation support facilities on the southwest side of the Airport formerly designated for exclusively general aviation facilities. The Master Plan, as amended to date, is intended to serve a demand level of 17.6 million annual passengers and a total of 263,800 annual aircraft operations by the year 2027, including up to 1.70 million square feet of passenger terminal facilities and 40 gates. The next proposed amendment to the Master Plan and ALP, currently in preparation, would extend the planning horizon and demand forecasts out to the year 2037 and revise the facility development program accordingly.

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

Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for FY 05-10 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of $5,600,000 that would be applied equally to the Airport cost allocation plan over a seven year period beginning in FY 2013 and ending in FY 2019. The City also has adjusted its indirect cost allocation methodology in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base started in FY 2016, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA, disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs. The City will continue discussions with the FAA, but cannot predict the final outcome of the audit.

On May 3, 2018, the City received a letter from the FAA in which the FAA requested a copy of the City's FY 2017 indirect cost allocation plan to substantiate indirect charges to the Airport in order to finalize the FAA's financial compliance review. The City responded to the FAA on July 20, 2018 with copies of the requested information and clarified actions taken by the City to date to implement the FAA's recommendations. The City will continue discussions with the FAA, but cannot predict the final outcome of the audit.

Potential Claim from FAA Regarding Reuse of Guadalupe Gardens - In early 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, and the FAA grant agreements consequently 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.

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. 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 contends 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.

The City believes that it has viable defenses to any potential claim by the FAA with regard to Guadalupe Gardens. The FAA ADO's 2002 approval of the Guadalupe Gardens Master Plan constituted an official FAA approval of the City's reuse of the parcels acquired with proceeds from FAA noise compatibility grants, and the approval expressly provides that the entire Guadalupe Gardens is necessary for the continuing aeronautical purpose of runway and approach protection. 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. However, the City cannot predict the final outcome of any such potential claim by the FAA.

2. San José – Santa Clara Regional Wastewater Facility

Plant Master Plan. In November 2013, the City Council approved the Plant Master Plan ("PMP"), a 30-year planning-level document focused on long-term rehabilitation and modernization of the Plant. The PMP recommends more than 114 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately $2 billion. On September 24, 2013, the City Council approved a consultant agreement with MWH Americas, Inc. to assist and support the City in developing and implementing this Capital Improvement Program ("CIP"). On June 2, 2015, a funding strategy was recommended to and approved by the City Council. An update to the strategy was approved by the City Council on January 12, 2016. For the next five years, the City's portion of the funding for the San José-Santa Clara Regional Wastewater Facility ("Plant") Adopted CIP is programmed into the City's 2019-2023 CIP budget. The City's FY 2019 approved operating budget included a 3% increase in the Sewer Service and Use Charge rate for FY 2019.

Revenues for the 2019-2023 Adopted CIP are derived from several sources: utilization of available resources in the City of San José Sewer Service and Use Charge sub-fund and Sewage Treatment Plant Connection Fee sub-fund; contributions from the City of Santa Clara and other tributary agencies for the treatment of sewage from their respective jurisdictions by the Plant; interest earnings; Calpine Metcalf Energy Center Facilities repayments; federal grants from the U.S. Bureau of Reclamation; and bond and commercial paper proceeds.

Pursuant to an agreement executed between San José and Santa Clara in 1959 (the "1959 Agreement"), San José is co-owner and administering agency of the Plant. The Plant also provides wastewater treatment services to other neighboring agencies through five outside user agreements ("Master Agreements") with City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District, and CSD 2-3 (the "Tributary Agencies"). Contributions from the City of Santa Clara and the Tributary Agencies are made pursuant to agreements with each agency based on the anticipated operation and maintenance, and capital budget. The Tributary Agencies' proportional contribution for the operation and maintenance cost is based on the amount and characteristics of the sewage discharged into the Plant. Each Tributary Agency's capital contribution is based on each agency's reserved capacity in the Plant. The balance of the Plant budget is shared between the cities of San José and Santa Clara based on the respective City's assessed property value relative to the total assessed property value in both jurisdictions. In the 2019-2023 Adopted CIP, contributions from the City of Santa Clara and other agencies are approximately $314,800,000.

Currently, a short-term financing has been put into place (see Note III.F.11) and staff has developed a long-term bond financing plan for San José's share of the CIP's cost. The City plans to gradually build required operating reserves in anticipation of securing long-term bonds independently. The 2019-2023 Adopted CIP assumes the need to issue bonds in FY 2021.

On January 22, 2016 and September 7, 2016, San José, as the administering agency, received claims from the Tributary Agencies alleging a breach of contract and inequity under the Master Agreements. The administrative claims primarily arise out of disagreements regarding the interpretation of how the capital cost to rehabilitate the Plant as generally described in the Plant Master Plan should be apportioned, and whether the Master Agreements must be amended to require the Tributary Agencies to pay for their respective portions of the capital cost.

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

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

TPAC conducted a hearing on March 24, 2016, and issued its report on June 9, 2016 to deny the January 22, 2016 Claim. The Tributary Agencies disagreed with the report, and requested a joint meeting of the legislative agencies of the City, Santa Clara and all the Tributary Agencies. San José, Santa Clara, and the Tributary Agencies agreed to mediate the Claims and potential amendments to the Master Agreements but were unable to reach a resolution. On May 19, 2017, TPAC conducted a hearing on the Tributary Agencies’ September 7, 2016 Claim, and issued its report on September 14, 2017 to deny the September 7, 2016 Claim. On June 13, 2017, the City, Santa Clara and the Tributary Agencies agreed to waive the hearings before the joint legislative bodies for both Claims.

The Tributary Agencies filed a complaint against the City and Santa Clara on March 23, 2018, and served both cities on May 18, 2018. The allegations in the complaint are substantially similar to the claims raised and heard through the administrative hearing process. The Tributary Agencies allege the City breached their respective contracts, which set the terms for treating the Agencies’ wastewater by, among other allegations, charging them for expenditures they allege the contracts do not authorize and concealing how the funds are used. They also allege the City breached the implied covenant of good faith and fair dealing and violated certain California Constitutional provisions limiting local agencies’ imposition of property related fees, charges and taxes. The Tributary Agencies further allege their payments resulted in unjust enrichment to the City and Santa Clara, and that the court should provide declaratory relief in support of their allegations.

The City and Santa Clara filed a demurrer to the complaint on August 9, 2018, which the court denied and in March 2019 the City and Santa Clara filed and served their answer to the complaint. The City has also filed and served a cross-complaint against each Tributary Agency seeking declaratory relief from the court as to each of the causes of action alleged by the Tributary Agencies in their complaint. Discovery in the case is ongoing.

The Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Plant to date. The City cannot predict the outcome or the timeline for resolution of this litigation.

South Bay Water Recycling Program. The South Bay Water Recycling ("SBWR") project is 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. These costs were funded by the City, Santa Clara, and the tributary agencies using the Plant through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

In FY 2016, the City and the Santa Clara Valley Water District ("SCVWD") accepted a report that had been commissioned by both the City and the SCVWD related to SBWR, entitled: "South Bay Water Recycling Strategic and Master Planning ("Strategic Report"). The Strategic Report contemplates near term projects (fiscal years 2017 to 2021) at an estimated cost of $49 million and long-term improvements and expansion of the existing system (fiscal years 2020 to 2035) at an estimated cost of $243.2 million for long-term nonpotable reuse projects and an additional $522 million for long-term potable use projects. No specific plan for the development or source of financing of the other near term improvements, nor the long-term improvements identified in the Strategic Report has been developed to date. Further, the responsibility for the development of the long-term improvements has not been established and may involve the formation of a separate entity responsible for the oversight and funding of these improvements.

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

SCVWD and the City agreed to capital investment towards the construction of the SVWTF in the amount of $70,000,000 and $11,000,000, respectively, as of the date of the signed agreement on March 2, 2010. SCVWD determines the operational and maintenance budget for the SVWTF, and operates the facility. Separate formulas were established to determine each party's respective share of the annual operation and maintenance cost for the SVWTF following the first full fiscal year the SVWTF becomes operational, which was FY 2015. The formula provides that for each fiscal year when the SBWR is operating at a net loss, the City would pay to the SCVWD an amount to support

SCVWD's operational cost up to $2,000,000. In the event that the SBWR operates at net revenue, the City would share its revenue with the SCVWD with the first 50% towards the SCVWD's costs and the second 50% divided between the two agencies based on their respective capital investment in the recycled water infrastructure. As of June 30, 2019, the City's investment in capitalized expenditures for the SBWR system is $248,676,000 with another $11,000,000 in contributions toward the SVWTF for a total investment of $259,676,000; and the SCVWD's estimated investment in SVWTF as of June 30, 2019 is $65,535,000 (pending audit due in January 2020).

Under the Integration Agreement, commencing in January 2016, the City and SCVWD are to provide the other agency with audited financial statements for the prior fiscal years for the operation of the SBWR and the SVWTF. Since the definition of net operating cost and revenue under the Integration Agreement excludes certain costs and revenues that might otherwise be considered in either party's overall budget, each party must prepare a separate statement following the publication of each party's annual audited financial statements, to establish each party's respective cost share for the operation of the SVWTF. The City and SCVWD have each provided the other with its audited financial statements for the operations of the SBWR and the SVWTF, respectively, for the FY 2016, FY 2017, and FY 2018 with no adjustment to share cost. In January 2020, the audit report for the fourth year of full operations for the year ended June 30, 2019 will be completed and issued as per the terms of the Integration Agreement.

3. Bay Area Water Supply and Conservation Agency

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

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

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

BAWSCA's annual debt service amount for FY 2019 is $24,695,000. The City's annual bond surcharge for FY 2019 was estimated to be $902,000 based the City's actual wholesale water use in the year ended June 30, 2017. The annual surcharge for each agency is based upon the actual wholesale water purchase percentage from the last full year for which date is available with an annual reconciliation based upon the actual water purchased. A true-up adjustment based on the actual year ended June 30, 2017 water use is included in the FY 2019 bond surcharge. The current best projection on the City's annual surcharge for the future is $818,000.

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 under a master lease. 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.

Chase Community Equity, LLP and Community Development Properties New Markets MM, Inc. put their collective 100% membership interest in the Chase NMTC SJEIC Investment Fund, LLC for sale to the City for $1,010 as a conclusion of the compliance period on November 8, 2018. The City Council approved the purchase and the Investment Fund's redemption of its interest in the CDEs. The initial actions to unwind the NMTC closed on November 9, 2018. In connection with the closing, the following occurred. The City became the sole member of the Investment Fund, and holder of the notes on the loan to the EIC QALICB, Inc. secured by a leasehold deed of trust to the EIC. The Investment Fund assigned the notes and leasehold deed of trust to the City as satisfaction of the leverage loan. On December 6, 2018, in exchange for the EIC QALICB's agreement to terminate the ground lease and master lease, the Investment Fund forgave the loan to the EIC QALICB. The ground lease of the EIC by the City to the EIC QALICB and the master lease of the EIC from EIC QALICB to the City have terminated and the Investment Fund has been dissolved. On June 21, 2019, the EIC QALICB, Inc.'s certificate of dissolution was accepted by the Secretary of State.

5. Retirement Systems – Unfunded Commitments

As of June 30, 2019, PFDRP had unfunded commitments to contribute capital for investments in the amount of $196,046,000. FCERS had unfunded commitments to contribute capital for private market fund investments in the amount of $133,992,000.

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 U.S. Department of Transportation, and the U.S. Department of Labor. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City's grant programs are audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the year ended June 30, 2019, 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, 2019, total governmental fund encumbrance balances for the City are as follows (in thousands):

General Fund	$	46,594
Housing Activities		19,791
Low and Moderate Income Housing Asset		5,145
Special Assessment Districts		158
San José Financing Authority Debt Service		1
Nonmajor Governmental Funds		105,615
Total governmental funds	$	177,304

8. Overpayment of Pensions

Overpayment of pensions has been a matter considered by the Boards of both PFDRP and FCERS. For the PFDRP, the overpayments involved non-pensionable FLSA pay issues related to the incorrect inclusion of non-pensionable earnings as pensionable for Fire members from 1998 to 2008 due to the City's payroll system programming; and non-FLSA pay issues such as Holiday-in-Lieu corrections, Higher Class Pay being erroneously counted as pensionable pay, disability pays which should have been pensionable, and lump sum retroactive pay not being spread to the correct pay periods.

With regard to the FLSA issues, the PFDRP's Board approved correcting the ongoing benefit payments in the February 2017 benefit payment. In June 2017, the PFDRP's Board approved the process to collect past over-payments to begin with the August 2017 benefit payments. In September 2017, the PFDRP's Board voted to send the City a letter seeking the balance of the monies owed but not recovered from the retirees for overpayments related to the FLSA. In November 2017, the PFDRP's Board voted to send a single letter to the City seeking the balance of monies owed but not recovered from the retirees arising from the FLSA issue and the other issues. In a letter sent to the City Manager, dated November 30, 2017, the Office of Retirement Services demanded that that the City make payment to the PFDRP prior to December 31, 2017 in the amount of $2,215,000 (including interest calculated at the rate of 7% per annum through December 31, 2017) for the overpayments related to the FLSA issue ($1,214,000) and the other pensionable pay issues ($1,000,000).

With respect to the FCERS, there have been pensionable pay corrections involving members of FCERS Tier 1 plan. According to a Memorandum dated August 8, 2018 to the FCERS' Board, there has been overpayment of retirement benefits paid to certain retirees, due to errors in the City's reporting of pensionable pay that was then used in the members' benefit calculation. The total number of overpaid beneficiaries and members is 351.

At the August 16, 2018 FCERS Board meeting, the Board members voted, to the extent possible, to stop the overpayments made to members immediately and also voted to not seek repayment from the impacted retirees, but to instead have the overpayment added to the unfunded liability of FCERS Tier 1 plan, which is repaid from the City's contributions. Office of Retirement Services staff projected that overpayment amount would total approximately $1,783,000 as of August 31, 2018.

The unfunded actuarial liability that resulted from the overpayments has been rolled into the total unfunded actuarial liability for each plan as part of the annual actuarial valuation.

9. Consent Decree with San Francisco Baykeeper

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

In order to settle the lawsuit, the City and Baykeeper agreed to a consent decree that was approved by the U.S. District Court in August 2016 (the "Consent Decree"). The Consent Decree has a 10 year term expiring in August 2026 and will require the City to:

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

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

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

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

- Bring forward new revenue measure options for Council consideration by December 31, 2017; and

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

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

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

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

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

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

In the event that the City does not identify sufficient revenues by December 31, 2020 to make the appropriations identified above and meet the FIB Load Reduction Standard, then Baykeeper may terminate the Consent Decree and resume litigation against the City. The Consent Decree also provides for ongoing oversight by Baykeeper and a dispute resolution process. The Consent Decree specifies limits on Baykeeper's ability to pursue additional litigation against the City during the Consent Decree's term and litigation fees that can be claimed by Baykeeper for dispute resolution are capped at $200,000.

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

The City and Baykeeper have entered into two amendments to the Consent Decree. In May 2017, Baykeeper and the City entered into a First Amendment to the Consent Decree that was subsequently approved by the U.S. District Court in August 2017 ("First Amendment"). The First Amendment modified the City's maintenance obligations related to trash capture devices, extended the deadline for one of the City's obligations under the Consent Decree related to contracting with a consultant and specified that the City will make payments of the annual funding of $200,000 during years two through five for the supplemental mitigation projects directly to two organizations instead of to the San José Parks Foundation. In April 2019, the City and Baykeeper entered into the Second Amendment to the Consent Decree ("Second Amendment"), in order to make technical changes to the specifications related to FIB and the timing of City's annual monitoring payment to Baykeeper. The Second Amendment was approved by the U.S. District Court judge on April 30, 2019.

Identification of Funds. On December 19, 2017, the City Council considered a report from City staff concerning potential new revenue sources to fund the green infrastructure requirements specified in the Baykeeper Consent Decree described above. The potential revenues sources identified by City staff include general obligation bonds and a parcel tax, both of which would require voter approval by a two-thirds margin.

On August 10, 2018, the City Council approved placement of a measure on the November 2018 ballot, designated as Measure T, seeking voter authorization of up to $650 million of general obligation bonds for various public improvements, including those that would prevent flooding and water contamination. The voters approved Measure T by more than the required two-thirds margin in November 2018. Some of the green infrastructure improvements required by the Baykeeper Consent Decree are eligible for funding under Measure T. However, there are a number of different types of improvements that are eligible for funding under Measure T, including an allocation of at least $300 million for street improvements. The City Council approved $25 million of the potential Measure T funds to be allocated for clean water projects, including green infrastructure improvements. The City is unable to predict the amount of funding that will be appropriated to the green infrastructure improvements required by the Baykeeper Consent Decree under Measure T. In any event, there are obligations under the Baykeeper Consent Decree that would be ineligible for funding from general obligation bond proceeds and staff continues to assess additional funding mechanisms to fund its obligations under the Consent Decree.

Status of Green Infrastructure Projects. On September 10, 2019, the Council approved a Green Infrastructure Plan ("GIP") outlining green infrastructure projects, including regional and green street projects, to meet the obligations under the Consent Decree as well as the City's Stormwater Permit. The GIP forecasts projects and goals through 2050. Potential projects identified in the GIP require further review and approval. The GIP contains a $1.491 billion estimate for illustrative purposes to demonstrate the proportional costs among project types. Total cost of the implementation of the GIP through 2050 is difficult to estimate, and will be dependent upon several factors including, among others, future costs of construction, whether the project will be on City-owned property or required as part of a future private development.

Per the terms of the Consent Decree, the City provided Baykeeper with the draft GIP for review and comment and received Baykeeper's comments on June 10, 2019. The City has the obligation under the Consent Decree to consider Baykeeper's comments in good faith and either incorporate Baykeeper's comments into the GIP or explain to Baykeeper in writing why its comments were not accepted by July 10, 2019. The City met with Baykeeper to discuss Baykeeper's comments to the draft GIP, but ultimately did not revise the GIP. The City will continue to work cooperatively with Baykeeper to ensure ongoing compliance with the Consent Decree. As stated above in the discussion of funding from Measure T, the City is unable to predict which projects will ultimately be approved and the source of the construction and maintenance cost. Each project will need separate Council approval.

10. San José Retired Employees Association Settlement Agreement

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

The City filed a demurrer to the complaint, however, this litigation is currently stayed, by stipulation of the parties, to allow for settlement negotiations. On November 7, 2017, the City Council approved a settlement agreement with the Retirees' Association and the individual plaintiffs. The settlement agreement provides for the dismissal of the respective appeals in the Measure B litigation under the SJPOA caption by the Retirees' Association and the City, the dismissal by the Retirees' Association of its stayed lawsuit with prejudice and the dismissal of the stayed lawsuit by the individual plaintiffs without prejudice. The settlement agreement includes the following terms among others:

- continues the elimination of the SRBR, and, in lieu of the SRBR, establishes a "Guaranteed Purchasing Power" provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;

- provides for the implementation of a new lowest cost healthcare plan for retirees who are members of the FCERS or PFDRP defined benefit retiree healthcare plan and additionally provides that the lowest cost plan for current and future retirees will be permanently set such that it is neither higher nor lower than the "Silver" level as specified in the Affordable Care Act ("ACA") in effect as of July 2015. The settlement agreement further specifies that the healthcare plan must provide at least 70% (the "floor") but no more than 79% (the "ceiling") of the current ACA "Silver" definition;

- allows retirees who are members of the FCERS or PFDRP defined benefit retiree healthcare plan to be eligible for in-lieu premium credit of 25% for the monthly premium of the lowest cost healthcare plan and dental plan;

- provides for the City's payment of partial cost reimbursement, not to exceed $1.25 million for all reimbursements, for healthcare premium costs for those retirees or their surviving beneficiaries who receive a pension of $54,000 or less and who were enrolled in a pre-Medicare healthcare plan between January 2013 and December 2016;

- specifies that the Retirees' Association will have the right to tender to the City defense of any lawsuit brought by a retiree member against the Retirees' Association challenging the settlement agreement; and

- provides that the City will pay the attorneys' fees of the Retirees' Association related to Measure B in the amount of $500,000.

11. Workers' Compensation Program Audit

The City is self-insured and self-administered for workers' compensation with claims paid on a "pay as you go" basis. The City budgets for workers' compensation payouts based on prior year payout history.

Pursuant to City Council direction, the City's Worker's Compensation Program has been fully outsourced to Intercare, a third-party administrator ("Intercare"). As of September 1, 2018, all in-house claims were electronically transferred to Intercare with all open claims administered by Intercare staff.

As of March 1, 2019, open claims data for Intercare were at 2,647. The total number of open claims has been significantly reduced (by approximately 15%) since June 30, 2018 when the open claim inventory was 3,120 (Intercare - 1,488, City of San José - 1,632). This was in large part a result of Intercare's triage process.

The City conducted a Request for Proposal process for a third-party administrator to provide all services related to the City's Workers' Compensation Program to commence on July 1, 2019, which was approved by the City Council in June 2019. Intercare was awarded a three year contract that began July 1, 2019.

As a result of the transfer of all claims administration to Intercare, the City anticipates no longer being subject to state audits related to the City's workers' compensation program in the future. The last state audit of the City's workers' compensation program was in 2016. The City anticipated the possibility of being subject to a re-audit by the State in the end of 2018. The City is not aware of any pending audits by the State of the City's workers' compensation program.

12. Tax Abatement Disclosure

As of June 30, 2019, the City provides tax abatements through three programs - the Business Cooperation Program, Storefronts Assistance Grant Program, and the Downtown High-rise Incentive Program:

i. Business Cooperation Program ("BCP") is designed to provide incentives for anyone conducting business in the City to obtain a Use Tax Direct Payment Permit from the State of California Board of Equalization pursuant to the State Sales and Use Tax Regulation 1699.6; or establish a point of sale in the City by changing their business operations for the business-to-business transaction. The BCP is also designed to provide incentives for anyone constructing or building in the City to obtain a Sub Seller's Permit for their job site in San José from the State of California Department of Tax and Fee Administration (previously the Board of Equalization) pursuant to State regulations and procedures.

The benefit derived by the City from having businesses obtain Use Tax Direct Pay Permit, Sub Seller's Permit, or Seller's Permit ("Permits") for point of sales transaction in San José is that the business reports the local use tax component to the jurisdiction in which the property is located at the time the State use tax is reported, thus ensuring that the City receives the entire local component of the use tax. The City rebates participating companies a rebate in the amount of 20% - 30% of the net new revenue received. The City also compensates the Consultant 20% of the net new revenue received.

ii. **Storefronts Assistance Grant Program** is an incentive program designed to fill ground-floor vacant spaces in the City. The program also supports existing retail businesses in these areas with permit costs related to adding outdoor seating. To address vacant storefronts, the City implemented an incentive package to lower barriers to entry for small business. The City Council approved the implementation of the Program in 2013, and through the budget process, City Council allocated up to $250,000 to reimburse eligible businesses for City permit fees and taxes in FY 2019.

iii. **Downtown High-Rise Residential Incentive Program**

The City has had several iterations of a program designed to spur high-rise development in downtown. As of June 30, 2019, the Downtown High-Rise Residential Incentive Program ("Program") suspends 50% of construction taxes on high-rise developments in the Downtown Area and allows for payment of the taxes to be delayed until the issuance of the Certificate of Occupancy. It also provides a suspension of affordable housing in-lieu fees. The program is available for new construction of residential buildings of at least twelve (12) stories in height in the Downtown Planned Growth Area. Projects must meet several other criteria to qualify, including timing of the building permits and obtaining certificate of occupancy.

Tax Abatement Program	Amount of Taxes Abated (in thousands)
Business Cooperation Program (BCP)	$ 157
Storefronts Assistance Grant Program	201
Downtown High-Rise Residential Incentive Program	0

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, 2019 (in thousands):

Cash and investments	$	56,437
Restricted cash and investments		117,797
Total cash and investments	$	174,234

A summary of SARA's cash and investments at June 30, 2019 is as follows:

	Moody's Credit Rating	Maturity (in Days) Under 30	31-180	181-365	Balance at June 30
Investments:					
LAIF	Not Rated	$ -	$ 56,337	$ -	$ 56,337
Money Market Mutual Funds	Aaa	117,797	-	-	117,797
Subtotal Investments					174,134
Bank Deposits					100
Total Cash and Investments					$ 174,234

The SARA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The Money Market Mutual Funds and LAIF are valued by net asset value. The inputs and techniques used for securities are not necessarily an indication of risk associated with investing in these securities. The SARA's investments in Money Market Mutual Funds and LAIF are not subject to the fair value hierarchy.

The LAIF is part of the State's Pooled Money Investment Account that allows cities, counties and special districts to place money into the fund. LAIF operating accounts allow a maximum of 15 transactions per account in a calendar month. The transaction amount shall be no less than $5,000 and in increments of a thousand. LAIF allocates interest earnings once every quarter. The interest earnings can be withdrawn in exact amount at any time. LAIF bond accounts have no restrictions on the amounts allowed on deposit, but are limited to one withdrawal every 30 days.

2. Property Held for Resale by SARA

Property held for resale is recorded as an asset at the lower of cost or net realizable value. The SARA recorded certain capital assets originally received from the Agency as property held for resale. On September 8, 2014, the State Department of Finance ("DOF") approved the Long-Range Property Management Plan ("LRPMP"), which specifies the disposition of SARA properties. The SARA properties designated for sale under the LRPMP are to be sold in accordance with the Asset Disposition Schedule and the Disposition Process for Sale of Properties, both of which are subject to the approval of the Oversight Board. All properties were disposed of during the year.

A summary of changes of the property held for resale during the year ended June 30, 2019 is as follows:

Property Description	July 1, 2018	Addition	Disposal	Transfer	June 30, 2019
N. San Pedro Housing site	$ 33,457	$ 3,090	$ (30,694)	$ (5,853)	$ -

In FY 2019, the SARA disposed multiple properties of the North San Pedro Housing site as described below:

- In August 2018, the SARA sold one property commonly known as Block D to TM San Jose 78, LLC for $1,585,000. The property had the net book value of $496,000 and the SARA recognized a gain of $1,080,000 after transaction costs of $9,000. At the close of escrow, the net sale proceeds of $1,576,000 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

- In September 2018, the SARA sold one property commonly known as Block E to First American Exchange Company, LLC as Qualified Intermediary for San Pedro Life I, LLC for $4,705,000. The property had the net book value of $2,590,000 and the SARA recognized a gain of $2,100,000 after transaction costs of $15,000. At the close of escrow, the net sale proceeds of $4,690,000 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

- In September 2018, the SARA sold one property commonly known as Block B/F to 171 W. Julian Street Apartments Investors LLC for $10,289,000. The property had the net book value of $27,609,000 and the SARA recognized a loss of $17,350,000 after transaction costs of $30,000. At the close of escrow, the net sale proceeds of $10,259,000 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

- In December 2018, one property commonly known as Block G (Bassett Street and Terraine Street) has been transferred from the SARA to First Community Housing. The property had the net book value of $5,125,000 and SARA recognized a loss of $5,125,000.

- In January 2019, one property commonly known as North San Pedro or Bassett Street Park (75 Bassett Street) has been transferred from the SARA to the City. The property had the net book value of $728,000 and SARA recognized a loss of $728,000.

3. Capital Assets Held by SARA

The following is a summary of capital assets activity for the year ended June 30, 2019 (in thousands):

	July 1, 2018	Addition	Disposal	Transfer	June 30, 2019
Capital assets, not being depreciated:					
Land	$ 47,677	$ -	$ (16,851)	$ (27,934)	$ 2,892
Total capital assets, not being depreciated	47,677	-	(16,851)	(27,934)	2,892
Capital assets, being depreciated:					
Buildings	82,610	-	(7,155)	-	75,455
Building and other improvements	108	-	(108)	-	-
Equipment	1,145	-	(1,145)	-	-
Total capital assets, being depreciated	83,863	-	(8,408)	-	75,455
Less accumulated depreciation:					
Buildings	25,172	1,977	(2,292)	-	24,857
Building and other improvements	68	2	(70)	-	-
Equipment	1,145	-	(1,145)	-	-
Total accumulated depreciation	26,385	1,979	(3,507)	-	24,857
Total capital assets, being depreciated, net	57,478	(1,979)	(4,901)	-	50,598
Total capital assets, net	$ 105,155	$ (1,979)	$ (21,752)	$ (27,934)	$ 53,490

On August 27, 2015, the Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the Disposition Process For Sale of Properties, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. Additional amendments to the Asset Disposition Schedule were approved by the Oversight Board on January 14, 2016, April 28, 2016, October 27, 2016, and April 13, 2017.

In FY 2019, the SARA disposed the following properties:

- On August 24, 2018, the SARA transferred properties commonly known as Diridon Properties (8, 102, 105, 150 S Montgomery St., 510 W San Fernando St., 645 Park Ave.) to the City with a net book value of $27,934,000. The transfer was pursuant to the compensation agreement entered into by and among the SARA, the City, and certain taxing entities (local agencies and school districts) as prescribed under the Health and Safety Code, on January 1, 2018.

- On October 9, 2018, the SARA sold one property, San Jose Stage (490 South 1st Street), for $2,300,000. The property had the net book value of $1,022,000 and the SARA recognized a gain of $1,270,000 after transaction costs of $8,000. At the close of escrow, the net sale proceeds of $2,292,000 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

- On October 10, 2018, the SARA sold one property, South Hall Convention Center (107 Balbach Street), to the City for $47,000,000. The property had the net book value of $14,558,000 and the SARA recognized a gain of $32,428,000 after transaction costs of $14,000. A portion of the proceeds were used to pay off the HUD loan totaling $16,310,000 principal plus $82,000 accrued interest. At the close of escrow, the remaining net sale proceeds of $30,594,000 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

- On December 27, 2018, the SARA sold one property, Jose Theater (62 South 2nd Street), for $2,139,000. The property had the net book value of $5,709,000 and the SARA recognized a loss of $3,578,000 after transaction costs of $8,000. At the close of escrow, the net sale proceeds of $2,131,000 were remitted to the County Auditor-Controller and were subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

- On April 29, 2019, the SARA disposed all equipment with net book value of zero. The equipment had an initial book value of $1,145,000, which was fully depreciated.

4. Summary of SARA's Long-Term Debt

The following is a summary of long-term debt of the SARA as of June 30, 2019 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2019 Balance
Senior Tax Allocation Bonds:							
2017 Refunding Bonds Series A	Refunding - merged area projects	$ 79,825	12/21/2017	8/1/2035	5.00%	$0 - 53,810	$ 79,825
2017 Refunding Boonds Series A-T	Refunding - merged area projects	1,333,325	12/21/2017	8/1/2034	1.90-3.38%	$32,910 - 93,735	1,247,600
Total Senior Tax Allocation Bonds							1,327,425
Subordinate Tax Allocation Bonds:							
2017 Refunding Bonds Series B	Refunding - merged area projects	264,390	12/21/2017	8/1/2029	2.00-5.00%	$7,820 - 29,835	240,155
Total Subordinate Tax Allocation Bonds							240,155
Other Long-Term Debt:							
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2020	3.00%	$0 - 15,561	15,945
City of San José (SERAF) Loan	Fund the State's SERAF Payment	10,000	2010-2011	6/30/2020	3.00%	$0 - 12,441	12,742
City of San José - Parking Fund Loans	Fund debt service	13,528	2006-2011	6/30/2020	3.00%	$0 - 13,528	17,862
Total Other Long-Term Debt							46,549
Total Long-Term Debt							$ 1,614,129

A summary of the changes in long-term debt and other obligations for the year ended June 30, 2019 follows (in thousands):

	June 30, 2018	Additions	Reductions	June 30, 2019	Amount Due Within One Year
Senior Tax Allocation Bonds:					
2017 Refunding Bonds Series A	$ 79,825	$ -	$ -	$ 79,825	$ -
2017 Refunding Bonds Series A-T	1,333,325	-	(85,725)	1,247,600	70,570
Subtotal Senior Tax Allocation Bonds	1,413,150	-	(85,725)	1,327,425	70,570
Subordinate Tax Allocation Bonds:					
2017 Refunding Bonds Series B	264,390	-	(24,235)	240,155	20,190
Subtotal Subordinate Tax Allocation Bonds	264,390	-	(24,235)	240,155	20,190
Other Long -Term Debt:					
HUD Section 108 Loan (CIM)	7,715	-	(7,715)	-	-
HUD Section 108 Loan (Story & King)	10,485	-	(10,485)	-	-
City of San José - SERAF Loans (Principal)	22,816	-	-	22,816	22,816
City of San José - SERAF Loans (Interest)	5,186	685	-	5,871	5,871
City of San José - Parking Fund Loans (Principal)	13,528	-	-	13,528	13,528
City of San José - Parking Fund Loans (Interest)	4,397	-	(63)	4,334	4,334
City of San José - Reimbursement Agreement	1,421	867	(2,288)	-	-
Subtotal Other Long-Term Debt	65,548	1,552	(20,551)	46,549	46,549
Subtotal Long-Term Debt before Unamortized	1,743,088	1,552	(130,511)	1,614,129	137,309
Issuance Premium (Discount), Net	49,025	-	(4,204)	44,821	4,205
Total Long-Term Obligations	$ 1,792,113	$ 1,552	$ (134,715)	$ 1,658,950	$ 141,514

Total Redevelopment Property Tax Trust Fund ("RPTTF") revenue distributed by the County to the SARA in the FY 2019 was $190,334,000, which was used to pay debt service and debt related expenses on the Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds and enforceable obligations. During the year ended June 30, 2019, the County withheld $36,410,000 in RPTTF for payments of its current year's pass-through payments. The RPTTF revenue excludes the San José Unified School District senior pass-through ($5,850,000), AB1290 subordinate pass-through ($24,396,000), and residual balance ($46,730,000) distributed to taxing entities.

2017 Tax Allocation Refunding Bonds

On December 21, 2017, the SARA issued the 2017 Refunding Bonds pursuant to an Indenture of Trust dated as of December 1, 2017 ("2017 Indenture"), by and between the SARA and Wilmington Trust, National Association, as trustee ("Trustee"). The 2017 Refunding Bonds were issued in the aggregate principal amount of $1,677,540,000, in two senior series and one subordinate series. The senior series bonds, collectively known as 2017 Senior Tax Allocation Refunding Bonds, consist of $79,825,000 of the tax-exempt senior lien 2017 Series A Bonds ("2017A Bonds") and $1,333,325,000 of taxable senior lien 2017 Series A-T Bonds ("2017A-T Bonds"). The subordinate series bonds, described as 2017 Subordinate Tax Allocation Refunding Bonds, consist of $264,390,000 of tax-exempt subordinate lien 2017 Series B Bonds.

Proceeds of the 2017 Refunding Bonds were used to (i) redeem and defease or prepay 23 series of Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds, the 4th and San Fernando Parking Facility Pledge Agreement entered into in connection with the Financing Authority's Series 2001A Bonds and the Second Amended and Restated Reimbursement Agreement entered into in connection with the Financing Authority's Series 2001F and 2001G Bonds (paid in full in September 2018), all as listed in the previous table and (ii) pay the costs of issuing the 2017 Refunding Bonds, including the cost of debt service reserve insurance policies. The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debt in a refunding transaction) and the net carrying amount of the Refunded Obligations. This difference was reported as deferred outflows of resources in the Statement of Fiduciary Net Position and is being amortized over the next 17 years.

The 2017 Refunding Bonds are secured and payable from Tax Revenues and certain funds and accounts held by the Trustee. Tax Revenues are generally defined in the 2017 Indenture as the portion of property tax revenues collected in the Merged Project Area derived from incremental growth in assessed property values over the initial base year values in each of 17 component areas, less certain County administrative fees and the AB1290 statutory pass-through payment to the San José Unified School District and excluding the amounts collected pursuant to the pension override or State Water Project override provisions of the Redevelopment Dissolution Law. All other AB1290 statutory pass-through payments and the negotiated pass-through payments to Santa Clara County are subordinate to the payment of debt service on the 2017 Refunding Bonds and other payment obligations under the 2017 Indenture. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made from funds on deposit in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment of debt service on the 2017 Refunding Bonds unless there are insufficient funds to pay such debt service and other payment obligations under the 2017 Indenture and certain other conditions are satisfied). Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose. The SARA has covenanted in the 2017 Indenture to comply with the provisions of the Redevelopment Dissolution Law related to placing its obligations under the 2017 Indenture on the recognized obligations under the 2017 Indenture throughout the term of the 2017 Refunding Bonds and, if applicable, file a Notice of Insufficiency in the event that are insufficient Tax Revenue to make payment of debt service or other payment obligations under the 2017 Indenture.

The SARA has covenanted in the 2017 Indenture to take such actions as required under the Redevelopment Dissolution Law to include in each annual Recognized Obligation Payment Schedule the amount of debt service on the 2017 Refunding Bonds so as to enable the County Auditor-Controller to distribute from the RPTTF to SARA on each January 2 and June 1 the amounts required for the SARA to pay principal of, and interest on, the 2017 Refunding Bonds coming due in the respective six-month period. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF the amounts to be held by the SARA as a reserve until the next six-month period, as contemplated by the Redevelopment Dissolution Law, that are necessary to comply with the 2017 Indenture.

A separate municipal bond debt service reserve policy issued by Build America Mutual Assurance Company ("BAM") was deposited in the Senior Bonds Reserve Account of the Bond Reserve Fund for the 2017 Senior Tax Allocation Refunding Bonds ("2017 Senior Bonds Reserve Policy") and in the Subordinate Bonds Reserve account of the Bond Reserve Fund for the 2017 Subordinate Tax Allocation Bonds ("2017 Subordinate Bonds Reserve Policy"). The 2017 Senior Bonds Reserve Policy is in the amount of $112,102,000, which is equal to the Senior Bonds Reserve Requirement under the 2017 Indenture. The 2017 Subordinate Bonds Reserve Policy is in the amount of $30,978,000, which is equal to the Subordinate Bonds Reserve Requirement under the 2017 Indenture.

The 2017 Senior Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Senior Tax Allocation Refunding Bonds are no longer outstanding under the 2017 Indenture and (ii) August 1, 2035. The 2017 Subordinate Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Subordinate Tax Allocation Refunding Bonds are no longer outstanding under the Indenture and (ii) August 1, 2029. Per the terms of the 2017 Indenture, the SARA is not obligated to replace either reserve policy or to fund either reserve account with cash if, at any time that the 2017 Senior Tax Allocation Refunding Bonds or 2017 Subordinate Tax Allocation Refunding Bonds are outstanding, amounts are not available under such policy or if the rating of the claims-paying ability of BAM is downgraded, suspended or withdrawn.

The 2017 Senior Tax Allocation Refunding Bonds were rated "AA" by Standard & Poor's and Fitch and the 2017 Subordinate Tax Allocation Refunding Bonds were rated "AA-" by Standard & Poor's and Fitch .

2017 Senior Tax Allocation Refunding Bonds - The 2017 Senior Tax Allocation Refunding Bonds were issued in two series – the tax-exempt 2017A Bonds and the taxable 2017A-T Bonds, with a parity senior lien on Tax Revenues. The 2017A Bonds are structured as two serial maturities in 2034 and 2035; both maturities bear interest at 5% per annum. The 2017A-T Bonds are structured as serial maturities in 2018 through and including 2029 and a term bond of $361,845,000 maturing in 2034 with mandatory payment of principal beginning on August 1, 2030 through final maturity on August 1, 2034. The 2017A-T Bonds bear interest at rates ranging from 1.898% to 3.375% per annum. The 2017A-T Bonds have nearly $183,000,000 in par subject to call on or after August 1, 2027. The total debt service payments on the 2017 Senior Tax Allocation Refunding Bonds was $128,068,000 for the year ended June 30, 2019. The principal and interest remaining on the 2017 Senior Tax Allocation Refunding Bonds as of June 30, 2019 is $708,439,000.

2017 Subordinate Tax Allocation Refunding Bonds - The 2017 Subordinate Tax Allocation Refunding Bonds are structured as serial tax-exempt bonds with maturities in 2018 through 2029; and bear interest at rates ranging from 2% to 5% per annum. The 2017 Subordinate Tax Allocation Refunding Bonds are callable on or after August 1, 2027 at par. In total, nearly $97,000,000 in par is subject to this ten-year par call. The 2017 Subordinate Tax Allocation Refunding Bonds are payable from Tax Revenues on a subordinate basis to the 2017 Senior Tax Allocation Refunding Bonds. The debt service payment on the 2017 Subordinate Tax Allocation Refunding Bonds was $36,758,000 for the year ended June 30, 2019. The principal and interest remaining on the 2017 Subordinate Tax Allocation Refunding Bonds as of June 30, 2019 is $302,657,000.

2017 Refunding Bonds -- Events of Default - The events of default under the 2017 Indenture for the 2017 Refunding Bonds are : (i) failure to pay debt service when due; (ii) failure to comply with covenants and conditions of the 2017 Indenture or the 2017 Refunding Bonds or any Senior Parity Debt Instrument or Subordinate Parity Debt Instrument (as those terms are defined in the 2017 Indenture) and such default shall have continued for a period of 30 days following SARA's receipt from the Trustee or any bond owner of written notice of the occurrence of such default, provided that if in SARA's reasonable opinion the failure stated in the notice can be corrected, but not within such 30 day period, such failure will not constitute an event of default if corrective action is instituted by the SARA within such 30 day period and SARA thereafter diligently and in good faith cures such failure in a reasonable period of time; (iii) bankruptcy or similar debtor relief proceedings. In the event of default, the Trustee may or if requested by the owners of a majority of the principal amount of the outstanding 2017 Senior Tax Allocation Refunding Bonds or the 2017 Subordinate Tax Allocation Refunding Bonds, as applicable, shall, subject to the provisions of the 2017 Indenture, exercise any remedies available to the Trustee in law or at equity. The 2017 Indenture does not provide for acceleration of payment of the 2017 Refunding Bonds. The 2017 Indenture, however, provides for application of Tax Revenues upon an event of default in the order of priority set forth in the 2017 Indenture.

As of June 30, 2019, the amounts to be paid from the escrow funds established for the Refunded Obligations are as follows (in thousands):

Redevelopment Agency Bonds Refunded in 2017 Escrow Accounts (December 21, 2017)	Amount	Redemption Date
RDA Housing Set-Aside Tax Allocation Bonds Series 2010A-1	$ 52,820	8/1/2020

HUD Section 108 Loans – In 2006, the Agency received loan proceeds totaling $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).

On October 10, 2018, the SARA sold one property (Convention Center South Hall Site) to the City for $47,000,000. The property was used as collateral for HUD loans associated with the former Agency which ($16,310,000 principal plus $82,000 accrued interest) were paid in full at closing. The remaining net sale proceeds from the property in the amount of $30,594,000 were remitted to the County Auditor-Controller and subsequently distributed to the appropriate local taxing entities per the Health and Safety Code.

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan – On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of $2,050,000,000 of property tax increment in a Supplemental Educational Revenue Augmentation Funds ("SERAF") to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's SERAF obligation was $62 million in FY 2010 ("2010 SERAF Obligation") and $12.8 million in FY 2011 ("2011 SERAF Obligation"). Payments were made by May 10th of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of $75 million to pay the 2010 SERAF Obligation and the 2011 SERAF Obligation ("SERAF Loan"). The sources of the SERAF Loan to pay the 2010 SERAF Obligation ($62 million) were $40 million from the City's Low and Moderate Income Housing Fund that had been made available following the issuance of the 2010 Housing Series C Bonds, which was specifically authorized by the legislation, and idle moneys from the City special funds ($10 million) and funds from the Financing Authority's Commercial Paper Program ($12 million). The source of the SERAF Loan to pay the 2011 SERAF Obligation was $12.8 million from the City's Low and Moderate Income Housing Fund. The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA as more particularly discussed below in the Parking Fund Loans section. As such, the $10 million used to pay a portion of the 2010 SERAF Obligation and its related accumulated interest in the amount $160,000 from the City special funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA's extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of $2.9 million were also invalidated in 2012.

The remaining source of the SERAF Loan used to pay the 2010 SERAF Obligation ($40 million of 2010 Series C Housing Bonds and $12 million from the Financing Authority's Commercial Paper program) were assumed by the SARA and were listed in the ROPS as enforceable obligations. The source of funds used to pay the 2011 SERAF Obligation was determined to be a housing asset and was transferred to the City as the Successor Housing Agency and was also listed on the ROPS as an enforceable obligation.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan used to pay a portion of the 2010 SERAF Obligation ($40 million of 2010 Housing Series C Bonds and $12 million from the Financing Authority's Commercial Paper program) should not be reported in the ROPS as an enforceable obligation since the sources of the SERAF Loan were already listed on the ROPS.

On May 26, 2016, the Oversight Board approved a partial reinstatement of the SERAF Loan used to pay the 2010 SERAF Obligation to restore the moneys originally loaned from the City's special funds in the amount of $10 million and also approved the repayment schedule for the source of funds used to pay the 2011 SERAF Obligation in the amount of $12.8 million plus accrued interest. The Oversight Board determined that the remaining portion of the SERAF Loan used to pay the 2010 SERAF Obligation in the amount of $52 million plus accrued interest in the amount of $905,000 is not an enforceable obligation and directed the SARA to remove that portion of the loan from its financial statements. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

On May 17, 2017, the DOF approved the ROPS 17-18, which included the SERAF loans from the City of San José in the principal amount of $22,816,000.

As of June 30, 2019, the remaining portion of the SERAF Loan has an outstanding principal and accumulated accrued interest balance of $22,816,000 and $5,871,000, respectively, and bears a simple interest rate of 3%. The SARA is anticipated to pay the amount owed in full to the City in FY 2020.

The terms and repayment schedule of the SERAF Loan, as reinstated, were revised to conform with the Redevelopment Dissolution Law. The City's remedies against the SARA in the event of SARA's default on the SERAF Loan would also be subject to the Redevelopment Dissolution Law.

Parking Fund Loans – Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB XI 26, and with narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB XI 26, which was subsequently amended by AB 1484 and SB 107 (collectively, "Dissolution Legislation"). However, with the approval of AB 1484 in June 2012, certain loans may be reinstated as enforceable obligations of the Successor Agency contingent upon the following: 1) a finding by the California Department of Finance (DOF) that certain specified audits of the Successor Agency have been completed (evidenced by a Finding of Completion), and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of AB 1484, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

The Parking Fund Loans were reinstated as enforceable obligations on ROPS 17-18 in accordance with Health and Safety Code Section 34191.4 (b) with Oversight Board approval on January 12, 2017. The DOF approved the Parking Fund Loans on March 28, 2017. Because the loans are reinstated City loans, the principal outstanding will accrue 3% simple interest and be paid on ROPS 19-20. As of June 30, 2019, the Parking Fund Loans have outstanding principal and accumulated accrued interest balance of $13,528,000 and $4,334,000, respectively. The SARA is anticipated to pay the amount owed in full to the City in FY 2020.

The terms and repayment schedule of the Parking Fund Loan, as reinstated, were revised to conform with the Redevelopment Dissolution Law. The City's remedies against the SARA in the event of SARA's default on the Parking Fund Loan would also be subject to the Redevelopment Dissolution Law.

Tax Sharing Agreement with the County of Santa Clara – Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement ("Original Agreement") under which the Agency would pay a portion of tax increment revenue generated in the Merged Area ("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 ("Amended Agreement"), which amended and restated the Original Agreement in its entirety. In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and required the Agency to transfer funds to the County to pay for such projects ("Delegated Payment"). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency's Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

Debt Service Requirements – The debt service requirements for all debt are based upon a fixed rate of interest.

The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2019, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Principal	Interest
2020	$ 90,760	$ 52,292
2021	93,250	49,704
2022	95,940	46,890
2023	98,880	43,842
2024	102,035	40,555
2025-2029	542,495	145,929
2030-2034	431,485	59,063
2035-2036	112,735	5,241
Total	$ 1,567,580	$ 443,516

Long-Term Reimbursement Agreement – When redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City Council has committed other sources of funding to cover costs related to the SARA annual administrative budget and City support service expenses. On September 26, 2013 (as amended on August 27, 2015), the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement in order to establish an obligation for the SARA to repay the City for these advances.

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

As of June 30, 2019, the total outstanding advances from the City of $2,288,000 was paid in full.

5. Commitments and Contingencies Related to SARA

Risk Management

The SARA is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities for which the SARA carries a property and casualty insurance policy, or is self-insured. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated using actuarial methods or other estimating techniques. The technique to estimate claims is based on many complex factors, such as inflation, changes in legal doctrines, past settlements, and damages awarded. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimated claims liability will include amounts of incremental claims adjustment expense related to specific claims.

The SARA does not have any claims liabilities outstanding at June 30, 2019.

Contractual Commitments

At June 30, 2019, the SARA had $3,662,000 for contractual obligations and commitments.

D. Subsequent Events

1. City of San José General Obligation Bonds

On July 25, 2019, the City issued $502,020,000 of General Obligation Bonds ("2019 GO Bonds"), to finance projects and to refund all of the City's outstanding general obligation bonds under four separate authorizations as shown in the table below: (1) Measure T (approved by the voters on November 6, 2018 in the not-to-exceed amount of $650,000,000 for the purpose of acquiring property for and constructing improvements in order to improve emergency and disaster response, repair deteriorating bridges vulnerable to earthquakes, repave streets and potholes in the worst condition, prevent flooding and water contamination including the acquisition of land in the Coyote Valley for these purposes, and repair critical infrastructure); (2) Measure O (approved by the voters on November 7, 2000 in the not-to-exceed amount of $211,790,000 for library projects); (3) Measure O (approved by the voters on March 5, 2002 in the not-to-exceed amount of $159,000,000 for public safety projects); and (4) Measure P (approved by the voters on November 7, 2000 in the not-to-exceed amount of $228,030,000 for parks projects).

City of San José
General Obligation Bonds
Authorization Level and Issuance Amounts

Authorization	Final Maturity	Meausure O (11/07/2000) Library Projects $211,790,000	Measure P (11/07/2000) Parks Projects $228,030,000	Meausure O (03/05/2002) Public Safety Projects $159,000,000	2019 GO Refunding	Measure T (11/6/2018) Projects $650,000,000	Issuance Total $502,020,000
Series 2019A	9/1/2049	$ -	$ -	$ -	$ -	$ 173,400,000	$ 173,400,000
Series 2019B	9/1/2027	-	-	-	-	66,500,000	66,500,000
Series 2019C	9/1/2024	5,905,000	-	3,325,000	-	-	9,230,000
Series 2019C	9/1/2035	-	-	-	148,955,000	-	148,955,000
Series 2019D	9/1/2024	-	-	-	103,935,000	-	103,935,000
Total Issuance to Date		$ 211,790,000	$ 228,030,000	$ 159,000,000	$ 252,890,000	$ 239,900,000	$ 502,020,000
Remaining Authorization		$ -	$ -	$ -	N/A	$ 410,100,000	

The Series 2019 GO Bonds, with range in various principal maturities from September 1, 2019 to September 1, 2049, were rated "Aa1" from Moody's, "AA+" from Standard & Poor's, and "AA+" from Fitch.

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

On July 8, 2019, the SARA received two letters from the Internal Revenue Service the ("IRS") notifying SARA that three series of Agency Bonds had been selected for audit: $59,000,000 Merged Area Redevelopment Project Revenue Bonds consisting of the $29,500,000 1996 Series A and the $29,500,000 1996 Series B ("Series 1996 Bonds") and the $240,000,000 Merged Area Redevelopment Project Tax Allocation Bonds, Series 1999 ("Series 1999 Bonds"). The Agency Bonds under audit were refunded by SARA's taxable 2017 Series A-T Senior Taxable Tax Allocation Refunding Bonds.

The SARA anticipates receiving a letter from the IRS in which the IRS advises that it will close the audit of the 1996 Bonds without change to the status of the 1996 Bonds. However, there is no assurance that the IRS will in fact issue such a letter.

On November 12, 2019, the SARA received a Form 5701-B, Notice of Proposed Issue, and Form 886-A, Explanation of Items, from the IRS asserting a rebate liability with respect to the 1999 Bonds as of December 21, 2017, in the amount of $274,000 (inclusive of interest and penalties through

December 21, 2019). The SARA disagrees with the IRS's assertion and intends to submit a timely response to the Forms 5701-B and 886-A. The SARA has no formal notification or receipt of a "Proposed Adverse Determination" from the IRS that would adversely affect the tax-exempt status of the 1999 Bonds as of the date of this Notice and cannot therefore determine the full scope or exact substance of the same, nor evaluate the probability of success, or appeal or resolution via closing agreement, of the same. The SARA anticipates timely appealing any such Proposed Adverse Determination, if ever issued by the IRS. In the event the IRS were to issue any such Proposed Adverse Determination and, thereafter, prevail in its conclusion that a rebate liability exists with respect to the 1999 Bonds, the SARA does not believe such conclusion will have a material adverse effect on the finances of the SARA.

On July 18, 2019, the SARA transferred the California Theater property (345 South First Street) to the City. The transfer was pursuant to the compensation agreement entered into by and among the SARA, the City and certain taxing entities (local agencies and school districts) as prescribed under the State Health and Safety Code, on April 8, 2019. As of June 30, 2019, the property had a net book value of $50,690,000.

3. Norman Y. Mineta San José International Airport

On January 15, 2019, the City Council adopted Resolution 78954, which authorized the Director of Aviation to negotiate and execute Signatory and Non-Signatory Airline-Airport Lease and Operating Agreements with any current or new passenger or cargo airlines at the Airport. The effective date of the ("Lease Agreements") was July 1, 2019 for a 10-year term with two 5-year options to extend subject to the mutual agreement of the City and the airlines. The new Lease Agreements include provisions to: 1) allocate the cost of the office and administrative space used by the City and the City's contractors at the Airport to all terminal tenants; 2) pre-approves the TAIP for the Phase II of Terminal B, which can include new Federal Inspection Station ("FIS") Facilities when the Airport reaches an annual rate 550,000 international deplaning passengers for 18 consecutive months; 3) increases current spending limits for terminal and airfield projects from $5,000,000 to $10,000,000 without consultation or approval from the Signatory Airlines to fund a capital project; 4) requires Non-Signatory Airlines to pay a 25 percent premium over the rates and charges applicable to Signatory Airlines as well as provide a security deposit; 5) establishes revenue sharing in any year when there is remaining revenue generated at the Airport for Signatory Airlines as follows: a) the Airport will receive the first $4,000,000 until the Phase II of Terminal B terminal project is completed and occupied and $2,000,000 thereafter, and b) the rest of the net remaining revenue will be split 60%/40% (Signatory Airlines/Airport) throughout the term.

Beginning in January 2020, Southwest Airlines will add two new destinations to Hawaii: non-stop three days a week service to Kona and non-stop four days a week to Lihue. In May 2020, Air Canada will begin daily round trip service to Toronto, Canada. This will mark the Airport's 10^{th} international non-stop destination.

In September 2019, the Airport entered into an agreement with the TSA to provide $2,500,000 in federal funding for new security technologies on portions of the Airport perimeter. The TSA will fully reimburse the Airport for expenses incurred for this project, up to the maximum obligation.

On September 27, 2019, Fitch Ratings upgraded the ratings for the City's Airport revenue bonds to "A" with a stable rating outlook. Fitch Ratings also upgraded the underlying rating on the bank note associated with the Airport's Subordinated CP Notes (AMT) to "A-" with a stable rating outlook.

Effective October 1, 2019, the City obtained a new primary airport automobile liability policy with a $1,000,000 per occurrence limit and $250,000 deductible per accident. The airport liability policy effective as of October 1, 2019 reduced the excess automobile liability coverage under the prior policy from $50,000,000 to $5,000,000 beyond the underlying $1,000,000 limit.

4. Clean Energy Revolving Credit Agreement

On August 27, 2019, the City transferred $10,000,000 to the Operating Reserve satisfying the first of three deposits into the operating reserves per the Revolving Credit Agreement.

5. San José /Santa Clara Regional Wastewater Treatment Facility

On August 28, 2019, the California Regional Water Quality Control Board (the "Regional Board") issued Order No. R2-2019-0026 (the "Order") requiring the City, as joint owner and administering agency of the San José/Santa Clara Regional Wastewater Facility (the "RWF"), to submit a plan to clean and close the legacy biosolids ponds (the "legacy lagoons") after conducting an analysis that evaluates the various options to address the Order's site cleanup requirements. The deadline to submit this plan is subject to the Regional Board's approval of the analysis, but it is anticipated to be due in January 2020. The 25 legacy lagoons, comprised of 211 acres, received biosolids material from the RWF through 1974 prior to wastewater pretreatment requirements under the federal Clean Water Act. The legacy lagoons have been tested periodically since 1974 and sample results indicate the biosolids material is below federal hazardous waste standards, and above California requirements for certain metals and organics. The Order would require that the biosolids material be removed and closed from a certain portion of the legacy lagoons (Lagoons 16-19) by January 1, 2021, and from the remaining legacy lagoons by November 1, 2023. The City has retained environmental and engineering consultants to identify and evaluate the site cleanup and closure options. If the Regional Board approves a consolidation and closure plan to consolidate and cap on-site, and does not require additional wetland mitigation off-site, the City estimates the total cost to comply with the site cleanup requirements to be approximately $15 million. The City is unable at this time to estimate the additional cost if wetland mitigation off-site is required by the Regional Board.

6. Insurance Coverage

This provides the update to Note III.F.13 to City's insurance coverage as of October 1, 2019.

<u>San José Mineta International Airport</u>

Effective October 1, 2019, the City obtained a new primary airport automobile liability policy with a $1,000,000 per accident limit and $250,000 retention per accident.

The airport liability policy reduced the liability limits available for losses excess of the primary automobile policy from $50,000,000 to $5,000,000 effective October 1, 2019.

<u>Citywide Property Policy</u>

Effective October 1, 2019, the City obtained a new all-risk property policy. The new policy reduced per occurrence policy limits from $1,500,000,000 to $1,000,000,000 and reduced limits applicable to the loss peril of flood for locations in high and moderate hazard flood zones (such as Mineta San José International Airport, the SAP Center, and the San José McEnery Convention Center) from $25,000,000 to $10,000,000 per occurrence. To mitigate the impact of reduction in flood coverage, the City obtained an excess policy for locations in high and moderate hazard flood zones. The excess policy provides $15,000,000 in limits excess of the primary property policy on a 50/50 quota share basis, where the City and excess insurer share the financing of losses on a 50/50 basis.

San José-Santa Clara Regional Wastewater Facility

Effective October 1, 2019, the City obtained a new automobile liability policy with a $1,000,000 per accident limit and $250,000 retention per accident. The new policy replaced a zero deductible automobile liability policy.

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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	$ 325,250	317,750	26,708	344,458	-	344,458	
Utility	118,400	122,400	(1,554)	120,846	-	120,846	
Franchise	47,475	50,475	(2,078)	48,397	-	48,397	
Business Tax	73,874	73,863	3,148	77,011	-	77,011	
Other	20,700	19,700	835	20,535	-	20,535	
Sales taxes	263,500	233,500	30,030	263,530		263,530	
State of California in-lieu	500	500	5	505	-	505	
Licenses, permits and fines	76,403	71,414	9,311	80,725	-	80,725	
Intergovernmental	13,953	7,044	1,305	8,349	-	8,349	
Charges for current services	53,154	53,522	2,124	55,646	-	55,646	
Other revenues	42,982	40,403	485	40,888	-	40,888	
Investment income	5,654	5,654	1,311	6,965	338	7,303	(1)
Total revenues	1,041,845	996,225	71,630	1,067,855	338	1,068,193	
EXPENDITURES							
Current:							
General government	177,125	166,417	(19,327)	147,090	(9,358)	137,732	(2)
Public safety	706,855	640,441	(14,612)	625,829	(3,579)	622,250	(2)
Community services	134,287	124,252	(3,482)	120,770	(5,329)	115,441	(2)
Sanitation	5,598	5,344	(431)	4,913	(69)	4,844	(2)
Capital maintenance	145,036	133,934	(16,775)	117,159	(27,401)	89,758	(2)
Capital outlay	-	-	12,464	12,464	-	12,464	
Debt service:							
Principal	152,307	2,307	(859)	1,448	(28)	1,420	
Interest	2,896	995	(157)	838	-	838	
Total expenditures	1,324,104	1,073,690	(43,179)	1,030,511	(45,764)	984,747	
Excess (deficiency) of revenues over expenditures	(282,259)	(77,465)	114,809	37,344	46,102	83,446	
OTHER FINANCING SOURCES (USES)							
Proceeds for sale of capital assets	81,758	1,004	131,699	132,703	-	132,703	
Transfers in	9,670	9,578	9,173	18,751	-	18,751	
Transfers out	(47,831)	(49,242)	2,819	(46,423)	-	(46,423)	
Escrow payment to the County of Santa Clara	-	-	(67,000)	(67,000)	-	(67,000)	
Total other financing sources (uses)	43,597	(38,660)	76,691	38,031	-	38,031	
Net change in fund balance	(238,662)	(116,125)	191,500	75,375	46,102	121,477	
					-		
Fund balance - beginning	242,801	242,801	8,541	251,342	41,680	293,022	
Add beginning encumbrance balance	-	-	-	38,401	(38,401)	-	
Fund balance - ending	$ 4,139	126,676	200,041	365,118	49,381	414,499	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.

(2) Encumbrances of funds for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

City of San José
Housing Activities Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2019
($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	$ 6,953	6,953	8,152	15,105	-	15,105	
Investment income	970	970	1,850	2,820	493	3,313	(1)
Other revenues	15,540	16,054	1,558	17,612	(327)	17,285	(2)
Total revenues	23,463	23,977	11,560	35,537	166	35,703	
EXPENDITURES							
Current:							
Community services	50,286	71,334	(28,572)	42,762	(22,136)	20,626	(2)
Total expenditures	50,286	71,334	(28,572)	42,762	(22,136)	20,626	
Excess (deficiency) of revenues over expenditures	(26,823)	(47,357)	40,132	(7,225)	22,302	15,077	
OTHER FINANCING SOURCES (USES)							
Transfers out	69	(69)	-	(69)	-	(69)	
Total other financing sources (uses)	69	(69)		(69)		(69)	
Net change in fund balance	(26,754)	(47,426)	40,132	(7,294)	22,302	15,008	
Fund balance - beginning	75,539	75,539	-	75,539	57,643	133,182	
Add beginning encumbrance balance			-	4,890	(4,890)	-	
Fund balance - ending	$ 48,785	28,113	40,132	73,135	75,055	148,190	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.

(2) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

City of San José
Low and Moderate Income Housing Asset Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2019
($000's)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Investment income	$ 1,300	1,300	18,782	20,082	963	21,045	(1)
Other revenues	41,500	33,500	(13,018)	20,482	(12,229)	8,253	(2)
Total revenues	42,800	34,800	5,763	40,564	(11,266)	29,298	
EXPENDITURES							
Current:							
Community services	29,316	42,672	(25,248)	17,424	(6,949)	10,475	(2)
Total expenditures	29,316	42,672	(25,248)	17,424	(6,949)	10,475	
Excess (deficiency) of revenues over expenditures	13,484	(7,872)	31,011	23,140	(4,317)	18,823	
OTHER FINANCING SOURCES (USES)							
Transfers out	(479)	(479)	-	(479)	-	(479)	
Total other financing sources (uses)	(479)	(479)	-	(479)	-	(479)	
Net change in fund balance	13,005	(8,351)	31,011	22,661	(4,317)	18,344	
Fund balance - beginning	116,324	116,324	-	116,324	262,980	379,304	
Add beginning encumbrance balance			-	5,337	(5,337)	-	
Fund balance - ending	$ 129,329	107,973	31,011	144,322	253,326	397,648	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.

(2) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

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Schedule of Employer Contributions – Defined Benefit Pension Plans

PFDRP Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 176,618	$ 157,712	$ 136,957	$ 132,480	$ 129,279
Contributions in relation to the actuarially determined contribution	176,618	157,712	136,957	132,480	129,279
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 218,618	$ 203,164	$ 188,177	$ 186,874	$ 180,226
Contributions as a percentage of covered payroll	80.79%	77.63%	72.78%	70.89%	71.73%

Fiscal year	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Valuation date	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Amortization method	Actuarial gains and losses and plan changes are amortized over closed 15-year periods. Method and assumption changes are amortized over 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 15-year periods. Method and assumption changes are amortized over 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over 20-year periods. All amortizations are a level percent of payroll.		
Discount rate	6.875%	6.875%	7.00%	7.00%	7.125%
Salary increases	3.25% per annum (0.50% real wage growth) plus merit component based on length of service ranging from 6.00% for new hires to 0.50% for members with 10 or more years of service.	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service.	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service.	3.25% plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service.	2.00% for FY 2015, and 3.5% thereafter plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service.
Amortization growth rate	3.25%	3.25%	3.25%	3.25%	3.50%
COLA	3.0% for Tier 1, 2% for Tier 2	3.0% for Tier 1, 1.5% for Tier 2	3.0% for Tier 1, 1.5% for Tier 2	3.0% for Tier 1, 1.5% for Tier 2	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2
Mortality	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903 and 1.048 for females, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis.	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis. Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903 and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis.	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis. Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903 and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis.	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years.	

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

Schedule of Employer Contributions – Defined Benefit Pension Plans (Continued)

PFDRP Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2014	2013	2012	2011	2010
Actuarially determined contribution	$ 123,583	$ 105,234	$ 121,008	$ 77,918	$ 52,315
Contributions in relation to the actuarially determined contribution	123,583	105,234	121,008	77,918	52,315
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 180,083	$ 180,333	$ 184,750	$ 222,464	$ 239,570
Contributions as a percentage of covered payroll	68.63%	58.36%	65.50%	35.02%	21.84%

Fiscal year	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**	**June 30, 2011**	**June 30, 2010-2009**
Valuation date	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**	**June 30, 2009**	**June 30, 2007****
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Amortization method	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over 20-year periods. All amortizations are a level percent of payroll.		Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over 16-year periods. All amortizations are a level percent of payroll.		Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over 20-year periods. All amortizations are a level percent of payroll.
Discount rate	7.25%	7.50%	7.75%	8.00%	8.00%
Salary increases	0.00% for FY 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	4.25% plus merit component based on length of service ranging from 5.50% for new hires to 1.75% for members with 8 or more years of service.	4.25% plus merit component based on length of service ranging from 5.50% for new hires to 1.75% for members with 8 or more years of service.	4.0% plus merit component based on length of service ranging from 4.0% for new hires to 1.0% for members with 8 or more years of service.
Amortization growth rate	3.50%	4.25%	4.25%	4.25%	4.00%
COLA	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3.0% for Police Tier 1 & Fire	3.0% for Police Tier 1 & Fire	3.0% for Police and Fire
Mortality	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years.		RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years.	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years and female rates are set forward one year.	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years and female rates are set forward one year.

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

Schedule of Employer Contributions – Defined Benefit Pension Plans

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 173,006	$ 156,770	$ 138,483	$ 129,456	$ 114,751
Contributions in relation to the actuarially determined contributions	173,006	156,770	138,483	124,723	114,751
Contribution deficiency (excess)	$ -	$ -	$ -	$ 4,733	$ -
Covered payroll	$ 298,824	$ 290,504	$ 271,153	$ 257,771	$ 240,678
Contributions as a percentage of covered payroll	57.90%	53.96%	51.07%	48.39%	47.68%

Fiscal year	2019	2018	2017	2016	2015
Valuation date	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	6.875%	6.875%	7.00%	7.00%	7.00%
Salary increases	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service
Amortization growth rate	3.00%	2.85%	2.85%	2.85%	2.85%
COLA	Tier 1: 3% Tier 2: 1.25% to 2.00% depending on years of service	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2016 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years

*** Actuarial valuations were performed biennially through June 30, 2007. Effective June 30, 2009, the System transitioned to annual actuarial valuations.*

Schedule of Employer Contributions – Defined Benefit Pension Plans (Continued)

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2014	2013	2012	2011	2010
Actuarially determined contribution	$ 102,811	$ 103,109	$ 87,082	$ 59,180	$ 54,566
Contributions in relation to the actuarially determined contributions	107,544	103,109	87,082	59,180	54,566
Contribution deficiency (excess)	$ (4,733)	$ -	$ -	$ -	$ -
Covered payroll	$ 219,434	$ 217,375	$ 223,158	$ 275,869	$ 308,684
Contributions as a percentage of covered payroll	49.01%	47.43%	39.02%	21.45%	17.68%

Fiscal year	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**	**June 30, 2011**	**June 30, 2010/2009**
Valuation date	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**	**June 30, 2009**	**June 30, 2007****
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	7.25%	7.00%	7.50%	7.95%	7.75%
Salary increases	2.00% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is 3.67% wage inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service raging from 5.50% to 0.75% at the 5th year of service
Amortization growth rate	2.43%	3.00%	3.25%	3.90%	3.83%
COLA	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 group annuity mortality table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.

*** Actuarial valuations were performed biennially through June 30, 2007. Effective June 30, 2009, the System transitioned to annual actuarial valuations.*

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios for the Measurement Periods Ended June 30 – Defined Benefit Pension Plans

(Dollar amounts in thousands):			PFDRP		
Total pension liability	**2019**	**2018**	**2017**	**2016**	**2015**
Service cost (middle of year)	$ 81,883	$ 75,481	$ 72,760	$ 74,531	$ 74,895
Interest (includes interest on service cost)	313,565	300,378	290,961	274,488	262,737
Changes of benefit terms	-	178	5,752	-	-
Differences between expected and actual experience	(17,011)	33,082	67,557	(8,673)	21,457
Changes of assumptions	76,425	(100,328)	72,680	90,179	56,311
Benefit payments, including refunds of member contributions	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)
Net change in total pension liability	236,854	102,161	313,678	243,586	239,147
Total pension liability - beginning	4,635,937	4,533,776	4,220,098	3,976,512	3,737,365
Total pension liability - ending	$ 4,872,791	$ 4,635,937	$ 4,533,776	$ 4,220,098	$ 3,976,512
Plan fiduciary net position					
Contibutions - employer	$ 176,618	$ 157,712	$ 136,957	$ 132,480	$ 129,279
Contibutions - member	24,811	23,841	20,580	21,508	20,747
Net investment income	114,179	233,475	292,733	(29,207)	(27,690)
Benefit payments, including refunds of member contributions	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)
Administrative expense	(5,369)	(5,464)	(4,632)	(4,256)	(4,191)
Net change in plan fiduciary net position	92,231	202,934	249,606	(66,414)	(58,108)
Plan fiduciary net position - beginning	3,496,191	3,293,257	3,043,651	3,110,065	3,168,173
Plan fiduciary net position - ending	$ 3,588,422	$ 3,496,191	$ 3,293,257	$ 3,043,651	$ 3,110,065
Net pension liability - ending	$ 1,284,369	$ 1,139,746	$ 1,240,519	$ 1,176,447	$ 866,447
Plan fiduciary net position as a percentage of the total pension liability	73.64%	75.41%	72.64%	72.12%	78.21%
Covered payroll	$ 218,619	$ 203,164	$ 188,177	$ 186,874	$ 180,226
Net pension liability as a percentage of covered payroll	587.49%	561.00%	659.23%	629.54%	480.76%

(Dollar amounts in thousands):			FCERS		
Total pension liability	**2019**	**2018**	**2017**	**2016**	**2015**
Service cost (middle of year)	$ 61,808	$ 59,628	$ 51,887	$ 49,011	$ 46,795
Interest (includes interest on service cost)	272,787	265,199	249,387	229,610	221,690
Changes of benefit terms	-	1,781	12,132	-	-
Differences between expected and actual experience	(11,662)	16,512	40,853	39,720	13,005
Changes of assumptions	54,398	(15,582)	60,233	205,875	108,674
Benefit payments, including refunds of member contributions	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)
Net change in total pension liability	172,265	134,138	231,062	350,898	225,602
Total pension liability - beginning	4,057,348	3,923,210	3,692,148	3,341,250	3,115,648
Total pension liability - ending	$ 4,229,613	$ 4,057,348	$ 3,923,210	$ 3,692,148	$ 3,341,250
Plan fiduciary net position					
Contibutions - employer	$ 173,006	$ 156,770	$ 138,483	$ 124,723	$ 114,751
Contibutions - employee	22,606	20,501	17,227	15,920	13,621
Net investment income	76,855	117,493	146,010	(35,011)	(16,642)
Benefit payments, including refunds of member contributions	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)
Administrative expense	(4,582)	(4,823)	(4,378)	(3,941)	(3,898)
Net change in plan fiduciary net position	62,819	96,541	113,912	(71,627)	(56,730)
Plan fiduciary net position - beginning	2,069,333	1,972,792	1,858,880	1,930,507	1,987,237
Plan fiduciary net position - ending	$ 2,132,152	$ 2,069,333	$ 1,972,792	$ 1,858,880	$ 1,930,507
Net pension liability - ending	$ 2,097,461	$ 1,988,015	$ 1,950,418	$ 1,833,268	$ 1,410,743
Plan fiduciary net position as a percentage of the total pension liability	50.41%	51.00%	50.29%	50.35%	57.78%
Covered payroll	$ 298,824	$ 290,504	$ 271,153	$ 257,771	$ 240,678
Net pension liability as a percentage of covered payroll	701.91%	684.33%	719.31%	711.20%	586.15%

Schedule of Investment Returns – Defined Benefit Pension Plans

	PFDRP					
	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	4.00%	6.89%	9.68%	(0.85%)	(0.85%)	13.00%

	FCERS					
	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	4.17%	6.03%	7.53%	(0.79)%	(1.07)%	7.49%

The rate shown above is based on the Defined Benefit and 401(h) only and does not include the 115 sub-trusts. Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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

(Dollar amounts in thousands):	2019	2018	2017	2016	2015
Measurement date:	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.03540%	0.03597%	0.03634%	0.03783%	0.01697%
Proportionate share of the net pension liability	$ 1,334	$ 1,419	$ 1,262	$ 1,038	$ 1,056
Covered payroll	$ 822	$ 776	$ 756	$ 589	$ 692
Proportionate share of the net pension liability as percentage of covered payroll	162.29%	182.86%	166.93%	176.23%	152.60%
Plan's fiduciary net position as a percentage of the total pension liability	87.58%	84.84%	74.39%	77.96%	76.28%

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015. Additional years will be displayed as they become available.

Schedule of Employer Contributions – CalPERS

(Dollar amounts in thousands)	2019	2018	2017	2016	2015
Contractually required contribution	$ 188	$ 184	$ 162	$ 148	$ 107
Contributions in relation to the contractually required contributions	188	184	162	156	107
Contribution deficiency (excess)	$ -	$ -	$ -	$ (8)	$ -
Covered payroll	$ 767	$ 822	$ 776	$ 756	$ 589
Contributions as a percentage of covered payroll	24.51%	22.38%	20.88%	20.63%	17.06%

Notes to Schedule:

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Actuarial Cost Method	Entry Age Normal Cost Method				
Amortization Method	Level Percentage of Payroll				
Asset Valuation Method	Market Value				15 Year Smoothed Market
Actuarial Assumptions:					
Discount Rate	7.375% (net of administrative expenses)	7.5% (net of administrative expenses)			
Termination Liability Discount Rate	1.75%	2.75%	2.91%	3.72%	2.98%
Salary Growth	3.20% to 12.20%			3.30% to 14.20%	
	Depending on Age, Service and Type of Employment				
Inflation	2.75%				
Payroll Growth	3.00%				

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015.
Additional years will be displayed as they occur.

Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios for the Measurement Periods Ended June 30 – Postemployment Healthcare Plans

(Dollar amounts in thousands):	PFDRP		
Total OPEB liability	2019	2018	2017
Service cost (middle of year)	$ 15,003	$ 13,001	$ 16,112
Interest (includes interest on service cost)	48,208	45,314	46,774
Changes of benefit terms	-	(69,434)	-
Differences between expected and actual experience	(3,401)	14,877	-
Change of assumptions	38,843	21,243	-
Benefit payments, including refunds of member contributions	(26,403)	(27,686)	(24,799)
Net change in total OPEB liability	72,250	(2,685)	38,087
Total OPEB liability - beginning	711,832	714,517	676,430
Total OPEB liability - ending	$ 784,082	$ 711,832	$ 714,517
Plan fiduciary net position			
Contibutions - employer	$ 28,744	$ 25,382	$ 20,667
Contibutions - employees	13,315	16,127	18,116
Net investment income	7,906	7,070	12,453
Benefit payments, including refunds of member contributions	(26,403)	(27,686)	(24,799)
Administrative expense	(126)	(158)	(182)
VEBA transfer	-	(7,897)	-
Net change in plan fiduciary net position	23,437	12,838	26,255
Plan fiduciary net position - beginning	162,520	149,682	123,427
Plan fiduciary net position - ending	$ 185,957	$ 162,520	$ 149,682
Net OPEB liability - ending	$ 598,125	$ 549,312	$ 564,835
Plan fiduciary net position as a percentage of the total OPEB liability	23.72%	22.83%	20.95%
Covered payroll	$ 218,619	$ 203,164	$ 188,177
Net OPEB liability as a percentage of covered payroll	273.59%	270.38%	300.16%

(Dollar amounts in thousands):	FCERS		
Total OPEB liability	2019	2018	2017
Service cost (BOY)	$ 7,723	$ 7,889	$ 11,109
Interest (includes interest on service cost)	43,182	42,669	49,978
Changes of benefit terms	-	(57,623)	-
Differences between expected and actual experience	(10,418)	(995)	-
Changes of assumptions	9,310	(77,795)	-
Benefit payments, including refunds of member contributions	(28,826)	(29,724)	(31,007)
Net change in total OPEB liability	20,971	(115,579)	30,080
Total OPEB liability - beginning	651,222	766,801	736,721
Total OPEB liability - ending	$ 672,193	$ 651,222	$ 766,801
Plan fiduciary net position			
Contibutions - employer	$ 26,410	$ 32,397	$ 31,905
Contibutions - employee	10,578	15,545	16,827
Net investment income	9,472	12,336	17,041
Benefit payments, including refunds of member contributions	(28,826)	(29,724)	(31,007)
Administrative expense	(384)	(170)	(242)
VEBA transfer	(19)	(13,497)	-
Net change in plan fiduciary net position	17,231	16,887	34,524
Plan fiduciary net position - beginning	277,257	260,370	225,846
Plan fiduciary net position - ending	$ 294,488	$ 277,257	$ 260,370
Net OPEB liability - ending	$ 377,705	$ 373,965	$ 506,431
Plan fiduciary net position as a percentage of the total OPEB liability	43.81%	42.57%	33.96%
Covered payroll	$ 298,824	$ 290,504	$ 271,153
Net OPEB liability as a percentage of covered payroll	126.40%	128.73%	186.77%

Changes in assumptions. The discount rate was changed from 7.00% (net of administrative expense) to 6.875% for the measurement period ended June 30, 2018. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per person cost trends were moved forward one year.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information become available.

Schedule of Employer Contributions – Postemployment Healthcare Plans

PFDRP Schedule of Employer Contributions
(Dollar Amounts in Thousands)
Last Ten Fiscal Years*

Fiscal Year Ended June 30	2019	2018	2017
Actuarially Determined Contribution (ADC)	$ 28,744	$ 25,382	$ 20,667
Contribution in relation to the ADC	(28,744)	(25,382)	(20,667)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 218,619	$ 203,164	$ 188,177
Contribution as a percentage of covered payroll	13%	12%	11%

**Actuarial methods and assumption used to set the actuarially determined contributions for fiscal year 2019 were from the June 30, 2017 actuarial valuation.*

Methods and assumptions used to determine contributions:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Actuarial Cost Method	Individual entry age
Asset Valuation Method	Market value of assets
Amortization Method	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Discount rate	6.875%
Amortization growth rate	3.25%
Ultimate rate of medical inflation	4.250%
Salary increases	3.25% plus merit component based on years of service
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ending June 30, 2019 can be found in the June 30, 2017 actuarial valuation report.

Schedule of Employer Contributions – Postemployment Healthcare Plans (Continued)

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)
Last Ten Fiscal Years**

Fiscal Year Ended June 30	2019	2018	2017
Actuarially Determined Contribution (ADC)	$ 26,410	$ 32,397	$ 31,905
Contribution in relation to the ADC	(26,410)	(32,397)	(31,905)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 298,824	$ 290,504	$ 271,153
Contribution as a percentage of covered payroll	9%	11%	12%

*** Actuarial methods and assumption used to set the actuarially determined contributions for fiscal year 2019 were from the June 30, 2017 actuarial valuation*

Methods and assumption used to determine contributions:

Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Actuarial Cost Method	Individual entry age
Amortization Method/Period	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Asset Valuation Method	Market value of assets
Amortization growth rate	0.00%
Discount rate	6.875%
Ultimate rate of medical inflation	4.250%
Salary increases	3.25% based on years of service
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ending June 30, 2019 can be found in the June 30, 2017 actuarial valuation report.

Schedule of Investment Returns – Postemployment Healthcare Plans

	PFDRP		
	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	4.86%	3.56%	7.17%

	FCERS		
	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	4.33%	4.55%	7.20%

The rate shown above is based on the 115 sub-trusts only and does not include the 401(h). Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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, non-personal) 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 schedules, 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 nonmajor special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion, which was sold on February 6, 2019. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial schedules.

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

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

III. Budget Revisions

On October 1 2019, the City Council approved certain fiscal year 2019 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.

Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

City Council
City of San José, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 14, 2019, except for our report on the schedule of expenditures of federal awards, schedule of passenger facility charge revenues and expenditures, and schedule of customer facility charge revenues and expenditures as to which the date is February 7, 2020.

Our report includes a reference to other auditors who audited the financial statements of the City of San José Federated City Employees' Retirement System and the City of San José Police and Fire Department Retirement Plan (collectively, "the Pension Trust Funds"), 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

City Council
City of San José, California

Report on Compliance for Each Major Federal Program

We have audited the City of San José's, California (City), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Macias Gini & O'Connell LLP
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Walnut Creek, CA 94596

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 7, 2020

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Agriculture				
Pass-through California Department of Education Nutrition Services Division:				
Summer Food Service Program for Children	10.559	05394-SFSP-43	$ 47,684	$ -
Total U.S. Department of Agriculture			47,684	-
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grants/Entitlement Grants	14.218	B14 MC-06-0021	456,471	-
Community Development Block Grants/Entitlement Grants	14.218	B15 MC-06-0021	1,296,748	300,000
Community Development Block Grants/Entitlement Grants	14.218	B16 MC-06-0021	567,008	125,663
Community Development Block Grants/Entitlement Grants	14.218	B17 MC-06-0021	482,316	14,864
Community Development Block Grants/Entitlement Grants	14.218	B18 MC-06-0021	4,851,950	3,728,067
Subtotal Community Development Block Grants/Entitlement Grants			7,654,493	4,168,594
Emergency Solutions Grant Program	14.231	E17-MC-06-0021	65,730	57,984
Emergency Solutions Grant Program	14.231	E18-MC-06-0021	602,643	598,050
Subtotal Emergency Solutions Grant Program			668,373	656,034
Home Investment Partnerships Program	14.239	M15 MC060215	969,274	500,824
Home Investment Partnerships Program	14.239	M16 MC060215	2,317,447	-
Home Investment Partnerships Program	14.239	M17 MC060215	1,352,362	-
Home Investment Partnerships Program	14.239	M18 MC060215	3,828,765	-
Subtotal Home Investment Partnerships Program			8,467,848	500,824
Housing Opportunities for Persons with AIDS	14.241	CAH16-F004	635,398	635,398
Housing Opportunities for Persons with AIDS	14.241	CAH17-F004	77,866	77,866
Housing Opportunities for Persons with AIDS	14.241	CAH18-F004	306,265	277,073
Housing Opportunities for Persons with AIDS	14.241	CAH16-0004	457,345	452,059
Housing Opportunities for Persons with AIDS	14.241	CAH15-0001	233,319	222,861
Subtotal Housing Opportunities for Persons with AIDS			1,710,193	1,665,257
Total U.S. Department of Housing and Urban Development			18,500,907	6,990,709
U.S. Department of Justice				
Direct programs:				
Missing Children's Assistance	16.543	2017-MC-FX-K020	393,806	-
Missing Children's Assistance	16.543	2016-MC-FX-K048	81,243	-
Missing Children's Assistance	16.543	2018-MC-FX-K003	19,874	-
Subtotal Missing Children's Assistance			494,923	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2018-WE-AX-0029	20,502	-
Bulletproof Vest Partnership Program	16.607	2018 BVP	115,225	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0211	20,160	-
Equitable Sharing Program	16.922	CA0431300	2,631,127	-
Total U.S. Department of Justice			3,281,937	-

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

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Labor				
Pass-through State of California, Employment Development Department:				
Workforce Innovation and Opportunity Act (WIOA) Cluster:				
WIOA Adult Program	17.258	K8106684202	593,872	403,572
WIOA Adult Program	17.258	K8106684500	343,716	5,000
WIOA Adult Program	17.258	K9110058201	311,586	-
WIOA Adult Program	17.258	K9110058202	1,128,060	661,391
WIOA Adult Program	17.258	K71020721087	113,975	-
WIOA Adult Program	17.258	K71020721090	3,564	-
Subtotal - WIOA Adult Program			2,494,773	1,069,963
WIOA Youth Activities	17.259	K8106684301	974,305	713,684
WIOA Youth Activities	17.259	K9110058301	1,197,169	662,011
WIOA Youth Activities	17.259	K9110058302	632	-
Subtotal - WIOA Youth Activities			2,172,106	1,375,695
WIOA Dislocated Worker Formula Grants	17.278	K8106684541	20,368	-
WIOA Dislocated Worker Formula Grants	17.278	K8106684293	15,311	-
WIOA Dislocated Worker Formula Grants	17.278	K9110058292	19,097	-
WIOA Dislocated Worker Formula Grants	17.278	K9110058540	67,709	-
WIOA Dislocated Worker Formula Grants	17.278	K9110058293	75,129	-
WIOA Dislocated Worker Formula Grants	17.278	K9110058541	336,404	75,000
WIOA Dislocated Worker Formula Grants	17.278	K8106684501	29,728	-
WIOA Dislocated Worker Formula Grants	17.278	K8106684502	1,399,118	464,543
WIOA Dislocated Worker Formula Grants	17.278	K9110058501	146,109	-
WIOA Dislocated Worker Formula Grants	17.278	K9110058502	182,387	-
Subtotal WIOA Dislocated Worker Formula Grants			2,291,360	539,543
Subtotal WIOA Cluster			6,958,239	2,985,201
WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277	K8106681091	142,389	96,764
WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277	K91100581091	233,334	167,963
Subtotal - WIOA National Dislocated Worker Grants / WIA National Emergency Grants			375,723	264,727
Total U.S. Department of Labor			7,333,962	3,249,928

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation				
Direct programs:				
Airport Improvement Program	20.106	3-06-0226-085-2015	134,361	-
Airport Improvement Program	20.106	3-06-0226-086-2015	233,673	-
Airport Improvement Program (Note 4)	20.106	3-06-0226-087-2015	(240,887)	-
Airport Improvement Program	20.106	3-06-0226-091-2017	172,385	-
Airport Improvement Program	20.106	3-06-0226-094-2017	4,299,784	-
Airport Improvement Program	20.106	3-06-0226-095-2017	1,611,935	-
Airport Improvement Program	20.106	3-06-0226-096-2018	8,513,816	-
Airport Improvement Program	20.106	3-06-0226-097-2018	3,740,596	-
Subtotal Airport Improvement Program			18,465,663	-
Highway Planning and Construction Cluster:				
Pass-through California Department of Transportation:				
Highway Planning and Construction	20.205	HPLUL-5005 (085)	147,943	-
Highway Planning and Construction	20.205	BRLS-5005 (089)	132,625	-
Highway Planning and Construction	20.205	HSIPL-5005(123)	147	-
Highway Planning and Construction	20.205	HSIPL-5005(121)	328,515	-
Highway Planning and Construction	20.205	TCSPL - 5005(122)	50,833	-
Highway Planning and Construction	20.205	HSIPL-5005(149)	104,290	-
Highway Planning and Construction	20.205	HSIPL-5005(150)	168,507	-
Highway Planning and Construction	20.205	5005(147)	17,227	-
Highway Planning and Construction	20.205	5005(148)	89,979	-
Subtotal Highway Planning and Construction			1,040,066	-
Recreational Trails Program				
Coyote Creek	20.219	HPLUL-5005(087)	30,892	-
Subtotal Recreational Trails Program			30,892	-
Subtotal pass-through California Department of Transportation			1,070,958	-
Pass-through Metropolitan Transportation Commission:				
Highway Planning and Construction	20.205	RPSTPLE-5005(132)	6,178	-
Highway Planning and Construction	20.205	CML-5005(139)	349,196	-
Highway Planning and Construction	20.205	CML-5005(129)	22,497	-
Highway Planning and Construction	20.205	CML-5005(142)	176,889	-
Highway Planning and Construction	20.205	CML-5005(125)	35,549	-
Highway Planning and Construction	20.205	CML-5005(127)	341,793	-
Highway Planning and Construction	20.205	CML-5005(133)	10,510	-
Highway Planning and Construction	20.205	CML-5005(131)	24,840	-
Highway Planning and Construction	20.205	CML-5005(128)	277,954	-
Highway Planning and Construction	20.205	CMLNI-5005(141)	273,820	-
Highway Planning and Construction	20.205	CML-6084(227)	47,766	-
Highway Planning and Construction	20.205	STPL-5005(153)	53,131	-
Highway Planning and Construction	20.205	660076	41,548	-
Subtotal pass-through Metropolitan Transportation Commission			1,661,671	-
Subtotal Highway Planning and Construction Cluster			2,732,629	-
Pass-through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PS19028	55,782	-
State and Community Highway Safety	20.600	PT18075	36,777	-
State and Community Highway Safety	20.600	PT19129	40,987	-
Subtotal State and Community Highway Safety			133,546	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18075	84,710	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT19129	68,591	-
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			153,301	-
Subtotal pass-through California Office of Traffic Safety			286,847	-
Total U.S Department of Transportation			21,485,139	-

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

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of the Treasury				
Equitable Sharing	21.016	N/A	817,947	-
Total U.S. Department of the Treasury			817,947	-
U.S. Department of Health and Human Services				
Aging Cluster:				
Pass-through Santa Clara County Social Services:				
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	4300010957	135,016	-
Nutrition Services Incentive Program	93.053	4300010957	42,851	-
Subtotal Aging Cluster			177,867	-
Total U.S. Department of Health and Human Services			177,867	-
U.S. Department of Homeland Security				
Direct programs:				
Assistance to Firefighters Grant	97.044	EMW-2017-FP-00756	49,129	-
Pass-through California Office of Emergency Services:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4301-DR	241,864	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4308-DR	1,953,681	-
Subtotal pass-through California Office of Emergency Services:			2,195,545	-
Pass-through Santa Clara County:				
Emergency Management Performance Grants	97.042	2018-0008	82,891	-
Subtotal pass-through Santa Clara County			82,891	-
Pass-through the Bay Area UASI:				
Homeland Security Grant Program	97.067	2017-0083	269,079	-
Homeland Security Grant Program	97.067	2018-0054	242,069	-
Homeland Security Grant Program	97.067	2017-0083	130,825	-
Homeland Security Grant Program	97.067	2016-0102	19,794	-
Homeland Security Grant Program	97.067	2015-00078	23,125	-
Homeland Security Grant Program	97.067	2015-00078	21,702	-
Homeland Security Grant Program	97.067	2016-0102	31,973	-
Homeland Security Grant Program	97.067	2016-0102	2,713	-
Homeland Security Grant Program	97.067	UASI 17	69,589	-
Homeland Security Grant Program	97.067	NCRIC 17	128,209	-
Homeland Security Grant Program	97.067	UASI 18	84,755	-
Homeland Security Grant Program	97.067	NCRIC 18	125,370	-
Subtotal pass-through the Bay Area UASI			1,149,203	-
Total U.S. Department of Homeland Security			3,476,768	-
Total Expenditures of Federal Awards			$ 55,122,211	$ 10,240,637

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

City of San José, California
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of the federal award programs of the City of San José, California (the City). The City's reporting entity is defined in Note I to its basic financial statements. The SEFA includes all federal awards received directly from federal agencies and federal awards passed-through other governmental agencies.

(2) BASIS OF PRESENTATION

The accompanying schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds as described in Note I to the City's basic financial statements. The City did not elect to use the 10% de minimis cost rate as covered in U.S. Code of Federal Regulations, Title 2 section 200.414 Indirect (F&A) costs.

For reimbursable grants, the City recognizes revenues commencing on the date of grant approval (provided all eligibility requirements are met) since this is when the City is eligible to claim expenditures for reimbursements. Pass-through entity identifying numbers are presented where available.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the general, special revenue and capital projects funds and as expenses for non-capital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

(4) NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT (AIRPORT) EXPENDITURES

The Federal Aviation Administration (FAA) reimburses the Airport for approximately 80% of allowable Airport Improvement Program (AIP) grant expenditures. Total allowable AIP expenditures are presented in the accompanying SEFA.

During the year ended June 30, 2019, the Airport discovered an expenditure overage related to the Perimeter Fence Line Upgrade project under AIP Grant number 3-06-0226-087-2015. The excess expenditures in the amount of $240,887 were subsequently transferred out; however, they were reported in the SEFA for the year ended June 30, 2017, and are reported as a negative amount in the SEFA for the year ended June 30, 2019.

(5) DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIAL DECLARED DISASTERS)

The U.S. Department of Homeland Security reimburses the City for 75% of allowable costs funded by Disaster Grants – Public Assistance (Presidential Declared Disasters) (Programs), CFDA No. 97.036. During the fiscal year 2019, the Programs reported $2,195,545 in aggregate, of which $181,780 was incurred in fiscal year 2017 and $655,592 was incurred in fiscal year 2018. These are allowable and consistent with public assistance funding. Federal Emergency Management Agency and California Governor's Office of Emergency Services issue obligation letters, which were received at multiple times during 2019. It provides cost recognition and reimbursements for all response and recovery projects arising out of the 2017 flood/storm events in January and February of the same year.

(6) INTERNET CRIMES AGAINST CHILDREN (ICAC) GRANT

The following schedule represents expenditures and revenues for the Internet Crimes Against Children Task Force Program from the U.S. Department of Justice and the California Governor's Office of Emergency Services (Cal OES) for the year ended June 30, 2019.

Program Title and Expenditure Category	Grant Number Grant Period	Cumulative Expense through June 30, 2018	Actual 7/1/18-6/30/19 Non-match	Actual 7/1/18-6/30/19 Match	Cumulative Expense through June 30, 2019	Cumulative Program Revenue
Internet Crimes Against Children						
Task Force Program (Federal)	2017-MC-FX-K020					
Personnel Services	7/01/2017 - 09/30/2020	$ 63,603	$ 144,453	$ -	$ 208,056	$ 208,056
Operating Expenses		116,027	249,353	-	365,380	365,380
Total		$ 179,630	$ 393,806	$ -	$ 573,436	$ 573,436
Internet Crimes Against Children						
Task Force Program (Federal)	2016-MC-FX-K048					
Personnel Services	10/01/2016-09/30/2019	$ 48,856	$ 75,584	$ -	$ 124,440	$ 124,440
Operating Expenses		3,926	5,659	-	9,585	9,585
Total		$ 52,782	$ 81,243	$ -	$ 134,025	$ 134,025
Internet Crimes Against Children						
Task Force Program (Federal)	2018-MC-FX-K003					
Personnel Services	10/01/2018-09/30/2021	$ -	$ 11,591	$ -	$ 11,591	$ 11,591
Operating Expenses		-	8,283	-	8,283	8,154
Total		$ -	$ 19,874	$ -	$ 19,874	$ 19,745
Internet Crimes Against Children						
Task Force Program (State)	IC-1810-7928					
Personnel Services	07/01/2018-12/31/2020	$ -	$ -	$ -	$ -	$ -
Operating Expenses		-	111,450	-	111,450	111,450
Total		$ -	$ 111,450	$ -	$ 111,450	$ 111,450

City of San José, California
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I Summary of Auditor's Results

Financial Statements

Type of report issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
♦ Material weakness(es) identified?	Yes
♦ Significant deficiency(ies) identified?	Yes
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

Federal Domestic Catalog Number(s)	Name of Federal Program or Cluster
14.241	Housing Opportunities for Persons with AIDS
14.239	Home Investment Partnerships Program
16.922	Equitable Sharing Program
	WIOA Cluster:
17.258	WIA/WIOA Adult Program
17.259	WIA/WIOA Youth Activities
17.278	WIA/WIOA Dislocated Worker Formula Grants
21.016	Equitable Sharing
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs:	$1,653,666
Auditee qualified as a low-risk auditee?	No

Section II Financial Statement Findings

Finding 2019-001 – Material Weakness
Internal Controls Over the Financial Reporting Process

Criteria and Condition
The San José Clean Energy enterprise fund (the Fund) accounts for the City's Community Choice Energy program, which is a new program that began operations during the current fiscal year. This is a locally controlled electricity generation service provider to residents and businesses within the City of San José. This program allows the City to procure electricity for the residents and businesses of the City with more renewable energy options.

As part of our audit procedures, we review a letter from the City Attorney's Office that summarizes potential losses of the City. During our review of this letter, we discovered that a fine was imposed on the City by the State's Public Utility Commission in the amount of $6,791,155. While the City is appealing the fine, the ultimate outcome of the fine is not yet determined. Under generally accepted accounting principles, the City should recognize a liability for losses that it considers probable. While the actual amount of the loss is not yet known, an estimated loss should be recorded in the financial statements to ensure the financial statements properly reflect this contingency. However, the City had not recorded a provision for this potential loss. Subsequently, the City recorded a claims liability in the amount of $6,791,155 to reflect this potential loss as of June 30, 2019. The City took a conservative position and recorded the full amount of the fine imposed, even though the City continues to negotiate a lower amount.

Cause and Effect
As discussed above, the Fund began operations during the current year and, accordingly, is initiating many new processes to manage this activity, which inherently increases the risk of material misstatement. As with any new process, an evaluation of key internal controls should be made to reduce these risks. Based on the omission of a liability that is material to the Fund, we observed a deficiency in internal control that is considered a material weakness.

Recommendation
We recommend that the City establish a process to identify and record contingent liabilities in the Fund, including a process that incorporates a dialogue between management of the Fund and other departments, such as Finance and the City Attorney's Office, to ensure the proper identification and estimation of contingent liabilities.

Management response

See Management's Corrective Action Plan.

Finding 2019-002 – Significant Deficiency
Completeness of the Schedule of Expenditures of Federal Award

Criteria
Title 2 - Grants and Agreements, Subtitle A - Office of Management and Budget Guidance for Grants and Agreements, Chapter II - Office of Management and Budget Guidance, Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards - Subpart F - Audit Requirements - Sec. 200.510 Financial Statements requires that the City prepare a schedule showing total expenditures for the year for each federal program.

Condition
The City's draft schedule of expenditures of federal awards (SEFA) included federal expenditures that fluctuated through the course of the audit for the Federal Emergency Management Agency's Disaster Grants - Public Assistance grants. The changes included the offsetting of expenditures reimbursed by insurance proceeds and adding additional expenditures identified during the closing of the books. The impact of these changes resulted in significant changes in federal expenditures during the audit process. The Disaster Grants – Public Assistance grants are managed by the City's Department of Parks, Recreation and Neighborhood Services.

The identification of major federal programs is largely based upon the federal expenditures incurred during the year and whether those federal expenditures (1) meet certain "Type A or Type B" thresholds and (2) are high risk due to the complexities of the program. Because the federal expenditures were fluctuating during the audit, we were unable to determine the ultimate number of major federal programs required to be tested until the SEFA was completed. The results of the major federal program determination identified an additional program required to be tested as major, which delayed the completion of the Single Audit for the current year.

Cause
The Disaster Grants – Public Assistance grants are complex grants. The City incurred costs during major storms in 2017, which caused flooding, which it later applied for grant funding. Upon approval, the funding sources for disaster recovery included federal, state, and insurance proceeds. These costs must be carefully captured and allocated among the individual funding sources. The Department of Parks, Recreation and Neighborhood Services did not properly capture, allocate, carefully review, and submit the federal expenditures to the City's Finance Department for inclusion in the SEFA.

Effect or Potential Effect
The City's SEFA serves as the basis for reporting federal expenditures to the federal grantor agencies and is used in determining the number of major programs required to be audited in a given fiscal year under the Uniform Guidance. Inaccuracies have the potential of affecting the programs selected for testing as major programs.

Recommendation
The City should continue to improve its process for reviewing federal expenditures reported in the SEFA by requiring management of each department to review and submit a detailed listing of expenditures, including the funding sources or local matching requirements, prior to being submitted to the Finance Department for inclusion in the SEFA. In addition, the Finance Department should analyze and reconcile the detailed listing of expenditures to the SEFA for each significant federal program prior to the City submitting such detailed listing to its external auditors.

City of San José, California
Schedule of Findings and Questioned Costs (Concluded)
Year Ended June 30, 2019

Management response

See Management's Correction Action Plan.

Section III Federal Award Findings and Questioned Costs

None reported.

Management's Corrective Action Plan – Unaudited
Year Ended June 30, 2019

Finding 2019-001 – Material Weakness
Internal Controls Over the Financial Reporting Process

<u>Management Response:</u>

The Community Energy Department along with Management recognize the need to immediately strengthen and build the accounting function for the San Jose Clean Energy Program. Limited resources within the Department and lack of accounting expertise contributed to this error. As an immediate solution to the matter, a temporary senior accountant position will be added to the Community Energy Department. Additionally, the Finance Department will work with Community Energy Department to develop a financing plan for financial accounting and reporting for this enterprise for review and consideration during the FY 2020-21 budget process. The Finance Department will continue to provide oversight and assistance to the Department as new staff is hired and trained. Finally, the Finance Department will work with the City Attorney's Office prior to the end of each fiscal year to review potential losses and ensure they are appropriately accounted for in the City's financial management system prior to the end of each fiscal year.

Target Completion Date: June 30, 2020

Finding 2019-002 – Significant Deficiency
Completeness of the Schedule of Expenditures of Federal Award

<u>Management Response:</u>

This deficiency is not related to a program deficiency nor does it constitute a violation of the federally funded grant covenants. This finding is specifically related to internal control over financial reporting, and not related to federal awards compliance funding.

The FY 2019-20 Adopted Budget includes funding for two additional accountants and ongoing funding for accounting staff training in the Finance Department. The Finance Department recently recruited and hired two new accountants. After the onboarding and training of these new positions, the Finance Department will reallocate resources to have senior accountants and other management accountant positions to work with departments to ensure sufficient training, monitoring and outreach efforts are undertaken. Included in this training and outreach efforts will be focus on ensuring appropriate staffing levels (number and type) are assigned to grant program accounting in the departments.

While the City has improved its process for reviewing expenditures reported in the SEFA, there is room for continued improvement to ensure the accuracy of reporting the expenditures of federal awards, the City will update the federal grant guidance document and continue to work towards implementing the following steps to address this issue:

1. Departments will perform analytical review procedures (i.e. current year vs. prior year expenditure changes) of their grant inventory listings on a quarterly and annual basis for accuracy.

2. Departments will reconcile the federal expenditures reported on the grant inventory listing to amounts recorded in the City's Financial Management System (FMS). The Accounting Division staff will perform a detail review of reconciliation for each significant federal programs prior to their submission to the auditors.

3. The Accounting Division will also provide training to its professional accounting staff in reviewing the grant inventory listing for reasonableness and perform analytical and due diligence procedures.

Target Completion Date: June 30, 2020

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Finding 2018-001 – Significant Deficiency
Risk Assessment of Internal Controls Over the Financial Reporting Process

Between 2006 and 2015, the City reduced its budgeted positions by 25 percent. This reduction and displacement of staff through the Civil Service Rules resulted in a significant disruption in the City's ability to maintain appropriate financial internal controls. Between 2015 and 2017, the City started to address its staffing challenges by filling vacant positions and adding three new personnel in the Finance Department. While the City has been successful in recruiting professionals to fill vacant positions over the past two years, it has been challenged with retaining these professionals. As such, the City has been continuously training and integrating new personnel into the City's complex accounting and financial reporting process. This rebuilding of staff has increased the workload of the remaining seasoned professionals.

The City has started to make investments in improving its financial reporting process over the past years; however, progress has been hampered by turnover of its recent hires. We recommend that the City evaluate the reasons for the increase in turnover and develop a plan to retain its personnel. In addition, the City should continue to incorporate the skills and experience of its new personnel assigned to key roles in the preparation of the annual financial statements to improve the efficiency of its financial reporting process, including cross-training to minimize the impacts of further turnover.

Status
Corrected

Finding 2018-002 – Significant Deficiency
Completeness of the Schedule of Expenditures of Federal Award

During our audit, we noted the City's draft schedule of expenditures of federal awards (SEFA) included the Highway Planning and Construction (HPC) Cluster expenditures that were overstated by $9,439,739 due to management oversight. Management included expenditures other than the federal portion in its grant inventory listing. The Highway Planning and Construction Cluster is managed by the City's Departments of Transportation, Planning, Building and Code Enforcement, and Parks, Recreation and Neighborhood Services.

These errors resulted in additional major programs for the fiscal year 2018 as the type A and type B threshold decreased. The City subsequently corrected the expenditures reported in its fiscal year 2018 SEFA.

The City should continue to improve its process for reviewing expenditures reported in the SEFA by requiring department management to review and submit a detail listing of expenditures prior to being submitted to the Finance Department. In addition, the Finance Department should reconcile the detailed listing of expenditures to the SEFA for each significant federal program prior to the City submitting such detailed listing to its external auditors.

Status
Partially Corrected. While the City has improved its process for reviewing expenditures reported in the SEFA, the auditors identified SEFA related finding in the current year (i.e. Finding 2019-002).

Finding 2018-003 – Significant Deficiency
Informational Technology: City-Wide Information Security Program

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

a) develops, documents, and disseminates to appropriate personnel, policies that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance; and procedures to facilitate the implementation of the policy and associated controls; and,

b) periodically reviews and updates the current policy and procedures.

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

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

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

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

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

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

- Management did not have processes implemented to perform continuous monitoring. Specifically, Management did not:

    - Perform periodic risk and vulnerability assessments, penetration testing, continuous monitoring through scanning or agent-based software tools, or perform other cybersecurity activities in order to identify, track and resolve security threats.

    - Perform security configuration management processes to establish and monitor platforms and software against best practices.

Cause

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

Effect or Potential Effect

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

Failure to perform network security vulnerabilities and penetration assessments increases the risk that the information system's security weaknesses are not identified and investigated in a timely fashion.

Failure to implement and monitor recommended security configuration and best practice settings increases the likelihood of misconfigurations that may be exploited.

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

Status

Corrected. Management finalized its formal policies and procedures related to IT control processes. In addition, periodic scanning report and monitoring alerts, and tenable scanner was put in place to monitor and perform security configuration management via vulnerability scanning and recommended settings per software vendor.

Finding 2018-004 – Significant Deficiency
Information Technology: Account Management, Password Configuration, Broad Privileged Access, Password Configuration, Shared Accounts, and Audit Logging/Monitoring

Criteria

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

Account Management includes the following criteria:

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

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

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

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

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

Audit Events the organization:

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

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

Condition

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

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

Grant Thornton noted the following. Grant Thornton noted Management should address the following:

Account Management

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

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

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

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

<u>Broad / Privileged User Accounts</u>

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

<u>Shared Accounts</u>

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

<u>Audit Logging and Monitoring</u>

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

Cause

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

Effect or Potential Effect

Account Management

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

Password Configuration

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

Broad / Privileged User Accounts

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

Shared Accounts

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

Audit Logging and Monitoring

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

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

Status
Corrected. Management finalized its formal policies and procedures related to IT control processes. This includes password policy and privileged user management procedures.

Finding 2018-005 – Significant Deficiency
Information Technology: Change Management

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

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

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

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

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

City of San José, California
Summary Schedule of Prior Audit Findings (Concluded)
Year Ended June 30, 2019

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

Effect or Potential Effect
Without formally completing or approving change management activities for system changes, patches and modifications, there is an increased risk that change management controls will not be completed.

Without effective control over changes that are migrated to the production environment, there is an increased risk that an inappropriate code change could be introduced into the production environment, potentially impacting the financial statement and related processes (i.e. cash accountability, financial reporting, etc.). Inappropriate code change could have a negative impact on system functionality, availability, or ability to produce complete and accurate financial data. These issues may result in unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems, which may lead to misstatements on the financial statements.

Status
Corrected. Change control board/activity documentation implemented.

Prior Years' Federal Awards Findings

None reported.

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Independent Auditor's Report on Compliance for the Passenger Facility Charge Program and Report on Internal Control Over Compliance in Accordance With the Passenger Facility Charge Audit Guide for Public Agencies

City Council
City of San José, California

Report on Compliance for the Passenger Facility Charge Program

We have audited the Norman Y. Mineta San José International Airport's (Airport), a department of the City of San José, California (City), compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to the Airport's Passenger Facility Charge (PFC) program for the year ended June 30, 2019.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Airport's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the PFC Guide. Those standards and the PFC Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that are applicable to the Airport's PFC program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Airport's internal control over compliance to determine the auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the PFC Guide. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 7, 2020

CITY OF SAN JOSE, CALIFORNIA
Schedule of Passenger Facility Charge Revenues and Expenditures
Year Ended June 30, 2019

	Passenger Facility Charge Revenues	Interest Earned	Total Revenues	Expenditures on Approved Projects	Under (over) Expenditures on Approved Projects
Fiscal year 2018-19 transactions:					
Quarter ended September 30, 2018	$ 4,815,740	$ 178,264	$ 4,994,004	$ 11,429,102	
Quarter ended December 31, 2018	6,007,543	32,261	6,039,804	-	
Quarter ended March 31, 2019	8,026,233	83,125	8,109,358	15,596,594	
Quarter ended June 30, 2019	10,885,533	105,584	10,991,117	-	
	$ 29,735,049	$ 399,234	$ 30,134,283	$ 27,025,696	$ 3,108,587
			Balance, beginning of year		17,015,247
			Balance, end of year		$ 20,123,834

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

(1) GENERAL

The Schedule of Passenger Facility Charge Revenues and Expenditures presents only the activity of the Passenger Facility Charge (PFC) program of the Norman Y. Mineta San José International Airport (Airport), a department of the City.

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of PFCs and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects. PFCs are fees imposed on enplaned passengers by the Airport for the purpose of generating revenue for Airport projects that increase capacity, increase safety, mitigate noise impact, and enhance competition between and among air carriers in accordance with FAA approvals.

(2) BASIS OF ACCOUNTING

The accompanying schedule is presented using the accrual basis of accounting as described in Note I to the City's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Under the Airport's Master Trust Agreement, the Airport may for any period elect to designate any PFC revenues as "Available PFC Revenues" by filing with the Trustee a written statement designating the amount of such Available PFC Revenues and containing a statement that the Available PFC Revenues are legally available to be applied to pay bond debt service during such period. An amount of $27,025,696 from accumulated PFC Revenues had been designated as Available PFC Revenues for payment of eligible bond debt service in the year ended June 30, 2019.

(4) RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule of Passenger Facility Charge Revenues and Expenditures agree to or can be reconciled with the amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports.

(5) PFC APPROVED PROJECTS AND EXPENDITURES

The general description of the approved projects and the expenditures for the year ended June 30, 2019, are as follows:

Passenger Facility Charge Project Number/Description		Identifying Number	Passenger Facility Charge Approved Amount	Expenditures
#40A	Runway 12R/30L Reconstruction	01-12-C-00-SJC	$ 72,022,700	$ 3,578,353
#40B	Runway 12R/30L Extension	01-12-C-00-SJC	38,671,724	1,619,435
#52	Taxiway Z - Apron Reconstruction (Phase II)	01-11-C-00-SJC	825,000	-
#53	Terminal C Fire Protection	01-11-C-00-SJC	580,000	-
#54	Fiber Optic Cable to ARC & Fire Station 29	01-11-C-00-SJC	87,345	-
#55	Green Island Bridge	01-11-C-00-SJC	825,000	-
#56	Replacement of AACS and CCTV	01-11-C-00-SJC	4,418,645	-
#57	Skyport Grade Separation	01-11-C-00-SJC	18,218,154	-
#58	Terminal Drive Improvements	01-11-C-00-SJC	1,146,165	-
#59	Replacement of PASSUR	01-11-C-00-SJC	221,000	-
#60	Terminal C Restroom	01-11-C-00-SJC	2,485,000	-
#61	Interim Air Cargo Ramp Extension	01-11-C-00-SJC	1,100,000	-
#62	Runway 30R/12L Reconstruction	01-11-C-00-SJC	84,105,103	3,832,864
#63	Noise Attenuation Category II & III	01-11-C-00-SJC	4,500,000	-
#64	Taxiway Y Extension	01-11-C-00-SJC	12,890,000	422,375
#65	Extended Noise Attenuation	02-13-C-00-SJC	61,589,000	-
#67	Terminal B - North Concourse	06-15-C-00-SJC	495,095,000	16,093,669
#68	Terminal B Extension, Phase I	08-16-C-00-SJC	110,159,000	1,479,000
#69	Roadway Improvements: Grade Separations	08-16-C-00-SJC	10,244,000	-
	Total Passenger Facility Charge Projects		$ 919,182,836	$ 27,025,696

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Independent Auditor's Report on Compliance for the Customer Facility Charge Program and Report on Internal Control Over Compliance in Accordance With the Customer Facility Charge Code

City Council
City of San José, California

Report on Compliance for the Customer Facility Charge Program

We have audited the Norman Y. Mineta San José International Airport's (Airport), a department of the City of San José, California (City), compliance with the compliance requirements described in the California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through section 50474.3 (CFC Code), applicable to the Airport's Customer Facility Charge (CFC) program for the year ended June 30, 2019.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Airport's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the CFC Code. Those standards and the CFC Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the CFC program occurred. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Airport's compliance with those requirements.

Opinion

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that are applicable to the Airport's CFC program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Airport's internal control over compliance to determine the auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the CFC Code. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 7, 2020

CITY OF SAN JOSÉ, CALIFORNIA

Schedule of Customer Facility Charge Revenues and Expenditures

Year Ended June 30, 2019

Revenues		
Customer facility charges	$	21,465,191
Facility rent		112,207
Investment income		335,202
Total revenues		21,912,600
Expenditures		
Transportation expenditures		2,293,857
Debt service expenditures		18,815,867
Total expenditures		21,109,724
Revenues over expenditures	$	802,876

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

CITY OF SAN JOSÉ, CALIFORNIA
Notes to the Schedule of Customer Facility Charge Revenues and Expenditures
Year Ended June 30, 2019

(1) GENERAL

California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through Section 50474.3 (CFC Code), permits an airport sponsor to require rental car companies to collect from a renter a Customer Facility Charge (CFC) to finance, design and construct a consolidated airport rental car facility; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

From January 1, 2008 through November 30, 2011, the Airport imposed a CFC of $10.00 per rental contract. Pursuant to the CFC Code, the City increased the CFC to $6.00 per contract day, to a maximum of five days, on each rental effective December 1, 2011, and further increased the per contract day CFC to $7.50 per contract day, to a maximum of five days, on each rental, commencing January 1, 2014.

(2) BASIS OF ACCOUNTING

The accompanying schedule is presented using the accrual basis of accounting as described in Note I to the City's basic financial statements.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of CFCs are reported in the City's basic financial statements as operating expenses or debt service payments in the Airport enterprise fund. CFC expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.