

**CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE
BOND PROJECTS FUND
(A Fund of the City of San José)**

Independent Auditor's Reports,
Financial Statements,
Other Supplementary Information and
Independent Accountant's Report

For the Period from July 25, 2019
through June 30, 2020



Certified
Public
Accountants

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
For the Period from July 25, 2019 through June 30, 2020

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Independent Auditor's Report

City Council and
Members of the Public Safety and Infrastructure Commission
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Safety and Infrastructure Bond Projects Fund (Fund), a fund of the City of San José (City), as of June 30, 2020 and for the period from July 25, 2019 through June 30, 2020, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Safety and Infrastructure Bond Projects Fund as of June 30, 2020, and the change in financial position thereof for the period from July 25, 2019 through June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2020, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying statement of revenues, expenditures, and change in fund balance (supplementary information) by fiscal year for the period from July 25, 2019 through June 30, 2020 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information for the period from July 25, 2019 through June 30, 2020 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information for the period from July 25, 2019 through June 30, 2020 is fairly stated in all material respects in relation to the 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 17, 2020 on our consideration of the City's internal control over the Fund's 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 the Fund's 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 the Fund's financial reporting and compliance.



Walnut Creek, California
November 17, 2020

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
Balance Sheet
June 30, 2020

Assets

Restricted assets:

Investments held with fiscal agents	<u><u>\$ 198,865,057</u></u>
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Liabilities and Fund Balance

Liabilities:

Accounts payable	\$ 652,219
Accrued salaries, wages and payroll taxes	142,576
Due to the City of San José	<u>7,119,228</u>
Total liabilities	7,914,023

Fund balance:

Restricted for Public Safety and Infrastructure Bond projects	<u>190,951,034</u>
Total liabilities and fund balance	<u><u>\$ 198,865,057</u></u>

See accompanying notes to the financial statements.

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND

(A Fund of the City of San José)

Statement of Revenues, Expenditures, and Change in Fund Balance
For the Period from July 25, 2019 through June 30, 2020

Revenues:

Investment income	<u>\$ 3,201,017</u>
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Expenditures:

Public safety	906,296
Traffic	2,930,649
Storm sewer	809,388
Municipal improvements	47,494,159
Park & community facilities	<u>60,280</u>

Total expenditures	<u>52,200,772</u>
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Deficiency of revenues under expenditures	<u>(48,999,755)</u>
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Other Financing Sources and Uses:

Bond proceeds	239,900,000
Excess bond premium	<u>50,789</u>

Total other financing sources and uses	<u>239,950,789</u>
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Change in fund balance	190,951,034
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Fund balance, beginning of year	<u>-</u>
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Fund balance, end of year	<u><u>\$ 190,951,034</u></u>
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See accompanying notes to the financial statements.

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements
For the Period from July 25, 2019 through June 30, 2020

NOTE 1 – BACKGROUND

In November 6, 2018, registered voters of the City of San José (City) approved Measure T, the San José Public Safety and Infrastructure Bonds, authorizing the issuance and sale of general obligation bonds (PSI Bonds) not to exceed \$650,000,000 to be used to fund the cost of land or improvement of land of, without limitation, the following categories of projects.

- The upgrade of 911 communications, police, fire and paramedic facilities to improve emergency and disaster response;
- Repair deteriorating bridges vulnerable to being damaged in an earthquake;
- Repaving local and neighborhood streets and potholes in the worst condition;
- Preventing flooding and water quality contamination; and
- Repair or replace critical infrastructure that is likely to reduce long-term spending on operations or maintenance.

The table below sets forth the amount of PSI Bonds authorized and issued pursuant to Measure T:

	Amount	Date
Voter authorization	\$ 650,000,000	November 6, 2018
Bonds issued:		
Series 2019 Bonds	239,900,000	July 25, 2019
Total bonds issued	239,900,000	
Authorized but unissued	\$ 410,100,000	

As of June 30, 2020, outstanding projects approved by the City Council to be funded by the bond proceeds include the new Fire Station No. 32, police air support unit hangar project, bridges repairs, pavement maintenance, Charcot pump station, clear water projects, city facilities LED lighting and public art at parks.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present only the financial position and the changes in financial position of the Public Safety and Infrastructure Bond Projects Fund (Fund) and do not purport to, and do not, present fairly the City’s financial position as of June 30, 2020 and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A capital projects fund (governmental fund) is used to account for the City’s Public Safety and Infrastructure Bond Projects activities. Capital projects funds are used to account for financial resources (e.g., bond proceeds and investment income) that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition of land or acquisition and construction of major governmental facilities.

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Period from July 25, 2019 through June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Fund's activity is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Fund considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to vacation, sick leave, claims and judgments are recorded only when payment is due.

Restricted Cash and Investments

Cash and investments that are restricted for specified uses by bond covenants or other requirements are classified as restricted. The Fund's restricted cash and investments are held in the City Treasury and in fiscal agent accounts to be spent only on authorized capital projects. The Fund's restricted cash and investments are subject to the requirements of the City's adopted investment policy and bond indentures. The fair value of investments is based on quoted market information obtained from fiscal agents or other sources.

Fund Balance

Under Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the balance sheets of governmental funds classify fund balances based primarily on the extent to which the Fund is bound to honor constraints on the specific purposes for which those funds can be spent. The Fund only has restricted fund balance at June 30, 2020. Restricted fund balance represents amounts when constraints placed on 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements (Continued)
For the Period from July 25, 2019 through June 30, 2020

NOTE 3 – RESTRICTED CASH AND INVESTMENTS

A summary of the Fund’s restricted cash and investments at June 30, 2020 are as follows:

Type of investment	Fair Value	Moody’s Credit Risk Rating	Weighted Average Maturity
State of California Local Agency Investment Fund	\$ 191,308,761	Unrated	173 days
Wilmington Trust Money Market Mutual Fund	7,556,296	Aaa-mf	40 days
Total investments	<u>\$ 198,865,057</u>		

The Fund has investments subject to provisions of the bond indentures of its various bond issues. According to the bond indentures, the Fund is permitted to invest in the City’s cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. government agencies, time deposits, money market mutual funds invested in U.S. government securities, along with various other investments.

The Fund maintains its investments in the City’s cash and investment pool. The amounts held in the City’s investment pool can be withdrawn upon demand. Income and losses arising from the investment activity of pooled cash are allocated to the participating funds on a monthly basis, based on their proportionate shares of the average weekly cash balance. As of June 30, 2020, there was a negative pooled balance of \$7,061,955 in the City’s cash and investment pool, which is included as a payable to the City of San José on the accompanying financial statements.

Information regarding the characteristics of the entire investment pool can be found in the City’s basic financial statements for the period from July 25, 2019 through June 30, 2020. A copy of that report may be obtained by contacting the City’s Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113 or can be found at the City’s Finance Department Website at <http://www.sanjoseca.gov>.

Government Code Section 16429.1 authorizes each local government agency to invest funds in the LAIF administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2020 was approximately \$32.1 billion. LAIF is part of the State’s Pooled Money Investment Account (PMIA). The total amount recorded by all public agencies in PMIA at June 30, 2020 was approximately \$101.0 billion and of that amount, 96.63% was invested in non-derivative financial products and 3.37% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Fund’s position in the pool.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by nationally recognized statistical rating organizations. The City’s investment policy has mitigated credit risk by limiting investments to the safest types of securities, by prequalifying financial institutions, by diversifying the portfolio, and by establishing monitoring procedures.

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements
For the Period from July 25, 2019 through June 30, 2020

NOTE 3 – RESTRICTED CASH AND INVESTMENTS (Continued)

Concentration Credit Risk

Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the Fund. Investments issued by or explicitly guaranteed by the U.S. government and investments in mutual funds and other pooled investments are exempt from this requirement, as they are normally diversified themselves.

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market rates. The City’s investment policy has mitigated interest rate risk by establishing policies over liquidity, including maturity limits by investment classification. These limits, for investments other than external investment pools and money market mutual funds, range from 10 days to 5 years depending on the investment classification.

Fair Value Measurement Categorization

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities. The City’s investment in Wilmington Trust Money Market Mutual Funds is measured at level 1 inputs, while investments in the City’s cash and investment pool and LAIF are not subject to fair value hierarchy.

NOTE 4 – COMMITMENTS

At June 30, 2020, the Fund has related outstanding project construction encumbrances as follows:

<u>Project</u>	<u>Amount</u>
Public safety	
New fire station No. 32	\$ 750
Police air support unit hangar	12,481
Traffic	
Bridges	65,201
Pavement maintenance	13,658,475
Storm sewer	
Charcot pump station	61,321
Clean water projects	269,883
Municipal improvements	
City facilities LED lighting	24,951
Park & Community Facilities	
Public art - parks	92,100
Total project encumbrances	<u>\$ 14,185,162</u>

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
Notes to the Financial Statements
For the Period from July 25, 2019 through June 30, 2020

NOTE 5 – GENERAL OBLIGATION BONDS

On July 25, 2019, the City issued Series 2019 General Obligation Bonds (2019 Bonds) pursuant to the fiscal agent agreement with Wilmington Trust. The 2019 Bonds were the first tranche of bonds issued under Measure T, as disclosed in Note 1. Proceeds from the 2019 Bonds in the amount of \$239,900,000 and a bond premium at issuance in the amount of \$34,158,933 were issued for Measure T purposes. The premium was used to pay debt service on the Series 2019 A-2 taxable Measure T Bonds in the amount of \$33,114,340, to pay cost of issuance, and to fund the debt service accounts. The proceeds related to the premium in excess of the amounts necessary to pay debt service on the 2019 A-2 Bonds, cost of issuance, and debt service fund deposits amounted to \$50,789, and was deposited into the Public Safety and Infrastructure Bond Projects Fund for Measure T purposes. At June 30, 2020, a balance of \$57,273 was held in the Measure T fiscal agent account on behalf of other measures, as it received funds from the closing of the costs of issuance account for all activities of the 2019 Bonds, which were returned to those measures during fiscal year 2020/21.

The 2019 Bonds related to Measure T are reported in capital projects and debt service funds of the City, and further details can be located in the City’s comprehensive annual financial report.

NOTE 6 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through November 17, 2020, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Fund’s financial statements.

CITY OF SAN JOSE
PUBLIC SAFETY AND INFRASTRUCTURE BOND PROJECTS FUND
(A Fund of the City of San José)
Statement of Revenues, Expenditures, and Change in Fund Balance by Fiscal Year
For the Period from July 25, 2019 through June 30, 2020

	2020
Revenues:	
Investment income	\$ 3,201,017
Expenditures:	
Public safety	
Fire station No. 8 relocation	63,503
Fire station No. 23 relocation	40,316
New fire station No. 32	9,202
New fire station No. 36	7,986
Fire station No. 37	34,056
Emergency operations center relocation	82,346
Police training center relocation	271,570
Police air support unit hangar	63,843
911 call center upgrade	17,877
PD headquarters upgrade	8,232
Admin reserve - public safety	307,365
Traffic	
Bridges	823,581
Pavement maintenance	1,481,453
LED streetlight conversion	520,608
Admin - traffic	105,007
Storm sewer	
Charcot pump station	322,422
Clean water projects	455,552
Public art - storm sewer	962
Admin - storm sewer	30,452
Municipal improvements	
Environment Protection ¹	46,077,538
City facilities LED lighting	1,385,703
Admin - municipal improvements	30,918
Park & Community Facilities	
Community centers/emergency	6,407
Public art - parks	50,860
Admin - parks	3,013
Total expenditures	52,200,772
Deficiency of revenues under expenditures	(48,999,755)
Other Financing Sources and Uses:	
Bond proceeds	239,900,000
Excess bond premium	50,789
Total other financing sources and uses	239,950,789
Change in fund balance	190,951,034
Fund balance, beginning of period	-
Fund balance, end of period	\$ 190,951,034

¹ Environmental Protection – FY 2019-2020 transactions include the acquisition of real property located in the Coyote Valley for \$38.3 million and the payoff of the Community Facilities District No. 9 (Bailey/Highway 101) outstanding bonds for \$7.59 million.



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 and
Members of the Public Safety and Infrastructure Commission
City of San José, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Public Safety and Infrastructure Bond Projects Fund (Fund), a fund of the City of San José (City), as of June 30, 2020 and for the period from July 25, 2019 through June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 financial statements. 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*.

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 17, 2020

Independent Accountant's Report on Compliance with Measure T

City Council and
Members of the Public Safety and Infrastructure Commission
City of San José, California

We have examined the City of San José's (City) compliance with certain provisions of Measure T for the period from July 25, 2019 through June 30, 2020 as follows:

- Bond proceeds were used for the cost of land or improvement of land of, without limitation, the following categories of projects.
 - The upgrade of 911 communications, police, fire and paramedic facilities to improve emergency and disaster response;
 - Repair deteriorating bridges vulnerable to being damaged in an earthquake;
 - Repaving local and neighborhood streets and potholes in the worst condition;
 - Preventing flooding and water quality contamination; and
 - Repair or replace critical infrastructure that is likely to reduce long-term spending on operations or maintenance.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance whether the City complied with the specified requirements, in all material respects. An examination involves performing procedures to obtain evidence about the City's compliance with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with the specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the period from July 25, 2019 through June 30, 2020.

This report is intended solely for the information and use of the City Council, the Public Safety and Infrastructure Commission, the City Auditor and the City's management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California

November 17, 2020