City of San José, California

Single Audit Reports

Basic Financial Statements with
Federal Compliance Sections

For the Year Ended June 30, 2020

MGO Certified Public Accountants

City of San José, California
For the Year Ended June 30, 2020

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City Council
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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, 2020, 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 86.0 percent, 109.1 percent, and 44.1 percent, respectively, of the assets, fund balances/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.

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, 2020, 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 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a 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, schedule of expenditures of federal awards 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 30, 2020 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 30, 2020, except for our report on the schedule of expenditures of federal awards,
as to which the date is June 18, 2021

The 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, 2020. 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 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, 2020, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $3.961 billion. Of this amount, a deficit of $2.569 billion represents unrestricted net position, which is comprised of a deficit balance of $2.860 billion for governmental activities, and a positive balance of $290.6 million for business-type activities. In addition, the City's restricted net position totals $1.177 billion ($1.101 billion for governmental activities and $76.1 million for business-type activities) based on the restrictions imposed by the enabling legislations or debt covenants. Lastly, net position of $5.353 billion is the City's net investment in capital assets, which include $4.263 billion from governmental activities and $1.090 billion from business-type activities.

- The net position decreased by $93.9 million or 2.32 percent during FY 2020 to $3.961 billion from $4.055 billion. Governmental Activities accounted for $206.0 million of the decrease mainly due to the increases in general government expenses. Business-type activities accounted for $112.1 million of the increase primarily from the increases of revenues from fees, fines, and charges for services.

- Governmental funds reported a combined ending fund balance of $1.869 billion at June 30, 2020, which is $309.9 million or 19.88 percent more than the June 30, 2019 balance. The change was attributable to an increase in the General Fund of $45.7 million, the Housing Activities Fund of $19.9 million, the Low- and Moderate-Income Housing Asset Fund of $17.4 million, the San José Financing Authority Debt Service Fund of $5.0 million, the Nonmajor Governmental Funds of $225.2 million, and offset by decrease in the Special Assessment Districts Fund of $3.3 million.

- Unassigned fund balance of governmental funds is $51.7 million, which is 2.76 percent of the combined governmental fund balances at June 30, 2020.

- Total long-term liabilities increased by $501.5 million to $7.039 billion at June 30, 2020, which represents an increase of 7.67 percent compared to $6.537 billion at June 30, 2019. The primary factors leading to the increase in long-term liabilities for governmental activities of $459.3 million was mainly due to the increase of pension liability by $226.8 million and general obligation bonds by $145.8 million. The City issued $502.0 million of General Obligation Bonds ("2019 GO Bonds") to finance projects and to refund the City's outstanding general obligation bonds totaling $356.2 million. The primary factors leading to the increase in long-term liabilities for business-type activities of $42.2 million was due to the increase of pension liability by $27.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduce 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 like 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 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, 2020, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $3.969 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, 2020 and 2019
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
Assets:						
Current and other assets........................	$ 2,308,031	$ 1,891,362	$ 1,046,055	$ 970,098	$ 3,354,086	$ 2,861,460
Capital assets.....................................	5,145,711	5,228,207	2,353,286	2,260,663	7,498,997	7,488,870
Total assets..................................	7,453,742	7,119,569	3,399,341	3,230,761	10,853,083	10,350,330
Deferred outflows of resources:						
Loss on refundings of debt..................	329	648	7,639	8,128	7,968	8,776
Deferred outflows of resources related to pensions............................	642,710	645,244	73,973	73,153	716,683	718,397
Deferred outflows of resources related to other postemployment benefits	98,703	80,020	8,917	7,757	107,620	87,777
Total deferred outflows of resources	741,742	725,912	90,529	89,038	832,271	814,950
Liabilities:						
Current and other liabilities.....................	383,752	253,969	199,701	183,625	583,453	437,594
Long-term liabilities................................	1,317,176	1,136,322	1,361,702	1,348,445	2,678,878	2,484,767
Net pension liability...............................	3,008,528	2,781,722	374,697	347,373	3,383,225	3,129,095
Net OPEB Liability.................................	892,094	840,481	84,451	82,796	976,545	923,277
Total liabilities.................................	5,601,550	5,012,494	2,020,551	1,962,239	7,622,101	6,974,733
Deferred inflows of resources:						
Gain on refundings of debt.....................	4,152	-	-	-	4,152	-
Deferred inflows of resources related to pensions.............................	58,838	80,589	3,964	250	62,802	80,839
Deferred inflows of resources related to other postemployment benefits	27,430	42,877	8,253	12,304	35,683	55,181
Total deferred inflow of resources	90,420	123,466	12,217	12,554	102,637	136,020
Net position:						
Net investment in capital assets	4,262,597	4,330,279	1,090,408	982,045	5,353,005	5,312,324
Restricted	1,101,001	1,036,765	76,104	72,890	1,177,105	1,109,655
Unrestricted	(2,860,084)	(2,657,523)	290,590	290,071	(2,569,494)	(2,367,452)
Total net position..............................	$ 2,503,514	$ 2,709,521	$ 1,457,102	$ 1,345,006	$ 3,960,616	$ 4,054,527

At June 30, 2020, 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 $5.353 billion comprises 135.26 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 not available for future spending. During FY 2020, net investment in capital assets increased $40.7 million primarily due to the decreases of $67.7 million from governmental activities and the increase of $108.4 million from business-type activities. A portion of the City's net position, $1.177 billion or 29.72 percent, are subject to legal restrictions for their use, including $1.101 billion in governmental activities and $76.1 million in business-type activities. Of the total net position at June 30, 2020, a deficit balance of $2.569 billion or 64.88 percent represents unrestricted net position, which comprises a deficit balance of $2.860 billion for governmental activities, and a positive balance of $290.6 million for business-type activities. The primary factor contributing to the deficit in unrestricted net position is the City's net pension and Other Postemployment Benefits (OPEB) liabilities.

During FY 2020, the City's total net position decreased by $93.9 million. Notable changes in the statement of net position between June 30, 2020 and June 30, 2019 include:

Assets

- Capital assets increased by $10.1 million or 0.14 percent compared to the prior fiscal year. Governmental capital assets decreased by $82.5 million and business-type capital assets increased by $92.6 million. The decrease in governmental capital assets resulted from depreciation expense of $227.7 million for major infrastructure and other assets, partially offset by additions to capital assets of $95.9 million, which included $30.5 million of additional capital projects, $3.8 million of contributed capital from donated infrastructure assets, $14.4 million in vehicles and equipment, $46.8 million from property acquisitions, and $0.4 million additions to buildings and improvements other than buildings. Other significant impacts to governmental capital assets was the transfer of California Theater property (345 South First Street) from SARA to general governmental capital assets with a net book value of $49.4 million as of June 30, 2020. The increase in business-type capital assets was primarily due to depreciation expense of $91.2 million, offset by additions to capital assets of $183.8 million primarily from the Airport and Wastewater Treatment Facility.

- Current and other assets increased by $492.6 million or 17.22 percent due to an increase of $416.7 million for governmental activities and an increase of $75.9 million for business-type activities. The increase in governmental activities mainly is due to the increase in cash and investments resulting from the receipt of CARES Act federal funding. 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 increased by $501.5 million to $7.039 billion at June 30, 2020, which represents an increase of 7.67 percent compared to $6.537 billion at June 30, 2019. The primary factors leading to the increase in long-term liabilities for governmental activities of $459.3 million was primarily due to the increase of pension liability by $226.8 million and general obligation bonds by $145.9 million. The City issued $502.0 million of 2019 GO Bonds to finance projects and to refund the City's outstanding general obligation bonds totaling $356.1 million. The primary factors leading to the increase of $42.2 million in long-term liabilities for business-type activities were due to the increase of pension liability by $27.3 million

- Current and other liabilities increased by $145.9 million or 33.33 percent due to an increase of $129.8 million for governmental activities and an increase of $16.1 million for business-type activities.

Net Position

- Unrestricted net position for governmental activities decreased by $202.6 million or 7.62 percent with a deficit balance of $2.860 billion at June 30, 2020. The primary factor contributing to the deficit in unrestricted net position is the City's net pension and OPEB liabilities. For business-type activities, unrestricted net position increased by $0.5 million or 0.18 percent with a positive balance of $290.6 million at June 30, 2020.

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, 2020 and 2019
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
Revenues:						
Program revenues:						
Fees, fines, and charges for services	$ 398,512	$ 435,418	$ 937,266	$ 645,318	$ 1,335,778	$ 1,080,736
Operating grants and contributions	189,251	108,361	486	720	189,737	109,081
Capital grants and contributions	149,459	111,278	6,334	24,655	155,793	135,933
General revenues:						
Property and other taxes	531,075	497,317	-	-	531,075	497,317
Utility	120,213	120,846	-	-	120,213	120,846
Franchise	44,436	48,397	-	-	44,436	48,397
Transient occupancy taxes	35,329	51,399	-	-	35,329	51,399
Business taxes	71,978	77,011	-	-	71,978	77,011
Sales taxes	260,558	263,530	-	-	260,558	263,530
State of California in-lieu	826	505	-	-	826	505
Unrestricted interest and investment income	39,635	24,165	33,030	23,498	72,665	47,663
Other revenue	56,435	34,707	654	627	57,089	35,334
Gain on sale of capital assets	5,231	44,528			5,231	44,528
Total revenues	1,902,938	1,817,462	977,770	694,818	2,880,708	2,512,280
Expenses:						
General government	296,294	142,531	-	-	296,294	142,531
Public safety	813,126	709,532	-	-	813,126	709,532
Community services	301,697	308,345	-	-	301,697	308,345
Sanitation	183,197	164,677	-	-	183,197	164,677
Capital maintenance	476,251	422,170	-	-	476,251	422,170
Interest and fiscal charges	44,771	46,720	-	-	44,771	46,720
Norman Y. Mineta San José International Airport	-	-	232,002	224,387	232,002	224,387
Wastewater Treatment System	-	-	252,033	199,350	252,033	199,350
Municipal Water System	-	-	51,574	47,917	51,574	47,917
Parking System	-	-	22,559	16,151	22,559	16,151
San Jose Clean Energy	-	-	301,115	98,909	301,115	98,909
Total expenses	2,115,336	1,793,975	859,283	586,714	2,974,619	2,380,689
Excess (deficiency) before transfers	(212,398)	23,487	118,487	108,104	(93,911)	131,591
Transfers	6,391	3,141	(6,391)	(3,141)	-	-
Special Item - Rate Stabilization Fund and Ten-Year Lookback Distribution	-	-	-	(16,266)	-	(16,266)
Change in net position	(206,007)	26,628	112,096	88,697	(93,911)	115,325
Net position at beginning of year	2,709,521	2,682,893	1,345,006	1,256,309	4,054,527	3,939,202
Change in accounting principle	-				-	-
Net position at beginning of year, as restated	-	2,970,173	-	1,256,309	4,054,527	3,939,202
Net position at end of year	$ 2,503,514	$ 2,709,521	$ 1,457,102	$ 1,345,006	$ 3,960,616	$ 4,054,527

Governmental activities: The change in net position for governmental activities decreased by $232.6 million during FY 2020 from $26.6 million to a deficit of $206.0 million. Total expenses increased by $321.4 million and total revenues including transfers increased by $88.7 million. The major factors contributing to the decrease in net position in FY 2020 compared to FY 2019 are as follows:

Revenues

- Operating grants and contributions increased by $80.9 million or 74.65 percent mainly due to a $80.7 million increase in General Fund, primarily from the receipt of $178.3 million in federal aid from the CARES Act to support COVID-19 related expenditures offset by unearned revenues of $107.3 million, and a $5.5 million increase from two new grants for fire training and the Emergency Operation Center.

- Capital grants and contributions increased by $38.2 million or 34.31 percent mainly due to the receipt of $43.2 million from the VTA Pavement Maintenance grant in FY 2020 offset by the reduction of $7.0 million in hotel tax revenue due to COVID-19 shelter-in-place orders.

- Gain on sale of capital assets decreased by $39.3 million or 88.25 percent due to minimal sales in FY 2020 compared to FY 2019 when the sales of the Hayes Mansion and Diridon properties occurred.

Expenses

- General government expenses increased $153.8 million or 107.88 percent during FY 2020 mainly due to an increase of $76.0 million from personnel, food distribution, and other miscellaneous expenditures related to COVID-19 response activities. Additionally, pension expense increased $47.5 million. In FY 2020, the City revised its pension expense allocation methodology to align calculation methods for pension and OPEB expenses. The basis of the two calculations now references the same source reports. Total allocated expenses did not change in the governmental funds, however, for pension expense it did result in a greater allocation to the general government activities. Lastly, OPEB expense increased $30.7 million due to the higher OPEB liability in FY 2020.

- Public safety expenses increased by $103.6 million or 14.60 percent primarily due to an increase of OPEB expense of $83.2 million resulting from the change in OPEB liability and deferred outflows and an increase of $19.0 million in the General Fund, which included a $46.0 million increase in police expenditures, offset by a $27.0 million reduction in fire personnel services cost.

- Community services expenses decreased by $6.6 million or 2.16 percent mainly due to the reduction of pension expense in the amount of $16.4 million as a result of the pension expense methodology change described above and an increase of $10.4 million from Housing Activities due to higher expenditures in Emergency Shelters, Homelessness Prevention, and Crisis Response Interventions.

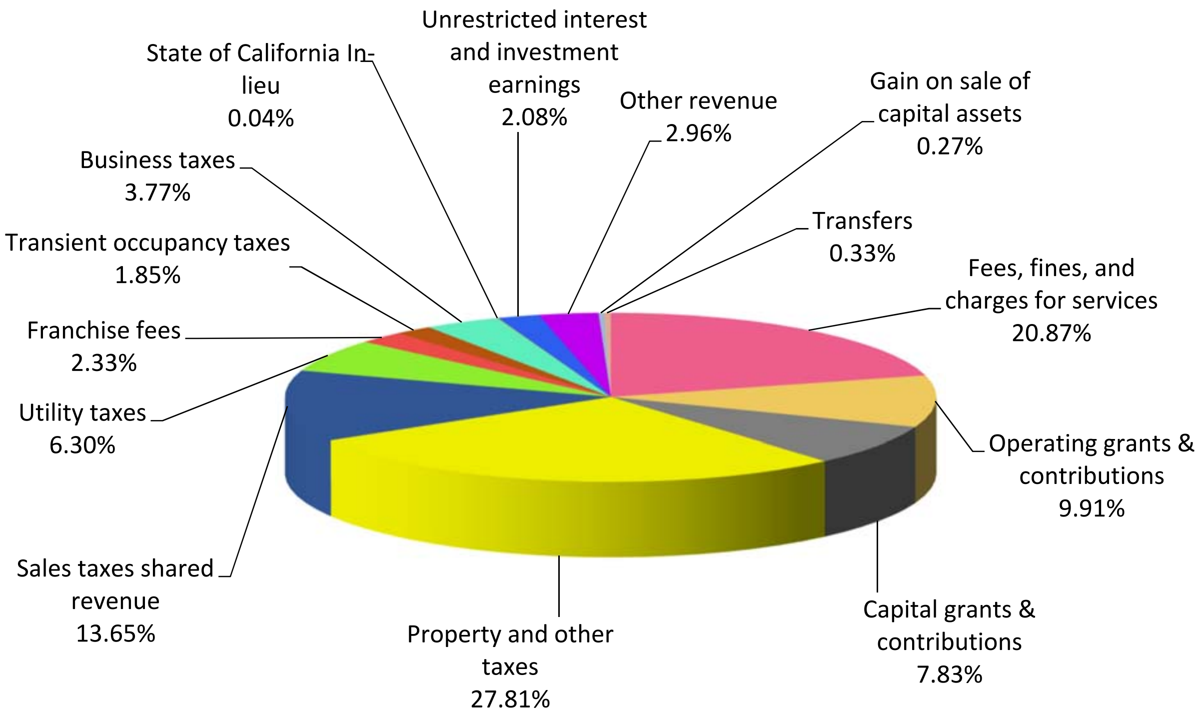
- Sanitation expenses increased by $18.5 million or 11.25 percent due to the increase of expenditures incurred in the Integrated Waste Management Fund, which included an incentive payment of $8.1 million paid to California Waste Solutions, an annual adjustment of $6.7 million due to inflation built into solid waste hauler contracts, and expenses of $3.1 million due to implementation of Modified Living Wage increase required by haulers starting FY 2020.

- Capital maintenance expenses increased by $54.1 million or 12.81 percent primarily due to an increase in expense of $48.7 million on pavement maintenance funded by the VTA Pavement Maintenance Measure B Grant, an increase of $9.4 million on road repair and maintenance, and an increase of $2.9 million spent on street pavement maintenance.

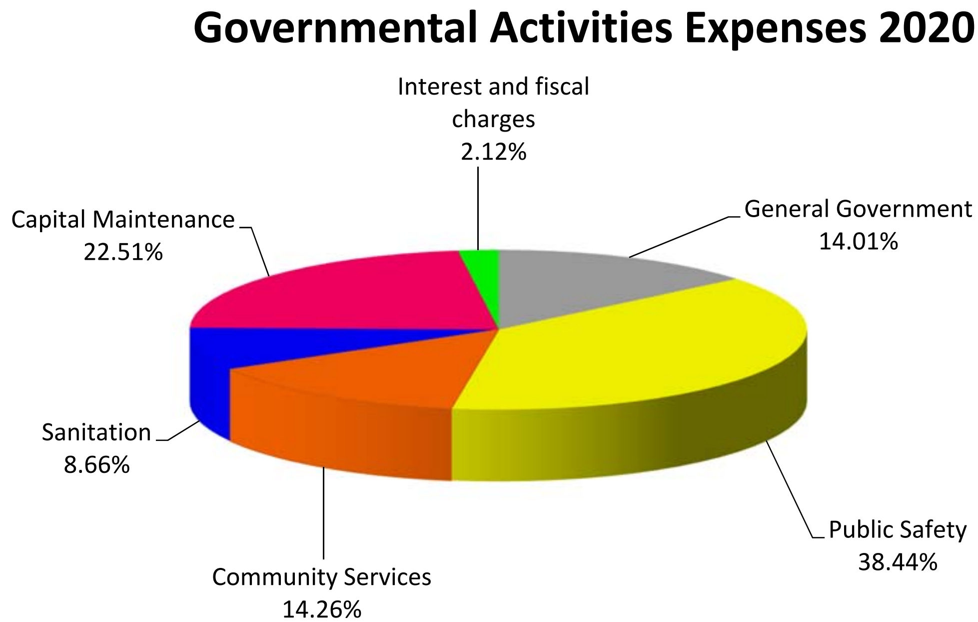
- Interest and fiscal charges decreased $1.9 million or 4.17 percent in FY 2020 due to the net impact of 2019 GO Bonds issuance which included a refunding portion and a reduction in commercial paper expense from the favorable short-term interest rate.

The chart below shows the primary components of governmental activities revenue sources for FY 2020. Of the $1.903 billion in total revenues generated by governmental activities, 72.24 percent is attributable to four categories: property and other taxes (27.81 percent), fees, fines, and charges for services (20.87 percent), sales taxes revenue (13.65 percent), and operating grants and contributions (9.91 percent).

Governmental Activities - Revenues By Source



The chart below shows the major categories of FY 2020 expenses for governmental activities. Of the $2.115 billion in total expenses incurred by governmental activities, 89.22 percent is attributable to four categories: public safety (38.44 percent), capital maintenance (22.51 percent), community services (14.26 percent), and general government (14.01 percent).



Business-type activities: Business-type activities net position increased by $112.1 million or 8.33 percent to $1.457 billion in FY 2020.

The notable components of the changes in net position for business-type activities in FY 2020 are:

Airport change in net position from prior year activities showed a decrease of $5.1 million in FY 2020 compared to an increase of $13.0 million in FY 2019. The combination of an increase of $11.2 million in operating expenses, including an increase in depreciation, a decrease in passenger facility charges (PFC) and customer facility charges (CFC) revenues resulting from the impact on travel by COVID-19, and a decrease in capital contributions was greater than the $16.3 million one-time distribution of the rate stabilization fund and ten-year lookback in 2019.

The Airport had a net operating income of $14.3 million, a decrease of $10.7 million compared to prior year's operating income of $25.0 million. Operating revenues increased by 0.27 percent from $174.8 million in FY 2019 to $175.3 million in FY 2020 mainly due to increases from landing fees and terminal rental, partially offset by decreases in terminal buildings and concessions, airfield, parking and roadway, fuel handing fees, general aviation/other, and customer facility charges for transportation costs. As of February 2020, the Airport remained on pace to set another consecutive annual record for passengers. However, the pace of growth dramatically changed in March 2020 as global air travel dropped significantly due to the COVID-19. A total of approximately 11.3 million passengers traveled through the Airport in FY 2020 as compared to approximately 14.9 million in FY 2019, resulting in a passenger traffic decline of 24.20 percent.

Operating expenses in FY 2020 increased 7.47 percent, or $11.2 million, from $149.8 million in FY 2019 to $161.0 million in FY 2020. Increases were experienced in depreciation expense, net OPEB expense, salaries and fringe benefits, higher costs for public safety employees, and net pension expense, partially offset by a decrease in expenses related to noncapitalized projects.

Wastewater Treatment System net position increased by $89.6 million or 9.62 percent from $931.2 million to $1.021 billion. The increase was primarily due to revenues exceeding expenses (before capital contributions) by $88.3 million. The largest portion, $822.6 million or 80.59 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 $189.1 million, or 18.52 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

Operating revenues increased $73.6 million primarily due to higher contributions from the City of Santa Clara and the Tributary Agencies toward the Water Pollution Control Plant (the Plant) ongoing maintenance, replacement and debt service costs by $70.9 million; a 3.00 percent sewer rate increase effective July 1, 2019; higher recycled-water revenue due to a recycled-water rate increase by $0.3 million; and higher contributions from other jurisdictions served by the sanitary sewer collection system for the use of the San José's sewer line by $0.8 million.

Total operating expenses increased by $52.1 million compared to the prior fiscal year. The increase was mainly due to the $34.2 million expenses recognized in the fiscal year per GASB Statement No. 49, Accounting and Financial Reporting of Pollution Remediation Obligations; a net increase of $9.2 million in pension expense and other postemployment benefits per the updated calculation of the net pension liability and net OPEB liability; an increase of $0.3 million in the equalization payment to the Santa Clara Valley Water District for the Silicon Valley Advanced Water Purification center; an increase of $1.9 million in program management of various Plant projects; a $3.1 million increase in non-personal service costs; a $1.1 million increase in urgent rehabilitation and repair projects in the sewer collection system; an increase of $0.8 million in worker compensation expenses; and an increase of $1.7 million in Owner-Controlled Insurance expenses to provide a centralized insurance program for losses associated with onsite construction of Capital Improvement Program at the Plant. As of June 30, 2020, there have been no losses associated with the construction at the Plant.

Net nonoperating revenues/expenses increased by $5.6 million primarily due to increases in fair value of investment and higher interest rates. Capital contributions decreased by $2.4 million mainly due to a $4.9 million decrease in donated assets from developers offset by an $2.5 million increase in the U.S. Bureau of Reclamation grants for construction of wastewater recycling activities.

Municipal Water System net position increased by $1.0 million or 1.14 percent from $87.3 million to $88.3 million. The change was due to the increases in both operating revenues and operating expenses. Operating revenues of $52.0 million increased by $0.8 million or 1.64 percent due to increases in both user fee rates and additional consumption of potable water partially offset by a decrease in recycled water usage. Operating expenses of $51.6 million increased by $3.6 million or 7.63 percent largely due to wholesale water price increases in both the potable and recycled water programs, increases in personnel costs and benefit costs partially offset by vacancies in the division.

Parking System net position decreased by $9.5 million or 8.90 percent from $106.1 million to $96.7 million. Operating revenues decreased by $4.4 million or 23.05 percent from $19.2 million to $14.8 million. Nonoperating revenues and expenses decreased by $2.9 million or 264.65 percent. The decrease in nonoperating revenues and expenses is primarily due to a one-time shared expense of 20% SERAF portion for affordable housing of $3.5 million, when the Successor Agency to the Redevelopment Agency of the City of San José (SARA) paid back the 2001A loan to Parking fund in FY 2020. SERAF expense is a new item that was not incurred last year. SERAF expense partially impacted the net position of Parking System by increasing expenses. Operating expenses increased by $2.7 million or 16.79 percent primarily due to the loan payoffs, but also reflecting higher operations and maintenance costs.

San José Clean Energy (SJCE) is the enterprise fund established in FY 2018 to account for revenues from the sale of electricity and the costs associated with the San José Clean Energy (SJCE) Program.

Operating revenues were $337.0 million, and expenses were $300.1 million in FY 2020. In FY 2019, operating revenues were $102.9 million, and expenses were $98.6 million. The year-over-year increase in operating revenues reflects the growing number of customers who began receiving electric generation service from SJCE. SJCE began providing electric generation service to the City's facilities in fall 2018 in the first of three phases. Phase II launch (residential and large commercial accounts) began in February 2019; and Phase III launch (small commercial customers) began in June 2019. As of June 30, 2020, SJCE serves over 325,000 accounts customers in San José with clean electricity at rates that are lower than those of PG&E.

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, 2020, the City's governmental funds reported combined fund balances of $1.869 billion compared to $1.559 billion balances in FY 2019. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- $0.1 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.
- $1.291 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.
- $146.9 million is reported as committed fund balance that had been limited by formal Council action for a specific purpose.
- $379.4 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.
- $51.7 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, 2020, the General Fund's unassigned fund balance is $79.4 million or 17.25 percent of the $460.2 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, 2020, unassigned fund balance represents 7.19 percent of total General Fund expenditures of $1.104 billion, while total fund balance represents 41.69 percent of total General Fund expenditures. At June 30, 2019, the same measures were 14.61 percent and 42.09 percent, respectively.

The General Fund ending fund balance increased by $45.7 million from $414.5 million to $460.2 million at June 30, 2020.

In FY 2020, General Fund revenues of $1.171 billion were $102.9 million or 9.64 percent higher than FY 2019 revenues of $1.068 billion. The majority of this increase can be attributed to the receipt of the CARES Act federal aid amounting to $178.3 million offset by unearned revenues of $107.3 million.
Property taxes increased by $38.7 million in FY 2020, which is primarily due to an increase in assessed valuations based on a strong real estate market.

FY 2020 General Fund expenditures of $1.104 billion were $119.1 million or 12.09 percent higher than FY 2019 expenditures of $984.7 million. The increase was primarily due to a $76.0 million increase in personnel, food distribution, and other miscellaneous expenditures related to COVID-19 response activities and a $36.3 million increase in Police personnel services.

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, 2020, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first-time homebuyers, was $69.1 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 $19.9 million to $168.1 million at June 30, 2020. The increase is primarily due to revenues from intergovernmental ($17.8 million), and investment and other revenues ($29.2 million) exceeding expenditures for community services ($31.0 million). Intergovernmental revenues increased by $2.7 million or 17.93 percent compared to prior year due to an $15.0 million Homeless Housing Assistance and Prevention (HHAP) grant and the reduction of the Homeless Emergency Aid Program grant of $11.0 million in FY 2019. Investment and other revenue increased by $8.6 million or 41.85 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 Redevelopment Agency. At June 30, 2020, the fund's loan receivable balance (net) was $216.4 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 $17.5 million to $415.1 million from $397.6 million. The increase is primarily due to the repayment of $15.9 million of the Supplemental Educational Revenue Augmentation Funds (SERAF) loans.

Special Assessment Districts Fund. The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of special assessment and community facilities districts located in different parts of the City. A total of $110.7 million in special assessment and special tax bonds were outstanding at June 30, 2020. 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 is 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 the 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 decreased by $3.3 million from $46.6 million to $43.3 million as of June 30, 2020. The total revenues of $17.9 million, plus net transfers of 1.5 million, were under total expenditures of $22.7 million for FY 2020. The reason for the decrease in fund balance was a reduction in hotel special tax revenue in the Convention Center Facility District Revenue Fund of approximately 36.94 percent due to the shelter-in-place orders.

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. Unassigned fund balance improved by $4.9 million from a deficit of $32.6 million to a deficit of $27.7 million as of June 30, 2020. Net transfers primarily contributed to the improvement in fund balance. The reason for the reduction was due to a one-time transfer out to purchase the South Hall property in FY 2019.

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, 2020, the unrestricted net position was $28.2 million for the Airport, $189.1 million for the Wastewater Treatment System, $14.5 million for the Municipal Water System, $39.8 million for the Parking System, and $19.0 million for the San José Clean Energy fund. Net position for proprietary funds increased from $1.345 billion at June 30, 2019 to $1.457 billion at June 30, 2020, resulting in an increase of $112.1 million or 8.33 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 2020 budget in June 2019.

During the year ended June 30, 2020, there was a $182.8 million increase in the budgeted revenues between the original and final amended operating budget for the General Fund. The increase in budgeted revenues included all revenue categories except for Utility Tax, Franchise Tax, Business Tax, Other Tax, Licenses, Permits, and Fines, Charges for Current Services, and Investment Income categories.

Actual budgetary basis expenditures of $1.157 billion were $132.8 million less than the amended budget and $60.0 million less than the original budget due to planned expenditures not occurring in the fiscal year ended June 30, 2020.

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 $7.499 billion at June 30, 2020. 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, 2020, net capital assets increased by $10.1 million ($82.5 million decreased in governmental activities and $92.6 million increased in business-type activities) compared to net capital assets at June 30, 2019. The decrease in capital assets of $82.5 million in governmental activities is primarily due to depreciation expense of $227.7 million and deletions of capital assets with a net totaling $0.1 million, which included disposals of vehicles and equipment. The decrease was offset by acquisitions of $95.9 million and transfers of land and building of $49.4 from the Successor Agency fund. The increase of $92.6 million in capital assets in the business-type activities resulted from depreciation expense of $91.2 million, offset by additions of capital projects of $138.6 million and additions of $45.2 million in other capital improvements primarily at the Airport and the Wastewater Treatment Facility, respectively.

Total construction in progress (CIP) increased by $163.2 million from $355.2 million at June 30, 2019 to $518.4 million at June 30, 2020. Construction in progress for the governmental activities increased by $30.5 million primarily due to new CIP projects and additions to those projects that continued in progress. Business-type activities contributed an increase of $132.7 million to the total CIP as additions to the Airport and the Wastewater Treatment System totaling $138.6 million was offset by $5.9 million projects that were completed and placed in service. The completed Airport projects include the following: completion Terminal

Space Buildout and Bar3040 Boarding Ramp. The completed projects for Waste Water Treatment System include: Paint Shop Booth Replacement, and Plant Instrument Air System Upgrade.

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, 2020 and June 30, 2019 (in thousands):

	Governmental activities		Business-type activities		Total	
	2020	2019	2020	2019	2020	2019
Land	$ 503,456	$ 455,831	$ 137,938	$ 137,938	$ 641,394	$ 593,769
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	137,607	107,083	380,817	248,167	518,424	355,250
Buildings	947,179	940,112	1,015,043	1,057,678	1,962,222	1,997,790
Improvements, other than buildings	214,541	222,652	680,863	672,242	895,404	894,894
Infrastructure	3,291,406	3,449,292	-	-	3,291,406	3,449,292
Furniture and fixtures, vehicles, equipment	51,522	53,237	125,743	131,756	177,265	184,993
Total capital assets	$5,145,711	$5,228,207	$2,353,286	$2,260,663	$7,498,997	$7,488,870

Commitments outstanding as of June 30, 2020, related to governmental and business-type activities construction in progress totaled approximately $13.9 million and $291.4 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 fifteen (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 2019-2020 tax roll was $202.1 billion, which results in a total debt limit of $30.3 billion. As of June 30, 2020, the City had $546.0 million of Net General Obligation bonds outstanding which represents approximately 1.8 percent of the General Obligation bonds debt limit.

General Obligation Bonds and Other Bond Ratings

The City's general obligation credit ratings as of June 30, 2020 are Aa1/AA+/AA+ from Moody's Investors Service ("Moody's"), S&P Global Ratings ("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.

As of June 30, 2020, the credit ratings and the outlook of the credit rating agencies for the City of San José Financing Authority ("Authority"), lease revenue bonds are set forth in the table below.

Date	Series	Moody's	S&P	Fitch
June 30, 2020	2003A, 2006A, 2013A and 2013B	Aa2	AA	AA
	2007A, 2011A	Aa3	AA	AA
	Outlook	Stable	Stable	Stable

As of June 30, 2020, the underlying credit ratings of the City of San José Airport Revenue Bonds by Moody's, S&P and Fitch are: A2, A and A. The credit outlook for all three agencies is stable. Please see Note IV. D for information related to a rating action taken by S&P on October 1, 2020.

As of June 30, 2020, the underlying credit ratings of the San José -Santa Clara Clean Water Financing Authority Sewer Revenue Bonds by Moody's, S&P and Fitch are: Aa2, AAA and AAA. The credit 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 increased by $155.9 million to $2.395 billion, comprised of $1.088 billion of governmental activities and $1.307 billion of business-type activities. The increase of $155.9 million is primarily due to the City issued $502.0 million of General Obligation Bonds ("2019 GO Bonds") to finance projects and to refund the City's outstanding general obligation bonds totaling $356.1 million.

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

	As of June 30, 2020	As of June 30, 2019	Net Change
Governmental Activities:			
General obligation bonds	$ 545,984	$ 327,591	$ 218,393
San José Financing Authority			
Lease revenue bonds	432,760	458,821	(26,061)
Lease-purchase agreements	12,431	13,891	(1,460)
Special assessment bonds with limited			
governmental commitment	109,332	123,714	(14,382)
Sub-total	1,100,507	924,017	176,490
Business-Type Activities:			
Revenue bonds	1,200,240	1,240,165	(39,925)
Regional Wastewater Facility - Notes payable	106,920	89,076	17,844
Sub-total	1,307,160	1,329,241	(22,081)
Total:	$ 2,407,667	$ 2,253,258	$ 154,409

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

COVID-19

As of June 30, 2020, the City was awarded and/or appropriated $253.6 million in federal, state and local grants and relief funding, including approximately $178.3 million of Coronavirus Relief Fund ("CRF") money under the CARES Act, to address the impact of the COVID-19 pandemic. Subsequent awards and/or appropriations added $64.2 million to support the City's COVID-19 response efforts, totaling $317.8 million in pandemic-related funding through November 20, 2020.

COVID-19 Related Funding Sources(1)	Acronym	Amount
Coronavirus Relief Fund	CRF	$ 178,295,348
Community Development Block Grant Supplemental Funding	CDBG	12,841,925
Emergency Solutions Grant	ESG	35,520,318
Housing Opportunities for Person with AIDS	HOPWA	209,618
Federal Emergency Management Agency-Public Assistance	FEMA-PA	11,302,778
US Department of Justice-Bureau of Justice Assistance	BJA-Byrne	865,998
Federal Emergency Management Agency-Assistance for Firefighters	FEMA-AFG-S	301,124
Housing Opportunities for Person with AIDS-Competitive	HOPWA-Comp	140,108
California Emergency Homeless Housing	SB89	3,919,821
California Homeless Housing, Assistance & Prevention Grant	HHAP	28,498,789
HOME Investments Partnerships Program	HOME	11,550,646
California Project Homekey	HomeKey	12,230,477
California Affordable Housing	SB2	8,697,292
Housing Authority Litigation Funds	HALA	2,000,000
Santa Clara County Office of Education	SCCOE	400,000
Continuity of Operations Reserve	General Fund	11,000,000
Total Funding Sources		**$ 317,774,242**

(1) In addition to the moneys in the above COVID-19 Related Sources Table or the Planned COVID-19 Related Uses Table, the Norman Y. Mineta San José International Airport was appropriated $65,633,236 through the CARES Act Airport Grant Program ("AGP") on April 14, 2020. This AGP is overseen by the U.S. Department of Transportation Federal Aviation Administration and will be used solely to support airport activities.

As of June 30, 2020, the City has expended $70.9 million of these various sources of moneys. These expenditures include food distribution, emergency housing and shelter, local business and residential assistance and various public health functions in partnership with the County of Santa Clara. The remaining amount, along with a contribution from the City's Continuity of Operations reserve fund of $11.0 million, have been appropriated and partially expended for projects, in accordance with their respective grant or other funding authorizations, to continue emergency and recovery efforts. CRF funding is required to be refunded to the federal Treasury Department if not expended by December 30, 2020.

Planned COVID-19 Related Uses	Coronavirus Relief Fund Allocation	Continuity of Operations Reserve	Other Sources (Federal, State)	Total Amount
BeautifySJ	$4,000,000	$ 3,000,000	$ -	$ 7,000,000
Communications and Translation Services	706,120	-	-	706,120
Consulting and Planning Support	3,038,753	-	-	3,038,753
COVID-19 Personal Services	70,019,746	-	865,998	70,885,744
Digital Inclusion	-	6,000,000	400,000	6,400,000
Facilities Improvements	5,640,222	-	-	5,640,222
FEMA Local Match	7,000,000	-	-	7,000,000
Food and Necessities	23,960,072	-	5,778,902	29,738,974
Homeless Sheltering and Support	22,395,362	-	116,973,579	139,368,941
Local Assistance	30,017,605	-	-	30,017,605
PPE & Janitorial Services	192,096	-	4,460,415	4,652,511
Remote Work Facilitation	725,372	2,000,000	-	2,725,372
Testing, Tracing and Isolation	10,600,000	-	-	10,600,000
Total Uses	**$ 178,295,348**	**$ 11,000,000**	**$ 128,478,894**	**$ 317,774,242**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Due to careful forecasting, monitoring, and management, General Fund 2019-2020 revenues and expenditures ended the year very close to the revised budgeted expectations brought about by the onset of COVID-19. With COVID-19 impacting both the short-term and long-term budgetary outlook, the 2020-2021 Adopted Operating Budget closed a $77.6 million General Fund shortfall. The shortfall was resolved with a mix of ongoing solutions (67%) and one-time solutions (33%), including $11 million from the Budget Stabilization Reserve Fund, reducing the reserve from $32 million to $21 million. This mix of ongoing and one-time solutions responsibly addressed the budgetary impacts from COVID-19 given the short timeframe in which the City had able to react, and given that the status of the pandemic and overall health of the economy are still very much uncertain.

- The FY 2021 Adopted Budget includes reduced staffing levels as a result of the economic impacts from the COVID-19. Overall, the level of staffing will decrease by a net 55 positions, from 6,647 full-time equivalent positions in the FY 2020 Adopted Budget to 6,592 positions in the FY 2021 Adopted Budget. This one percent decrease takes the City farther away from 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, 2020 prepared by the actuary for the Police and Fire Department Retirement Plan (PFDRP), the net position of the Defined Benefit Pension Plan was 71.51 percent of the total pension liability. The total pension liability was $5.117 billion, and the fiduciary net position was $3.702 billion, resulting in a net pension liability of $1.475 billion.

- As reported in the GASB 67/68 Report as of June 30, 2020 prepared by the actuary for the Federated City Employees' Retirement System (FCERS), the net position of the Defined Benefit Pension Plan was 51.07 percent of the total pension liability. The total pension liability was $4.323 billion, and the fiduciary net position was $2.208 billion, resulting in a net pension liability of $2.115 billion.

- As of June 30, 2020, the net position of the FCERS's OPEB Plan was 46.67 percent of the total OPEB liability. The actuary reported total OPEB liability for postemployment healthcare benefits was $649.9 million and the fiduciary net position was $303.3 million, resulting in a net OPEB liability of $346.6 million.

- As of June 30, 2020, the net position of PFRDP's OPEB Plan was 28.73 percent of the total OPEB liability. The actuary reported total OPEB liability for postemployment healthcare benefits was $725.8 million and the fiduciary net position was $208.5 million, resulting in a net OPEB liability of $517.3 million.

- For FY 2021, 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	113.79% (2)	14.18%	115.31% (2)	15.53%	120.32% (2)	7.92%
Postemployment Healthcare Benefits	16.43%	-	14.13%	-	6.49%	6.49%

(1) The rates are the Retirement Board adopted rates based on the June 30, 2019, actuarial valuations.
(2) PFDRP and FCERS Tier 1 pension rates are discounted because the City prefunded those amounts in FY 2021.

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.*

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, 2020
($000's)

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in pooled cash and investments held in City Treasury	$ 1,433,115	765,366	2,198,481
Other cash and investments	7	-	7
Receivables (net of allowances for uncollectibles)	139,588	86,644	226,232
Prepaid expenses, advances and deposits	-	207	207
Inventories	1,247	784	2,031
Notes receivable	10,020	-	10,020
Loans receivable (net of allowances for uncollectibles)	289,494	-	289,494
Advances and deposits	446	1,391	1,837
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	66,075	80,821	146,896
Cash and investments held with fiscal agent	301,097	103,851	404,948
Other cash and investments	8,954	2,294	11,248
Receivables (net of allowances for uncollectibles)	-	2,039	2,039
Prepaid expenses, advances and deposits	-	2	2
Prepaid bond insurance costs	-	93	93
Prepaid bond insurance costs (net of accumulated amortization)	-	1,848	1,848
Other assets	57,988	-	57,988
Net other postemployment benefits asset	-	715	715
Capital assets (net of accumulated depreciation):			
Nondepreciable	641,063	531,637	1,172,700
Depreciable	4,504,648	1,821,649	6,326,297
Total assets	7,453,742	3,399,341	10,853,083
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	329	7,639	7,968
Deferred outflows of resources related to pensions	642,710	73,973	716,683
Deferred outflows of resources related to other postemployment benefits	98,703	8,917	107,620
Total deferred outflows of resources	741,742	90,529	832,271
LIABILITIES			
Accounts payable	71,675	102,648	174,323
Accrued salaries, wages and payroll taxes	42,006	5,911	47,917
Interest payable	9,517	20,350	29,867
Due to outside agencies	485	-	485
Short-term notes payable	72,526	61,930	134,456
Unearned revenue	136,936	2,645	139,581
Advances, deposits, and reimbursable credits	7,799	6,217	14,016
Long-term payable to SARA	733	-	733
Other liabilities	42,075	-	42,075
Long-term obligations:			
Due within one year	119,962	58,160	178,122
Due in more than one year:			
Net pension liability	3,008,528	374,697	3,383,225
Net other postemployment benefits liability	892,094	84,451	976,545
Other long-term obligations	1,197,214	1,303,542	2,500,756
Total liabilities	5,601,550	2,020,551	7,622,101
DEFERRED INFLOWS OF RESOURCES			
Gain on refundings of debt	4,152	-	4,152
Deferred inflows of resources related to pensions	58,838	3,964	62,802
Deferred inflows of resources related to other postemployment benefits	27,430	8,253	35,683
Total deferred inflows of resources	90,420	12,217	102,637
NET POSITION			
Net investment in capital assets	4,262,597	1,090,408	5,353,005
Restricted for:			
Debt service	32,457	37,988	70,445
Capital projects	354,783	38,116	392,899
Community services	710,609	-	710,609
Public safety	3,152	-	3,152
Unrestricted (deficit)	(2,860,084)	290,590	(2,569,494)
Total net position	$ 2,503,514	1,457,102	3,960,616

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, 2020
($000's)

			Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs		**Expenses**	**Fees, Fines, and Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business -Type Activities**	**Total**
Governmental activities:								
General government	$	296,294	19,151	77,187	-	(199,956)	-	(199,956)
Public safety		813,126	80,077	11,825	-	(721,224)	-	(721,224)
Community services		301,697	94,080	61,835	-	(145,782)	-	(145,782)
Sanitation		183,197	171,280	79	-	(11,838)	-	(11,838)
Capital maintenance		476,251	33,924	38,325	149,459	(254,543)	-	(254,543)
Interest and fiscal charges		44,771	-	-	-	(44,771)	-	(44,771)
Total governmental activities		**2,115,336**	**398,512**	**189,251**	**149,459**	**(1,378,114)**	**-**	**(1,378,114)**
Business -Type activities:								
Norman Y. Mineta San José International Airport		232,002	211,141	486	3,076	-	(17,299)	(17,299)
Wastewater Treatment System		252,033	322,391	-	3,221	-	73,579	73,579
Municipal Water System		51,574	52,020	-	37	-	483	483
Parking System		22,559	14,763	-	-	-	(7,796)	(7,796)
San José Clean Energy		301,115	336,951	-	-	-	35,836	35,836
Total business-type activities		**859,283**	**937,266**	**486**	**6,334**	**-**	**84,803**	**84,803**
Total	$	**2,974,619**	**1,335,778**	**189,737**	**155,793**	**(1,378,114)**	**84,803**	**(1,293,311)**
			General revenues:					
			Taxes and franchise fees:					
			Property and other taxes			531,075	-	531,075
			Utility			120,213	-	120,213
			Franchise			44,436	-	44,436
			Transient occupancy			35,329	-	35,329
			Business taxes			71,978	-	71,978
			Sales taxes			260,558	-	260,558
			State of California in-lieu			826	-	826
			Unrestricted interest and investment income			39,635	33,030	72,665
			Other revenue			56,435	654	57,089
			Gain on sale of capital assets			5,231	-	5,231
			Transfers			6,391	(6,391)	-
			Total general revenues and transfers			**1,172,107**	**27,293**	**1,199,400**
			Change in net position			**(206,007)**	**112,096**	**(93,911)**
			Net position - beginning			2,709,521	1,345,006	4,054,527
			Net position - ending			**$ 2,503,514**	**1,457,102**	**3,960,616**

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2020
($000's)

		General Fund	Housing Activities	Low and Moderate Income Housing Asset
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	588,848	112,930	152,671
Receivables (net of allowance for uncollectibles)		79,924	1,993	2,169
Due from other funds		2,116	-	-
Notes receivable		-	-	-
Loans receivables (net of allowance for uncollectibles)		1,241	69,054	216,440
Advances and deposits		121	-	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		1,359	14,904	-
Cash and investments held with fiscal agent		-	-	-
Other cash and investments		-	-	-
Advances to other funds		3,297	-	-
Other assets		-	2,300	49,776
Total assets	$	676,906	201,181	421,056
LIABILITIES				
Accounts payable	$	21,886	5,935	97
Accrued salaries, wages, and payroll taxes		37,209	148	342
Due to other funds		-	-	-
Due to outside agencies		373	-	-
Short-term notes payable		-	-	-
Unearned revenue		113,514	8,841	-
Advances, deposits, and reimbursable credits		67	-	-
Advances from other funds		-	-	-
Long-term advances from SARA		-	-	733
Other liabilities		41,545	-	-
Total liabilities		214,594	14,924	1,172
DEFERRED INFLOWS OF RESOURCES		2,080	18,156	4,805
FUND BALANCES				
Nonspendable		121	-	-
Restricted		2,007	168,101	415,079
Committed		95,414	-	-
Assigned		283,322	-	-
Unassigned		79,368	-	-
Total fund balances		460,232	168,101	415,079
Total liabilities, deferred inflows of resources and fund balances	$	676,906	201,181	421,056

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
-	462	557,399	1,412,310
15,417	-	39,742	139,245
-	-	1,503	3,619
-	10,000	20	10,020
-	-	2,759	289,494
5	-	320	446
8,045	-	41,767	66,075
36,818	38,038	226,241	301,097
-	-	8,454	8,454
-	-	-	3,297
-	-	5,912	57,988
60,285	48,500	884,117	2,292,045
2	1	43,582	71,503
-	-	3,541	41,240
-	248	3,371	3,619
-	112	-	485
-	72,526	-	72,526
-	-	14,581	136,936
1,578	-	6,154	7,799
-	3,297	-	3,297
-	-	-	733
317	-	213	42,075
1,897	76,184	71,442	380,213
15,045	-	2,563	42,649
-	-	-	121
43,343	-	662,635	1,291,165
-	-	51,460	146,874
-	-	96,038	379,360
-	(27,684)	(21)	51,663
43,343	(27,684)	810,112	1,869,183
60,285	48,500	884,117	2,292,045

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2020
($000's)

Total fund balances-governmental funds (Page 27)		$ 1,869,183
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	$ 503,456	
Construction in progress	137,607	
Infrastructure assets	11,564,664	
Other capital assets	2,128,299	
Accumulated depreciation	(9,192,850)	
Total capital assets		5,141,176
Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds.		27,604
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.		(3,823)
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.		15,045
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.		(9,517)
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.		22,838
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	$ (1,100,507)	
Accrued vacation, sick leave and compensatory time	(81,566)	
Estimated liability for self-insurance	(125,630)	
Other	(5,812)	
Total long-term obligations		(1,313,515)
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	$ (3,008,528)	
Deferred outflows of resources	642,710	
Deferred inflows of resources	(58,838)	
		(2,424,656)
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	$ (892,094)	
Deferred outflows of resources	98,703	
Deferred inflows of resources	(27,430)	
		(820,821)
Net position of governmental activities (Page 24)		$ 2,503,514

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

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City of San José
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2020
($000's)

	General Fund	Housing Activities	Low and Moderate Income Housing Asset
REVENUES			
Taxes and special assessments	$ 618,027	-	-
Sales taxes	260,558	-	-
Licenses, permits, and fines	77,747	-	-
Intergovernmental	90,822	17,813	-
Charges for current services	48,535	-	-
Rent	-	-	-
Investment income	14,512	3,889	20,822
Other revenue	60,931	25,330	7,974
Total revenues	1,171,132	47,032	28,796
EXPENDITURES			
Current:			
General government	225,598	-	-
Public safety	641,297	-	-
Community services	121,268	31,019	10,867
Sanitation	4,014	-	-
Capital maintenance	86,008	-	-
Capital outlay	23,471	-	78
Debt service:			
Principal	1,460	-	-
Interest and fiscal charges	700	-	-
Total expenditures	1,103,816	31,019	10,945
Excess (deficiency) of revenues over (under) expenditures	67,316	16,013	17,851
OTHER FINANCING SOURCES (USES)			
Bonds issued	-	-	-
Bond premium	-	-	-
Payment to refunded bond escrow agent	-	-	-
Proceeds from sale of capital assets	5,352	-	-
Transfers in	14,492	3,920	-
Transfers out	(41,427)	(22)	(420)
Total other financing sources (uses)	(21,583)	3,898	(420)
Net change in fund balances	45,733	19,911	17,431
Fund balances - beginning	414,499	148,190	397,648
Fund balances - ending	$ 460,232	168,101	415,079

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
16,358	-	185,830	820,215
-	-	-	260,558
-	-	-	77,747
-	-	121,319	229,954
-	-	195,210	243,745
-	-	49,387	49,387
1,190	908	25,867	67,188
313	-	25,385	119,933
17,861	908	602,998	1,868,727
-	-	3,771	229,369
-	-	1,543	642,840
-	-	99,499	262,653
-	-	178,611	182,625
584	-	211,640	298,232
19	-	66,599	90,167
14,485	24,305	58,784	99,034
7,600	22,633	18,919	49,852
22,688	46,938	639,366	1,854,772
(4,827)	(46,030)	(36,368)	13,955
-	-	502,020	502,020
-	-	80,821	80,821
-	-	(297,366)	(297,366)
-	-	-	5,352
7,595	52,193	57,766	135,966
(6,054)	(1,200)	(81,691)	(130,814)
1,541	50,993	261,550	295,979
(3,286)	4,963	225,182	309,934
46,629	(32,647)	584,930	1,559,249
43,343	(27,684)	810,112	1,869,183

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, 2020
($000's)

Net change in fund balances--total governmental funds (Page 31)		$ 309,934
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	$ 90,167	
Depreciation expense	(225,683)	
Excess of depreciation expense over capital outlay		(135,516)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)		
Donated assets and other additions	$ 4,088	
Transfers from SARA	49,444	
Proceeds from sale of capital assets	(5,352)	
Gain on disposal of assets	5,231	
		53,411
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.		(307)
Amortization of deferred inflows of resources and deferred outflows of resources resulting from the deferred refunding gain and losses.		(4,471)
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.		394,940
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	$ (399)	
Amortization of premiums and discounts on bonds issued	9,951	
Total net interest expense and amortization of discount/premium		9,552
Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net position.		(582,841)
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.		(25,580)
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.		2,267
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	$ (7,424)	
Net decrease in estimated liability for self-insurance	3,030	
Net decrease in other liabilities	2,070	
Total expenditures		(2,324)
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.		(207,589)
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.		(17,483)
Change in net position of governmental activities (Page 25)		$ (206,007)

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

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City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2020
($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	$ 155,829	500,778	31,835	48,122	28,802	765,366	20,805
Other cash and investments	-	-	-	-	-	-	7
Receivables (net of allowance for uncollectibles)	15,251	10,778	9,557	360	50,698	86,644	343
Prepaid expenses, advances and deposits	207	-	-	-	-	207	-
Inventories	-	784	-	-	-	784	1,247
Total unrestricted current assets	171,287	512,340	41,392	48,482	79,500	853,001	22,402
Restricted assets:							
Equity in pooled cash and investments held in City Treasury	49,994	8,622	-	2,205	20,000	80,821	-
Cash and investments held with fiscal agent	103,851	-	-	-	-	103,851	-
Other cash and investments	-	2,294	-	-	-	2,294	500
Receivables (net of allowances for uncollectibles)	2,039	-	-	-	-	2,039	-
Prepaid expenses, advances and deposits	2	-	-	-	-	2	-
Current portion of prepaid bond insurance	93	-	-	-	-	93	-
Total restricted assets	155,979	10,916	-	2,205	20,000	189,100	500
Total current assets	327,266	523,256	41,392	50,687	99,500	1,042,101	22,902
Noncurrent assets:							
Prepaid bond insurance (net of accumulated amortization)	1,848	-	-	-	-	1,848	-
Advances and deposits	1,391	-	-	-	-	1,391	-
Net other postemployment benefits asset	-	-	-	-	715	715	-
Capital assets (net of accumulated depreciation):							
Nondepreciable	126,419	373,771	7,880	23,567	-	531,637	-
Depreciable	1,163,471	561,232	65,867	31,079	-	1,821,649	4,535
Total noncurrent assets	1,293,129	935,003	73,747	54,646	715	2,357,240	4,535
Total assets	1,620,395	1,458,259	115,139	105,333	100,215	3,399,341	27,437
DEFERRED OUTFLOWS OF RESOURCES							
Loss on refundings of debt	7,639	-	-	-	-	7,639	-
Deferred outflows of resources related to pensions	18,823	46,513	4,861	1,707	2,069	73,973	-
Deferred outflows of resources related to other postemployment benefits	2,306	5,649	545	183	234	8,917	-
Total deferred outflows of resources	$ 28,768	52,162	5,406	1,890	2,303	90,529	-

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, 2020
($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	$ 22,358	34,920	2,195	198	42,853	102,524	172
Accrued salaries, wages, and payroll taxes	1,533	3,682	359	100	237	5,911	766
Interest payable	23	174	-	-	-	197	-
Short-term notes payable	51,930	-	-	-	10,000	61,930	-
Accrued vacation, sick leave and compensatory time	1,975	4,042	244	188	316	6,765	-
Estimated liability for self-insurance	634	432	175	-	7,907	9,148	-
Advances and deposits payable	1,898	-	-	85	858	2,841	-
Unearned revenue	2,291	-	-	-	-	2,291	-
Total current liabilities unrestricted	82,642	43,250	2,973	571	62,171	191,607	938
Current liabilities payable from restricted assets:							
Accounts payable and accrued liabilities	124	-	-	-	-	124	-
Interest payable	20,124	29	-	-	-	20,153	-
Unearned revenue	354	-	-	-	-	354	-
Current portion of bonds payable, net	36,790	5,457	-	-	-	42,247	-
Total current liabilities payable from restricted assets	57,392	5,486	-	-	-	62,878	-
Total current liabilities	140,034	48,736	2,973	571	62,171	254,485	938
Noncurrent liabilities:							
Accrued vacation, sick leave and compensatory time	582	585	-	-	-	1,167	3,661
Estimated liability for self-insurance	2,047	1,572	785	-	-	4,404	-
Advance contributions from participating agencies	-	1,700	-	-	-	1,700	-
Advances, deposits, and reimbursable credits	-	-	1,676	-	-	1,676	-
Pollution remediation obligation	-	33,058	-	-	-	33,058	-
Notes payable	-	106,920	-	-	-	106,920	-
Bonds payable (net of premium/discount)	1,157,993	-	-	-	-	1,157,993	-
Net pension liability	112,615	232,042	20,460	8,424	1,156	374,697	-
Net other postemployment benefits liability	20,341	57,226	5,619	1,265	-	84,451	-
Total noncurrent liabilities	1,293,578	433,103	28,540	9,689	1,156	1,766,066	3,661
Total liabilities	1,433,612	481,839	31,513	10,260	63,327	2,020,551	4,599
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources related to pensions	996	2,501	277	112	78	3,964	-
Deferred inflows of resources related to other postemployment benefits	2,134	5,273	507	186	153	8,253	-
Total deferred inflows of resources	3,130	7,774	784	298	231	12,217	-
NET POSITION							
Net investment in capital assets	139,388	822,627	73,747	54,646	-	1,090,408	4,535
Restricted for debt service	13,644	2,139	-	2,205	20,000	37,988	-
Restricted for capital projects and other agreements	31,151	6,965	-	-	-	38,116	-
Unrestricted	28,238	189,077	14,501	39,814	18,960	290,590	18,303
Total net position	$ 212,421	1,020,808	88,248	96,665	38,960	1,457,102	22,838

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2020
($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	$ 59,796	183,990	52,020	14,763	336,951	647,520	142,770
Rentals and concessions	20,624	14,313	-	-	-	34,937	-
Service connection, engineering and inspection	84,372	4,396	-	-	-	88,768	-
Operating contributions from participating agencies	-	114,539	-	-	-	114,539	-
Other	10,499	5,153	-	-	-	15,652	-
Total operating revenues	175,291	322,391	52,020	14,763	336,951	901,416	142,770
OPERATING EXPENSES							
Operations and maintenance	81,442	183,730	45,696	8,476	293,379	612,723	140,666
General and administrative	24,159	34,311	3,063	8,505	6,691	76,729	-
Depreciation	55,383	31,315	2,815	1,714	-	91,227	2,004
Materials and supplies	-	415	-	167	32	614	-
Total operating expenses	160,984	249,771	51,574	18,862	300,102	781,293	142,670
Operating income (loss)	14,307	72,620	446	(4,099)	36,849	120,123	100
NONOPERATING REVENUES (EXPENSES)							
Passenger facility charges	20,456	-	-	-	-	20,456	-
Customer facility charges	15,394	-	-	-	-	15,394	-
Operating grants	486	-	-	-	-	486	-
Investment income	11,265	17,747	1,135	1,869	1,014	33,030	876
Interest expense	(59,108)	(2,226)	-	-	(1,013)	(62,347)	-
Participating airline net revenue sharing	(11,910)	-	-	-	-	(11,910)	-
Contributions for maintenance reserves	-	(36)	-	-	-	(36)	-
Gain on disposal of capital assets	-	-	-	-	-	-	50
Other expenses miscellaneous	-	-	-	(3,573)	-	(3,573)	-
Other expenses for loan to SARA	-	-	-	(124)	-	(124)	-
Other revenues (expenses), net	427	164	60	3	-	654	2
Net nonoperating revenues (expenses)	(22,990)	15,649	1,195	(1,825)	1	(7,970)	928
Income (loss) before capital contributions and transfers	(8,683)	88,269	1,641	(5,924)	36,850	112,153	1,028
Capital contributions	3,076	3,221	37	-	-	6,334	-
Transfers in	487	-	-	-	-	487	1,500
Transfers out	-	(1,900)	(687)	(3,524)	(767)	(6,878)	(261)
Changes in net position	(5,120)	89,590	991	(9,448)	36,083	112,096	2,267
Net position - beginning	217,541	931,218	87,257	106,113	2,877	1,345,006	20,571
Net position - ending	$ 212,421	1,020,808	88,248	96,665	38,960	1,457,102	22,838

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

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City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020
($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	$ 170,139	263,722	53,175	14,761	328,538	830,335	-
Cash received from interfund services provided	-	-	-	-	-	-	142,902
Payments to suppliers	(39,211)	(68,734)	(38,046)	(13,854)	(285,404)	(445,249)	(114,483)
Payments for employees	(34,988)	(90,452)	(6,431)	(2,839)	(4,847)	(139,557)	(26,821)
Payments for City services	(23,566)	-	-	-	-	(23,566)	-
Payments to airlines	(13,943)	-	-	-	-	(13,943)	-
Claims paid	(110)	-	-	-	-	(110)	-
Other receipts	519	58,214	-	-	-	58,733	-
Net cash provided by (used in) operating activities	58,840	162,750	8,698	(1,932)	38,287	266,643	1,598
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfer from other funds	487	-	-	-	-	487	1,500
Transfer to other funds	-	(1,900)	(687)	(3,524)	(767)	(6,878)	(261)
Operating grants	415	-	-	-	-	415	-
Payments from other funds	-	-	1	-	-	1	-
Other expenses	-	-	-	(3,697)	-	(3,697)	-
Long-term receivable from SARA	-	-	-	17,863	-	17,863	-
Net cash provided by (used in) noncapital and related financing activities	902	(1,900)	(686)	10,642	(767)	8,191	1,239
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Passenger facility charges received	23,390	-	-	-	-	23,390	-
Customer facility charges received	15,912	-	-	-	-	15,912	-
Capital grants received	3,912	2,772	-	-	-	6,684	-
Acquisition and construction of capital assets	(38,140)	(140,154)	(2,318)	(824)	-	(181,436)	(1,563)
Proceeds from commercial paper	3,000	-	-	-	-	3,000	-
Proceeds from line of credit	-	17,844	-	-	-	17,844	-
Principal payment on commercial paper	(3,286)	-	-	-	-	(3,286)	-
Principal paid on debt	(31,040)	(5,175)	-	-	-	(36,215)	-
Interest paid on debt	(62,876)	(2,491)	-	-	-	(65,367)	-
Fees paid on letter of credit	-	-	-	-	(463)	(463)	-
Fees paid on commercial paper	-	-	-	-	(550)	(550)	-
Advances and deposits returned	70	-	-	-	-	70	-
Net cash used in capital and related financing activities	(89,058)	(127,204)	(2,318)	(824)	(1,013)	(220,417)	(1,563)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from sales and maturities of investments	33,593	-	-	-	-	33,593	-
Purchase of investments	(13,259)	-	-	-	-	(13,259)	-
Interest received	10,825	17,873	1,144	1,869	1,014	32,725	876
Land and building rentals	-	201	-	-	-	201	-
Net cash provided by investing activities	31,159	18,074	1,144	1,869	1,014	53,260	876
Net change in cash and cash equivalents	1,843	51,720	6,838	9,755	37,521	107,677	2,150
Cash and cash equivalents - beginning	287,240	459,974	24,997	40,572	11,281	824,064	19,162
Cash and cash equivalents - ending	$ 289,083	511,694	31,835	50,327	48,802	931,741	21,312

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

City of San José
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2020
($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)	$	14,307	72,620	446	(4,099)	36,849	120,123	100
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation		55,383	31,315	2,815	1,714	-	91,227	2,004
Participating airline net revenue sharing		(11,910)	-	-	-	-	(11,910)	-
Other nonoperating revenues		519	-	60	3	-	582	2
Decrease (increase) in:								
Accounts receivable		(1,717)	(454)	1,096	(6)	(8,414)	(9,495)	131
Inventories		-	(11)	-	-	-	(11)	(97)
Prepaid expenses, advances and deposits		(104)	-	-	-	-	(104)	-
Increase (decrease) in:								
Accounts payable and accrued liabilities		(3,089)	9,576	1,747	(702)	7,826	15,358	(557)
Accrued salaries, wages, and payroll taxes		-	453	37	(15)	67	542	-
Accrued vacation, sick leave and compensatory time		-	357	59	27	190	633	580
Estimated liability for self-insurance		146	(298)	364	-	1,117	1,329	-
Unearned revenue		(1,535)	-	-	-	-	(1,535)	(565)
Net pension liability, deferred outflows and inflows of pension related resources		7,351	19,274	2,379	1,245	(32)	30,217	-
Net other postemployment benefits liability, deferred outflows and inflows of postemployment benefits related resources		(562)	(3,140)	(305)	(90)	(174)	(4,271)	-
Advances, deposits, and reimbursable payable		51	-	-	(9)	858	900	-
Other liabilities		-	33,058	-	-	-	33,058	-
Total adjustments								
Net cash provided by (used in) operating activities	$	58,840	162,750	8,698	(1,932)	38,287	266,643	1,598
Reconciliation of cash and cash equivalents to the statement of net position:								
Equity in pooled cash and investments held in City Treasury								
Unrestricted	$	155,829	500,778	31,835	48,122	28,802	765,366	20,805
Restricted		49,994	8,622	-	2,205	20,000	80,821	-
Cash and investments held with fiscal agent		83,260	-	-	-	-	83,260	-
Other cash and investments		-	2,294	-	-	-	2,294	507
Cash and cash equivalents	$	289,083	511,694	31,835	50,327	48,802	931,741	21,312
Noncash noncapital, capital and related financing, and investing activities:								
Capital contributions from developers	$	-	448	37	-	-	485	-
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		1,928	-	-	-	-	1,928	-
Change in capital related receivables		836	-	-	-	-	836	-
Change in fair value of investments		(866)	-	-	-	-	(866)	-
Increase (decrease) in operating grants receivables		(71)	-	-	-	-	(71)	-

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

City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2020
($000's)

		Pension Trust Funds	Private-Purpose Trust Funds	Agency Fund
ASSETS				
Current assets:				
Equity in pooled cash and investments held in City Treasury	$	-	204	6,077
Cash and investments		-	6,525	-
Investments of retirement systems:				
Investments:				
Public equity		3,040,406	-	-
Short-term investment grade bonds		139,419	-	-
Investment grade bonds		443,962	-	-
Private equity		639,065	-	-
Market neutral strategies		202,390	-	-
Immunized cash flows		256,835	-	-
Core real estate		265,948	-	-
Commodities		24,594	-	-
Private debt		278,265	-	-
Emerging market bonds		184,455	-	-
Growth real estate		208,227	-	-
Treasury inflation protected securities		118,395	-	-
Cash and cash equivalents		110,892	-	-
Private real assets		54,269	-	-
International currency contracts, net		(31)	-	-
Long-term government bonds		154,847	-	-
High yield bonds		117,830	-	-
Total investments of retirement systems		6,239,768	-	-
Receivables:				
Accrued investment income		150,645	-	35
Employee contributions		3,522	-	-
Employer contributions		19,603	-	-
Other		47,350	118	-
Restricted cash and investments held with fiscal agent		-	118,994	-
Total current assets		6,460,888	125,841	6,112
Noncurrent assets:				
Advances to the City of San José		-	733	-
Accrued interest		-	1,152	-
Loans receivable, net		-	4,108	-
Advances and deposits		-	5	-
Prepaid bond insurance		-	1,675	-
Capital assets:				
Nondepreciable		-	2,077	-
Depreciable, net		7,090	696	-
Total noncurrent assets		7,090	10,446	-
Total assets		6,467,978	136,287	6,112
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refundings of debt	$	-	34,172	-

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, 2020
($000's)

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Fund
LIABILITIES			
Current liabilities:			
Accounts payable	$ -	174	-
Due to brokers	42,547	-	-
Accrued interest payable	-	21,270	-
Unearned revenue	-	8	-
Other liabilities	3,552	-	6,112
Total current liabilities	46,099	21,452	6,112
Long-term liabilities:			
Due within one year	-	97,455	-
Due in more than one year	-	1,419,981	-
Total noncurrent liabilities	-	1,517,436	-
Total liabilities	46,099	1,538,888	6,112
NET POSITION			
Restricted for:			
Employees' pension benefits	5,910,037	-	-
Employees' postemployment healthcare benefits	511,842	-	-
Redevelopment dissolution and other purposes	-	(1,368,429)	-
Total net position (deficit)	$ 6,421,879	(1,368,429)	-

City of San José
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2020
($000's)

ADDITIONS		**Pension Trust Funds**	**Private-Purpose Trust Funds**
Redevelopment property tax revenues	$	-	182,000
Investment income:			
Interest		29,786	978
Dividends		21,059	-
Net rental income		-	10
Net change in fair value of plan investments		210,029	-
Investment earnings/(expenses)		(25,562)	-
Total investment income		235,312	988
Contributions:			
Employer		423,691	-
Employees		76,554	-
Total contributions		500,245	-
Development fees		-	97
Gain on sale of revenue participation		-	867
Other		-	78
Total additions		735,557	184,030
DEDUCTIONS			
General and administrative		11,138	888
Project expenses		-	406
Pass through amounts to the County of Santa Clara		-	42,492
Transfer of properties to the City of San José		-	50,599
Depreciation		-	118
Interest on debt		-	51,218
Health insurance premiums		55,810	-
Refunds of contributions		1,429	-
Retirement and other benefits:			
Death benefits		28,627	-
Retirement benefits		417,680	-
Veba transfer		13	-
Total deductions		514,697	145,721
Change in net position		220,860	38,309
Net position restricted for pension benefits, postemployment healthcare benefits and other purposes:			
Beginning of year		6,201,019	(1,406,738)
End of year	$	6,421,879	(1,368,429)

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 former Redevelopment Agency of the City of San José (the "Agency"). 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 2019-20 (also known as "FY 2020").

  Separate financial reports for City departments and component units for the FY 2020, 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
- San José Clean Energy

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, 2020, the City implemented the following Governmental Accounting Standards Board (the "GASB") Statements:

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement extends the effect dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. This statement amends Statement No. 83, *Certain Asset Retirement Obligations*, paragraph 30; Statement No. 84, *Fiduciary Activities*, paragraph 27; Statement No. 87, *Leases*, paragraph 92; Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, paragraph 7; Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, paragraph 6; Statement No. 90, *Majority Equity Interests*, paragraph 10; Statement No. 91, *Conduit Debt Obligations*, paragraph 27; Statement No. 92, *Omnibus 2020*, paragraphs 4, 5, and 14; Statement No. 93, *Replacement of Interbank Offered Rates*, paragraph 15; Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*, paragraphs 7 and 8; Implementation Guide No. 2018-1, *Implementation Guidance Update – 2018*, paragraph 6; Implementation Guide No. 2019-1, *Implementation Guidance Update - 2019*, paragraph 6; Implementation Guide No. 2019-2, *Fiduciary Activities*, paragraph 6; and Implementation Guide No. 2019-3, *Leases*, paragraph 5.

The City applied GASB Statement No. 95, except for GASB Statement No. 83, *Certain Asset Retirement Obligations*, paragraph 30 and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, paragraph 7, which were implemented in FY 2019.

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, 2022 due to the implementation of GASB Statement No. 95 and will be applied to all remaining funds.

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, 2021 due to the implementation of GASB Statement No. 95.

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, 2022 due to the implementation of GASB Statement No. 95.

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, 2021 due to the implementation of GASB Statement No. 95.

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, 2023 due to the implementation on GASB Statement No. 95.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and Terminology used to refer to derivative instruments. The requirements of this statement are effective as follows: The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021. The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021; The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). This statement achieves that objective by: Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; Removing London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. Application of Statement No. 94 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The subscription term includes the period during which a government has a noncancelable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option). Under this statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods. The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term. Application of Statement No. 96 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* - an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32* . The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Application of Statement No. 97 is effective as follows: The requirements of this statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

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, 2020, the total investment income from these investments assigned and transferred to the General Fund was approximately $1,787,000.

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). The City was also required to establish a claims loss reserve for the Regional Wastewater Facility OCIP in the aggregate amount of $2,657,000 available in a cash working fund. A total of $2,126,000 of the claims loss reserve has been deposited with Old Republic Insurance Company ("Old Republic") and has been recorded as advances and deposits. The last installment of $531,000 will be due on or around July 2021. The claims loss reserve funds are available for Old Republic to pay claims within the City's deductible of up to $250,000 per occurrence.

8. Other Assets

Other Assets primarily consist of real properties acquired outright and/or through foreclosure in connection with land acquired for the purpose of future development of affordable housing, these assets are recorded at the lower of cost or estimated net realizable value.

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 bargain 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.

During the COVID-19 pandemic in 2020, the employee vacation accrual cap was temporarily raised from twice the employee's annual accrual rate, to three times the employee's annual accrual rate. The temporary change took effect on April 19, 2020 and is scheduled to end on December 26, 2020.

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 summarize 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
Peace Officer Park Ranger Association	POPRA	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
Peace Officer Park Ranger Association	POPRA	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, as described in Note III.F.13. 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, 2020, the government-wide statement of net position reported restricted net position of $1,101,001,000 in governmental activities and $76,104,000 in business-type activities. Of these amounts $374,141,000 and $18,295,000, 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)	July 1 (August 31)
	50% on February 1 (April 10)	

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

General property taxes are based either on a flat 1% rate applied to the fiscal 1976 full value of the property or on 1% of the sales price of the property on sales transactions and construction that occur after the fiscal 1976 valuation. 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, 2020, was approximately $196.1 billion, an increase of approximately 7.3% from the previous year. The City's tax rate was approximately $0.178 per $100 of assessed valuation, which included the City's share of the 1% basic levy and additional levies for general obligation bonds Measures "O" and "P" (2000), Measure "O" (2002) and Measure "T" (2018).

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, 2020, the City's portion of the capital ,and operating costs was approximately 80.9% and the City's interest in the net position of the Plant was approximately 79.7%.

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, 2020, the SARA has a deficit of $1,368,429,000, 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, 2020, the City reported negative balances in unrestricted net position for its governmental activities in the amount of $2,860,084,000 after adjusting for implementation of GASB Statement No. 68 for Pension accounting in FY 2015 and GASB Statement No. 75 for OPEB accounting in FY 2018.

C. Deficit Fund Balance – Major Governmental Funds

At June 30, 2020, the City reported a deficit fund balance of $27,684,000 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 bonds.

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2020, 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	$ 1,433,115	$ 765,366		$ 204	$ 6,077	$ 2,204,762
Cash and investments	7	-	-	6,525	-	6,532
Restricted assets:						
Equity in pooled cash and investments	66,075	80,821	-	-	-	146,896
Cash and investments with fiscal agents	301,097	103,851	-	118,994	-	523,942
Other cash and investments	8,954	2,294	-	-	-	11,248
Investments of retirement systems	-	-	6,239,768	-	-	6,239,768
Total deposits and investments	$ 1,809,248	$ 952,332	$ 6,239,768	$ 125,723	$ 6,077	$ 9,133,148
Deposits						$ (64,744)
Investments						9,197,892
Total deposits and investments						$ 9,133,148

Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2020, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks, resulting in the negative cash and deposits of $64.5 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, 2020, was approximately 672 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 ("PMIA") 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, 2020, the City's pooled and fiscal agent investments in LAIF were approximately $479,143,000 and the SARA's investments in LAIF was $5,746,000. The weighted average maturity of LAIF was 191 days at June 30, 2020. The total amount recorded by all public agencies in LAIF at June 30, 2020 was approximately $32 billion. 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, 2020 was approximately $101 billion and of that amount, 73.16% was invested in U.S. Treasuries and agencies, 18.61% in depository securities, 7.64% in commercial paper, and 0.57% 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 10, 2020. 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, 2020:

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 in a rating category of "AA" or its equivalent or better by Moody's Investor Services ("Moody's"), S&P Global Ratings ("S&P"), or Fitch Ratings ("Fitch"). If rated by more than one organization, no rating may be lower than the category described 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. Issuing banks must have a short-term rating of "P-1, A-1 or F-1" or better by two of the three nationally recognized statistical rating organizations, Moody's, S&P, or Fitch, respectively. Long-term ratings of the bank or its holding company must be in a rating category of "A" or its equivalent or better by Moody's, S&P, or Fitch. If rated by more than one organization, no rating may be lower than the category described 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 "P-1, A-1, or F-1" or better by two of the three nationally recognized statistical rating organizations: Moody's, S&P, or Fitch, respectively. Long-term ratings of the bank or its holding company must be rated in a rating category of "A" or its equivalent or better by Moody's, S&P, or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence at the time of purchase. Deposits shall be either insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized in the manner prescribed by State law for depositories. Rating requirements do not apply to depositories where the City's deposits are fully insured by the FDIC.

- Commercial paper eligible for investment must be rated "P-1, A-1 or F-1" or better by two of the three nationally recognized statistical rating organizations; 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 in a rating category of "A" or its equivalent or better, by Moody's, S&P, or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence at the time of purchase.

- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer short-term rating of "P-1, A-1, F-1" or better by two of the three nationally recognized statiscal rating organizations: Moody's, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed above. The outstanding debt of the bank or its holding company must be in a rating category of "A" or its equivalent or better by Moody's, S&P or Fitch, respectively. If rated by more than one organization, no rating may be lower than the category described 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 in a rating category of "A" or its equivalent or better by two of the three nationally recognized statistical rating organizations Moody's, S&P, or Fitch. No rating may be lower than the category described in the preceding sentence at the time of purchase.

- 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 $75,000,000.

- 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 in a rating category of "A" or its equivalent or better by two of the three nationally recognized statistical rating organizations; Moody's, S&P, or Fitch. No rating may be lower than the category described in the preceding sentence at the time of purchase.

- 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 in a rating category of "AA" or better by Moody's, S&P, or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence at the time of purchase.

- Asset backed securities must be in a rating category of "AA" or better Moody's, S&P, or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence at the time of purchase.

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, 2020 (in thousands). The credit ratings listed are for Moody's and S&P, respectively.

		Maturity				
Type of Investment	Credit Rating	Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	Carrying Value
Pooled investments in the City Treasury:						
Treasury Notes	AAA / N/A	$ -	$ 47,106	$ 10,109	$ 16,052	$ 73,268
Federal Home Loan Banks	AAA / AA+	30,000	10,061	10,987	57,314	108,363
Federal Home Loan Banks - Callable	AAA / AA+	-	-	-	30,143	30,143
Federal National Mortgage Association	AAA / AA+	-	-	20,497	147,505	168,002
Federal National Mortgage Association - Callable	N/A / AA+	-	-	-	53,024	53,024
Federal Farm Credit Bank Bonds	AAA / AA+	2,250	-	-	76,202	78,452
Federal Farm Credit Bank Bonds - Callable	AAA / AA+	-	-	-	45,075	45,075
Federal Home Loan Mortgage Corporation	AAA / AA+	-	-	2,139	97,412	99,551
Federal Home Loan Mortgage Corporation - Callable	AAA / AA+	-	-	-	209,731	209,731
Farmer MAC Interest Bearing	N/A	50,000	-	50,470	-	100,470
Farmer MAC Interest Bearing-Callable	N/A	-	-	-	20,163	20,163
Supranational	AAA / AAA	-	29,295	-	171,696	200,991
Corporate Medium Term Notes	AAA / AAA	-	159,282	141,669	298,113	599,065
Corporate Floaters	A2 / A	-	-	5,003	3,483	8,486
Negotiable Certificates of Deposit	N/A	-	31,140	15,111	-	46,252
Commercial Paper	N/A	95,000	4,995	9,982	-	109,977
Asset Backed Securities	AAA / AAA	-	-	-	21,978	21,978
Municipal Bonds	AAA / AAA	-	30,083	80,746	158,997	269,827
Money Market Mutual Funds	N/A	33,278	-	-	-	33,278
California Local Agency Investment Fund	Not Rated	-	-	150,000	-	150,000
Total pooled investments in the City Treasury		210,528	311,964	496,714	1,406,889	2,426,096
Investments with fiscal agents:						
Treasury Notes	N/A	-	-	-	7,469	7,469
Federal National Mortgage Association	N/A	-	-	5,535	-	5,535
Federal Farm Credit Banks	N/A	-	780	-	5,617	6,397
Federal Home Loan Banks	N/A	-	9,207	10,242	7,506	26,955
Money Market Mutual Funds	Aaa / AAA	31,789	-	-	-	31,789
California Local Agency Investment Fund	Not Rated	-	-	329,143	-	329,143
Total investments with fiscal agents		31,789	9,987	344,920	20,592	407,288
Total Citywide investments (excluding Retirement Systems and the SARA)		$ 242,317	$ 321,951	$ 841,634	$ 1,427,481	2,833,384
Trust Funds:						
Total investments in Retirement Systems (See page 73)						6,239,768
Total investments in the SARA (See page180)						124,740
Total investments						$ 9,197,892

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, 2020:

		Fair Value Measurement Using		
	Carrying Value 6/30/20	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Pooled Investments in the City Treasury				
Investments by fair value level				
Treasury Notes	$ 73,268	$ 73,268	$ -	$ -
Federal Home Loan Banks	108,363	-	108,363	-
Federal Home Loan Banks - Callable	30,143	-	30,143	-
Federal National Mortgage Association	168,002	-	168,002	-
Federal National Mortgage Association - Callable	53,024	-	53,024	-
Federal Farm Credit Bank Bonds	78,452	-	78,452	-
Federal Farm Credit Bank Bonds - Callable	45,075	-	45,075	-
Federal Home Loan Mortgage Corporation	99,551	-	99,551	-
Federal Home Loan Mortgage Corporation - Callable	209,731	-	209,731	-
Farmer MAC Interest Bearing	100,470	-	100,470	-
Farmer MAC Interest Bearing-Callable	20,163	-	20,163	-
Supranational	200,991	-	145,059	55,932
Corporate Medium Term Notes	599,065	-	599,065	-
Corporate Floaters	8,486	-	8,486	-
Negotiable Certificates of Deposit	46,252	-	46,252	-
Commercial Paper	109,977	-	109,977	-
Asset Backed Securities	21,978	-	21,978	-
Municipal Bonds	269,827	-	269,827	-
Total Investments by fair value level	2,242,817	73,268	2,113,617	55,932
Investments not subject to fair value hierarchy				
California Local Agency Investment Fund	150,000	-	-	-
Money Market Mutual Funds	33,278	-	-	-
Total Investments not suject to fair value hierarchy	183,278	-	-	-
Total Pooled Investments in the City Treasury	2,426,096	73,268	2,113,617	55,932
Investments with fiscal agents:				
Investments by fair value level:				
Treasury Notes	7,469	7,469	-	-
Federal National Mortgage Association	5,535	-	5,535	-
Federal Farm Credit Banks	6,397	-	6,397	-
Federal Home Loan Banks	26,955	-	26,955	-
Total Investments by fair value level:	46,356	7,469	38,887	-
Investments not subject to fair value hierarchy				
California Local Agency Investment Fund	329,143	-	-	-
Money Market Mutual Funds	31,789	-	-	-
Total Investments not suject to fair value hierarchy	360,932	-	-	-
Total Investments with fiscal agents	407,288	7,469	38,887	-
Total Citywide investments (excluding Retirement Systems and the SARA)	2,833,384	$ 80,737	$ 2,152,504	$ 55,932
Trust Funds:				
Total investments in Retirement Systems (See page 73)	6,239,768			
Total investments in the SARA (See page 180)	124,740			
Total investments	$ 9,197,892			

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, 2020, 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, 2020, the City’s pooled investments in the City Treasury have investments that represent 5% or more of the total pooled investments in the following:

Federal Home Loan Mortgage Corporation	12.75%
Federal National Mortgage Association	9.11%
International Bank for Reconstruction and Development	5.92%
Federal Home Loan Banks	5.71%
Federal Farm Credit Banks	5.09%

In addition, the following major fund holds investments with trustees that represent 5% or more of the fund’s investments outside the City Treasury as of June 30, 2020:

Airport:	
Federal Home Loan Banks	6.62%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2020, 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, 2020, the investment policy for the PFDRP Defined Benefit Pension Plan, is shown in the following table, which the PFDRP's Board reviewed and approved on May 7, 2020. 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 on June 30, 2020.

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	46%	Long-term government bonds	3%
Investment grade bonds	12%	Market neutral strategies	3%
Private equity	6%	Private debt	3%
Core real estate	5%	Private real assets	3%
Immunized cash flows	5%	High yield bonds	2%
Venture / growth capital	4%	Treasury inflation-protected securities	2%
Emerging market bonds	3%	Commodities	0%
Growth real estate	3%	Sovereign bonds ex US	0%

On April 4, 2018, 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 on June 30, 2020.

PFDRP - Postemployment Healthcare

Asset Class	Target Asset Allocation
Public equity	56%
Short-term investment grade bonds	29%
Core real estate	10%
Commodities	5%

For the year ended June 30, 2020, the investment policy for the FCERS Defined Benefit Pension Plan was updated, as shown in the following table, which FCERS' Board approved on May 18, 2020. 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 on June 30, 2020.

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

Asset Class	Target Asset Allocation	Asset Class	Target Asset Allocation
Public equity	49%	Market neutral strategies	3%
Investment grade bonds	8%	Private debt	3%
Private equity	8%	Private real assets	3%
Immunized cash flows	5%	High yield bonds	2%
Core real estate	5%	Long-term government bonds	2%
Venture / growth capital	4%	Treasury inflation protected securities	2%
Emerging market bonds	3%	Commodities	0%
Growth real estate	3%	Short-term investment grade bonds	0%

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 on June 30, 2020.

FCERS - Postemployment Healthcare	
Asset Class	**Target Asset Allocation**
Public equity	56%
Short-term investment grade bonds	29%
Core real estate	10%
Commodities	5%

At June 30, 2020, the Retirement Systems held the following investments (in thousands):

	PFDRP	FCERS	Total
Securities and other:			
Fixed income:			
Investment grade bonds	$ 325,289	$ 118,673	$ 443,962
Immunized cash flows	163,610	93,225	256,835
Emerging market bonds	117,056	67,399	184,455
Long-term government bonds	111,450	43,397	154,847
Treasury inflation-protected securities	74,813	43,582	118,395
High yield bonds	74,289	43,541	117,830
Cash and cash equivalents	69,050	41,842	110,892
Short-term investment grade bonds	51,249	88,170	139,419
Total fixed income	986,806	539,829	1,526,635
Commodities	9,067	15,527	24,594
Core real estate	156,539	109,409	265,948
Growth real estate	128,229	79,998	208,227
International currency contracts, net	(21)	(10)	(31)
Market neutral strategies	119,593	82,797	202,390
Private debt	196,648	81,617	278,265
Private equity	356,946	282,119	639,065
Private real assets	34,056	20,213	54,269
Public equity	1,801,787	1,238,619	3,040,406
Total investments	$ 3,789,650	$ 2,450,118	$ 6,239,768

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, 2020 (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
Investment grade bonds	$ 3,268	$ 1,037	$ 2,232	$ 24,275	$ 276,967	$ 17,510	$ 325,289	$ 320,793
Immunized cash flows	9,925	12,826	23,486	117,373	-	-	163,610	157,873
Emerging market bonds	-	-	-	-	117,056	-	117,056	82,252
Long-term government bonds	-	-	-	-	-	111,450	111,450	113,000
Treasury inflation-protected securities	3,448	-	8,926	62,439	-	-	74,813	71,729
High yield bonds	72	-	-	74,217	-	-	74,289	75,000
Cash and cash equivalents	69,050	-	-	-	-	-	69,050	69,050
Short-term investment grade bonds	51,249	-	-	-	-	-	51,249	51,248
Total fixed income	$ 137,012	$ 13,863	$ 34,644	$ 278,304	$ 394,023	$ 128,960	$ 986,806	$ 940,945

	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
Investment grade bonds	$ 999	$ 69	$ 4,419	$ 16,308	$ 92,725	$ 4,153	$ 118,673	$ 114,193
Immunized cash flows	5,793	8,190	13,904	65,338	-	-	93,225	90,556
Short-term investment grade bonds	88,170	-	-	-	-	-	88,170	88,168
Emerging market bonds	-	-	-	-	67,399	-	67,399	61,213
Treasury inflation-protected securities	-	-	5,636	37,946	-	-	43,582	42,111
High yield bonds	-	-	-	43,541	-	-	43,541	44,000
Long-term government bonds	-	-	-	-	-	43,397	43,397	44,000
Cash and cash equivalents	41,842	-	-	-	-	-	41,842	41,842
Total fixed income	$ 136,804	$ 8,259	$ 23,959	$ 163,133	$ 160,124	$ 47,550	$ 539,829	$ 526,083

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, 2020, all 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, 2020 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	$ 141,146	14.30%	$ 5,615	1.04%
AA+	90,497	9.17%	119,510	22.14%
AA	4,921	0.50%	2,111	0.39%
AA-	2,777	0.28%	1,236	0.23%
A+	511	0.05%	190	0.04%
A	3,711	0.38%	1,335	0.25%
A-	1,222	0.12%	718	0.13%
BBB+	2,738	0.28%	1,013	0.19%
BBB	1,496	0.15%	750	0.14%
BBB-	1,168	0.12%	200	0.04%
BB-	3,682	0.37%	2,163	0.40%
B+	2,547	0.26%	1,117	0.21%
Not Rated	730,390	74.02%	403,871	74.80%
Total	$ 986,806	100.00%	$ 539,829	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, 2020, 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, 2020, 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	$ -	$ 6,212	$ -	$ -	$ -	$ 6,212
Canadian dollar	-	7,109	-	-	-	7,109
Chinese yuan renminbi	-	-	-	(21)	-	(21)
Danish krone	-	1,055	-	-	-	1,055
Euro member countries	426	25,716	-	-	24,260	50,402
Hong Kong dollar	4	7,837	19	-	-	7,860
Japanese yen	-	23,058	-	-	-	23,058
Korean (South) won	-	12,003	-	-	-	12,003
Norwegian krone	-	387	-	-	-	387
Switzerland franc	-	31,491	-	-	-	31,491
Swedish krona	-	8,472	-	-	-	8,472
United Kingdom pound	-	32,675	-	-	-	32,675
Total	$ 430	$ 156,015	$ 19	$ (21)	$ 24,260	$ 180,703

FCERS

Currency Name	Cash	Public Equity	International Currency Contracts, Net	Private Equity	Growth Real Estate	Total Exposure
Australian dollar	$ -	$ 3,037	$ -	$ -	$ -	$ 3,037
British pound	-	15,766	-	-	-	15,766
Canadian dollar	-	3,457	-	-	-	3,457
China yuan renminbi	-	-	(10)	-	-	(10)
Danish krone	-	511	-	-	-	511
Euro currency	308	12,480	-	790	13,001	26,579
Hong Kong dollar	2	3,831	-	-	-	3,833
Japanese yen	-	11,255	-	-	-	11,255
Korean won	-	5,787	-	-	-	5,787
Norwegian krone	-	189	-	-	-	189
Swedish krona	-	4,141	-	-	-	4,141
Swiss franc	-	15,204	-	-	-	15,204
Total	$ 310	$ 75,658	$ (10)	$ 790	$ 13,001	$ 89,749

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, 2020, 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, 2020. 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, 2020, 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, 2020		Fair Value at June 30, 2020		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Fixed income futures long	Investment income	$ (374)	Futures	$ -	126,800
Fixed income futures short	Investment income	(164)	Futures	-	(9,800)
FX forwards	Investment income	63	Long-term instruments	(21)	$ 6,665
Index futures long	Investment income	4,617	Futures	-	29
Index futures short	Investment income	(4,505)	Futures	-	(11)
Total derivative instruments		$ (363)		$ (21)	

FCERS

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2020		Fair Value at June 30, 2020		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Fixed income futures long	Investment income	$ 98	Futures	$ -	53,200
Fixed income futures short	Investment income	204	Futures	-	(2,300)
FX forward	Investment income	35	Long-term instruments	(10)	$ 3,202
Index futures long	Investment income	15,156	Futures	-	5
Index futures short	Investment income	(845)	Futures	-	(15)
Total derivative instruments		$ 14,648		$ (10)	

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, 2020.

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, 2020, PFDRP had total commitments in forward currency contracts to purchase and sell international currencies were $6,665,000, with fair values of $6,673,000 and $6,694,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2020, FCERS had total commitments in forward currency contracts to purchase and sell international currencies were $3,202,000, with fair values of $3,206,000 and $3,216,000, 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, 2020:

PFDRP		**Fair Value Measurement Using**			
(In Thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value (NAV)**
Investments by fair value level					
Public equity	$ 1,801,787	$ 376,896	$ -	$ -	$ 1,424,891
Private equity	356,946	-	-	10,507	346,439
Investment grade bonds	325,289	6,679	68,232	-	250,378
Private debt	196,648	-	-	6,149	190,499
Immunized cash flows	163,610	81,228	82,382	-	-
Core real estate	156,539	-	-	-	156,539
Growth real estate	128,229	-	-	-	128,229
Market neutral strategies	119,593	-	-	-	119,593
Emerging market bonds	117,056	-	-	-	117,056
Long-term government bonds	111,450	-	-	-	111,450
Treasury inflation-protected securities	74,813	74,813	-	-	-
High yield bonds	74,289	71	-	-	74,218
Cash and cash equivalents	69,050	69,050	-	-	-
Short-term investment grade bonds	51,249	51,249	-	-	-
Private real assets	34,056	-	-	-	34,056
Commodities	9,067	-	-	-	9,067
International currency contracts, net	(21)	(21)	-	-	-
Total investments measured at fair value level	**$ 3,789,650**	**$ 659,965**	**$ 150,614**	**$ 16,656**	**$ 2,962,415**

FCERS		**Fair Value Measurement Using**			
(In Thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value (NAV)**
Investments by Fair Value Level					
Public equity	$ 1,238,619	$ 213,433	$ -	$ -	$ 1,025,186
Private equity	282,119	-	-	10,507	271,612
Investment grade bonds	118,673	3,141	27,965	-	87,567
Core real estate	109,409	-	-	-	109,409
Immunized cash flows	93,225	43,288	49,937	-	-
Short-term investment grade bonds	88,170	88,170	-	-	-
Market neutral strategies	82,797	-	-	-	82,797
Private debt	81,617	-	-	6,149	75,468
Growth real estate	79,998	-	-	-	79,998
Emerging market bonds	67,399	-	-	-	67,399
Treasury inflation-protected securities	43,582	43,582	-	-	-
High yield bonds	43,541	-	-	-	43,541
Long-term government bonds	43,397	-	-	-	43,397
Cash and cash equivalents	41,842	41,842	-	-	-
Private real assets	20,213	-	-	-	20,213
Commodities	15,527	-	-	-	15,527
International currency contracts	(10)	(10)	-	-	-
Total investments measured at fair value	**$ 2,450,118**	**$ 433,446**	**$ 77,902**	**$ 16,656**	**$ 1,922,114**

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 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, 2020:

PFDRP

Investments Measured at the NAV as of June 30, 2020 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity	$ 1,424,891	$ -	Daily, Weekly, Monthly	1 - 30 Days
Private equity	346,439	38,600	Daily, N/A	1 Day, N/A
Investment grade bonds	250,378	-	Daily	3 Days
Private debt	190,499	99,100	N/A	N/A
Core real estate	156,539	43,880	Quarterly	90 Days
Growth real estate	128,229	98,300	N/A	N/A
Market neutral strategies	119,593	-	Monthly, Bi-Annual	45 - 65 Days
Emerging market bonds	117,056	-	Daily, Quarterly	1 - 45 days
Long-term government bonds	111,450	-	Daily	3 Days
High yield bonds	74,218	-	Daily	3 Days
Private real assets	34,056	20,000	N/A	N/A
Commodities	9,067	-	Daily	3 Days
Total investments measured at the NAV	**$ 2,962,415**	**$ 299,880**		

FCERS

Investments Measured at the NAV as of June 30, 2020 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity	$ 1,025,186	$ -	Daily, Weekly, Monthly	1 - 30 Days
Private equity	271,612	22,300	Daily, NA	1 Day, N/A
Core real estate	109,409	31,100	Quarterly	90 Days
Investment grade bonds	87,567	-	Daily	3 Days
Market neutral strategies	82,797	-	Monthly, Bi-Annual	45 - 65 Days
Growth real estate	79,998	57,100	NA	NA
Private debt	75,468	90,200	NA	NA
Emerging market bonds	67,399	-	Daily, Quarterly	1 - 45 Days
High yield bonds	43,541	-	Daily	3 Days
Long-term government bonds	43,397	-	Daily	3 Days
Private real assets	20,213	11,100	NA	NA
Commodities	15,527	-	Daily	3 Days
Total investments measured at the NAV	**$ 1,922,114**	**$ 211,800**		

Public equity

For PFDRP, this type includes investments in eleven commingled investment funds. Public equities are shares of ownership of a firm listed on an exchange; the Plan holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. The commingled funds liquidity ranges from daily to monthly and the notice periods are between one day and thirty days.

For FCERS, this type includes investments in fourteen commingled investment funds. Public equities are shares of ownership of a firm listed on an exchange; the Plan holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. The commingled funds liquidity ranges from daily to monthly and the notice periods are between one day and thirty days.

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 one-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 one-day notice.

Investment grade bonds

For PFDRP and FCERS, this type includes investments in two separate accounts and one commingled fund. The purpose of investment grade bonds is to produce returns and income for the Plans by providing exposure to rates and credit risk. The commingled fund offers daily liquidity with a notice period of three days.

Core real estate

For PFDRP, this type includes investments in two open end real estate commingled funds. Core real estate funds typically invest in physical properties. The goal of core real estate is to produce price appreciation and income for PFDRP while maintaining a low correlation to stocks and bonds held by the Plan. The open-end real estate funds offer quarterly redemptions with notice periods of ninety days.

For FCERS, this type includes investments in two open end real estate commingled funds. Core real estate funds typically invest in physical properties. The goal of core real estate is to produce price appreciation and income for FCERS while maintaining a low correlation to stocks and bonds held by the System. The open-end real estate funds offer quarterly redemptions with notice periods of ninety days.

Market neutral strategies

For PFDRP and FCERS, this type includes investments in four 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 monthly to bi-annual with notice periods of forty-five days to sixty-five days. Two funds have 25% investor level redemption gates, while the remaining two funds have no gates.

Private debt

For PFDRP, this type includes investments in eleven 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 nine 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.

Emerging market bonds

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

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

Commodities

For PFDRP and FCERS, this type includes their respective investments in one limited partnership commodities fund. 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.

Long-term government bonds

For PFDRP and FCERS, this type includes investments in a commingled fund. The purpose of long-term government bonds is to provide a positive return in highly stressed market environments, with a low correlation to equity risk. The commingled fund offers daily liquidity with a notice period of three days**.**

Private real assets

For PFDRP, this type includes five 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.

For FCERS, this type includes four 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 bonds

For PFDRP and FCERS, this type includes an investment in one commingled fund. The primary purpose of high yield bonds is to provide the Retirement Systems exposure to high yielding corporate debt. The commingled fund offers daily liquidity with a notice period of three days.

B. Receivables, Net of Allowances

At June 30, 2020, 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	$ 57,449	$ -	$ -	$ 122	$ 7,132	$ -	$ 64,703
Accrued interest	1,910	563	2,147	79	4,462	90	9,251
Grants	3,889	1,100	-	-	5,826	-	10,815
Special assessments	-	-	-	15,045	-	-	15,045
Other	40,892	332	22	175	25,567	263	67,251
Less: allowance for uncollectibles	(24,216)	(2)	-	(4)	(3,245)	(10)	(27,477)
Total receivables, net	$ 79,924	$ 1,993	$ 2,169	$ 15,417	$ 39,742	$ 343	$ 139,588

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	$ 14,955	$ 8,627	$ 10,561	$ 132	$ 53,786	$ 88,061
Accrued interest	1,329	2,542	158	249	121	4,399
Grants	1,561	-	-	-	-	1,561
Less: allowance for uncollectibles	(555)	(391)	(1,162)	(21)	(3,209)	(5,338)
Total receivables, net	$ 17,290	$ 10,778	$ 9,557	$ 360	$ 50,698	$ 88,683

Special assessment receivables in the amount of $15,045,000 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, 2020 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	$ -	$ 49,876	$ 476,636	$ -	$ 526,512
Loans funded by federal grants	-	82,828	-	4,717	87,545
Economic development, real estate developer and other loans	1,241	-	-	-	1,241
Less: allowance for uncollectibles	-	(63,650)	(260,196)	(1,958)	(325,804)
Total loans, net	$ 1,241	$ 69,054	$ 216,440	$ 2,759	$ 289,494

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, 2020.

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, 2020. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2020, amounts committed to extend credit under normal lending agreements totaled approximately $13,088,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the year ended June 30, 2020 (in thousands):

	Balance July 1, 2019	Additions	Deletions	Transfers		Balance June 30, 2020
Governmental activities:						
Capital assets, not being depreciated:						
Land	$ 455,831	$ 46,810	$ -	$ 815		$ 503,456
Construction in progress	107,083	30,524	-	-		137,607
Total capital assets, not being depreciated	562,914	77,334	-	815		641,063
Capital assets, being depreciated:						
Buildings	1,618,674	26	-	49,876		1,668,576
Improvements, other than buildings	285,452	343	-	-		285,795
Infrastructure	11,560,910	3,754	-	-		11,564,664
Vehicles and equipment	163,863	14,411	2,509	-		175,765
Furniture and fixtures	27,809	-	-	-		27,809
Total capital assets, being depreciated	13,656,708	18,534	2,509	49,876		13,722,609
Less accumulated depreciation for:						
Buildings	678,562	41,588	-	1,247		721,397
Improvements, other than buildings	62,800	8,454	-	-		71,254
Infrastructure	8,111,618	161,640	-	-		8,273,258
Vehicles and equipment	111,147	15,944	2,388	-		124,703
Furniture and fixtures	27,288	61	-	-		27,349
Total accumulated depreciation	8,991,415	227,687	2,388	1,247		9,217,961
Total capital assets, being depreciated, net	4,665,293	(209,153)	121	48,629		4,504,648
Governmental activities capital assets, net	$ 5,228,207	$ (131,819)	$ 121	$ 49,444	$	$ 5,145,711
Business-type Activities:						
Capital assets, not being depreciated:						
Land	$ 137,938	$ -	$ -	$ -		$ 137,938
Intangible assets	12,882	-	-	-		12,882
Construction in progress	248,167	138,643	-	(5,993)		380,817
Total capital assets, not being depreciated	398,987	138,643	-	(5,993)		531,637
Capital assets, being depreciated:						
Buildings	1,723,322	-	-	2,061		1,725,383
Improvements, other than buildings	1,345,586	41,687	-	-		1,387,273
Vehicles and equipment	328,594	3,520	631	3,932		335,415
Total capital assets, being depreciated	3,397,502	45,207	631	5,993		3,448,071
Less accumulated depreciation for:						
Buildings	665,644	44,696	-	-		710,340
Improvements, other than buildings	673,344	33,066	-	-		706,410
Vehicles and equipment	196,838	13,465	631	-		209,672
Total accumulated depreciation	1,535,826	91,227	631	-		1,626,422
Total capital assets, being depreciated, net	1,861,676	(46,020)	-	5,993		1,821,649
Business-type activities capital assets, net	$ 2,260,663	$ 92,623	$ -	$ -		$ 2,353,286

*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 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.

2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the year ended June 30, 2020 is as follows (in thousands):

Governmental activities:	
General government	$ 9,210
Public safety	12,379
Capital maintenance	169,672
Community services	34,422
Capital assets held by City's internal service funds	2,004
Total depreciation expense - governmental activities	$ 227,687
Business-type activities:	
Norman Y. Mineta San José International Airport	$ 55,383
Wastewater Treatment System	31,315
Municipal Water System	2,815
Parking System	1,714
Total depreciation expense - business-type activities	$ 91,227

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 for the Wastewater Treatment System Fund only. 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, 2022, due to implementation of GASB Statement No. 95 and will be applied to all remaining funds.

4. Construction Commitments

Commitments outstanding as of June 30, 2020, related to governmental and business-type activities construction in progress totaled approximately $13,868,000 and $291,398,000, 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 2025. 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, 2020 amounted to approximately $2,136,000 and $40,000, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2020, are as follows (in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
2021	$ 2,120	$ 50	$ 2,170
2022	624	-	624
2023	484	-	484
2024	242	-	242
2025	53	-	53
Totals	$ 3,523	$ 50	$ 3,573

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. In May 2020, the third amendment to the restated agreement was executed, extending the term for up to three additional one-year option terms. The second amended and restated option was exercised in June 2020, extending through May 2021 and reducing the number of CNG buses from ten to six as of August 2020. Rental and maintenance expenses were $1,048,000 for year ended June 30, 2020.

Future Minimum Payments. The future minimum lease and maintenance payments required under the existing agreement for the six CNG powered buses, as of June 30, 2020, are as follows (in thousands):

Fiscal Year Ending June 30,	Operating Leases
2021	$ 400
Total minimum lease payments	$ 400

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 they are not described because the revenue is not significant.

Business-Type Activities – Airport

Airline-Airport Lease and Operating Agreements. The City entered into an Airline Lease Agreement with the various passenger and cargo airlines serving the Airport, effective July 1, 2019. The Airline Lease Agreement has an initial term of ten years and is set to expire on June 30, 2029. The term of this Airline Lease Agreement may be extended for two consecutive five-year renewal periods by the mutual written agreement of the Signatory Passenger Carriers and the City. The prior Airline Lease Agreement was in effect from December 1, 2007 through June 30, 2019.

The Airline Lease Agreement includes provisions for a true-up of the terminal and airfield cost centers based on the actual results, as well as a revenue sharing provision. The amounts calculated for the airfield true-up are rolled into the following year's airline rates and charges calculations. For the terminal true-up and revenue sharing the City will: (a) pay these amounts to the Passenger Carriers if there is any overpayment; or (b) bill these amounts to the Passenger Carriers if there is an underpayment. In the current Airline Lease Agreement, a provision was added that the fiscal year 2018-2019 terminal true-up and revenue sharing will follow the new lease terms, resulting in a payment to the airlines in FY 20. The Passenger Carrier portion of the terminal is cost-recovery; therefore the true-up is an adjustment so that the actual terminal rentals paid by the Passenger Carriers match the operating costs incurred by the City in that cost center. As a result, the City records the terminal true-up as operating revenues. The revenue sharing provision relates to the Airport cost centers and provides for a split of any net remaining revenues between the City and the Signatory Passenger Carriers based on the terms provided for in the Airline Lease Agreement. Since the sharing of net revenues is not a cost of providing airport services, the City records the revenue sharing amount as nonoperating expenses.

For the year ended June 30, 2020, the Airport's revenues as defined in the Airline Lease Agreement exceeded its expenditures and reserve requirements by $19,681,000. The surplus will be divided by allocating the first $4 million to the Airport then splitting the balance 40/60 between the Airport and the Signatory Passenger Carriers, respectively, in accordance with the revenue sharing provisions of the Airline 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 Interim rent on the Additional Premises ended effective January 2, 2020 per the First Amendment. The annual base ground rental rate as of May 1, 2020 is $2.49135 per square foot for the entire site. Rental revenues from the ground lease with Signature were $3,301,000 for the year ended June 30, 2020.

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, 2020, the remaining terms of these operating leases range from one month to 18 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount (MAG). Due to the decline in Airport passengers, on April 14, 2020 and May 12, 2020, City Council approved suspension of the Minimum Annual Guarantee (MAG) rent and implementation of percentage of sales rent to provide temporary financial relief to non-aeronautical concessionaires including Rental Car companies, for April through June 2020. These concessionaires experienced financial losses with the decline in passengers, but did not receive Federal Government assistance. With prolonged pressure due to the COVID-19 pandemic, on August 4, 2020, City Council approved an extension of the MAG rent suspension through December 31, 2020.

Rental revenues from the aforementioned operating leases were $107,322,000 for the year ended June 30, 2020.

The future minimum rentals to be received from the Airport operating leases, as of June 30, 2020, are as follows (in thousands):

Fiscal Year Ending June 30,	
2021	$ 93,019
2022	106,260
2023	104,514
2024	103,180
2025	99,774
2026-2030	402,965
2031-2035	60,468
2036-2040	35,840
2041-2045	25,112
2046-2050	27,052
2051-2055	29,143
2056-2060	31,395
2061-2065	23,261
Total minimum lease rentals	$ 1,141,983

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. FY 2021 rental revenues reflect the financial relief offered to rental cars and some terminal concessionaires. As of June 30, 2020, leased assets to tenants had total historical costs of $1,095,136,000 and accumulated depreciation of $307,235,000.

Pursuant to the terms of individual agreements entered into with the City, every Non-Signatory 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 statement 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, 2020 and 2019 totaled $22,075,000 and $34,540,000, respectively. The main reason for the decrease in LOC year-over-year is Signatory Airlines are no longer required to provide a security deposit under the Airline Lease Agreement effective July 1, 2019.

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, 2020 (in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments ($ millions)	Balance June 30, 2020
Governmental Activities							
City of San Jose							
General Obligation Bonds:							
Series 2019A-1 (DPPS&I)	Community Facilities	$ 140,360	07/25/2019	09/01/2049	5.00%	7.13-12.19	$ 140,360
Series 2019B (DPPS&I)	Community Facilities	66,500	07/25/2019	09/01/2027	2.35-2.60%	3.47-22.83	66,500
Series 2019C (Libraries, Parks, Public Safety)	Community Facilities/Refunding	158,185	07/25/2019	09/01/2035	5.00%	2.14-22.12	158,185
Series 2019D (Libraries, Parks, Public Safety)	Refunding	103,935	07/25/2019	09/01/2024	2.30-2.35%	17.08-22.52	103,935
							468,980
City of San Jose Financing Authority							
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	6,045
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	4.50-4.63%	0.96-1.36	9,195
Series 2011A (Convention Center)	Convention Center	30,985	04/12/2011	05/01/2042	4.25-5.75%	0.70-2.17	28,040
Series 2013A (Civic Center Project)	Refunding	305,535	05/28/2013	06/01/2039	4.00-5.00%	5.30-21.33	267,830
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.91-1.91	25,685
							388,465
Lease Revenue Bonds (Direct Placements):							
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/01/2025	Variable	1.02-1.26	5,590
Series 2008E-2 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/01/2025	Variable	1.02-1.26	5,585
							11,175
Sub-total - Lease Revenue Bonds							**399,640**
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	7,505
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	840
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	3,210
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	5.10-5.25%	0.81-0.94	3,490
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	2.24-7.71	95,655
							110,700
Total Government Activities - Bonds Payable							**$ 979,320**

The following is a summary of long-term debt of the City for Business-Type activities as of June 30, 2020 (in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments ($ millions)	Balance June 30, 2020
Business-Type Activities							
Norman Y. Mineta San Jose 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	$ 118,575
Series 2011A-2 (Non-AMT)	Refunding	86,380	07/28/2011	03/01/2034	4.00-5.25%	2.11-12.22	68,225
Series 2011B (Taxable)	Refunding	271,820	12/14/2011	03/01/2041	4.90-6.75%	2.87-27.33	255,760
Series 2014A (AMT)	Refunding	57,350	10/07/2014	03/01/2026	3.38-5.00%	0.14-9.18	42,135
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	435,995
Series 2017B (Non-AMT)	Refunding	150,675	04/11/2017	03/01/2047	4.00-5.00%	1.28-11.18	138,705
							1,127,690
Clean Water Financing Authority							
Revenue Bonds:							
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	5.00%	5.41	5,410
Subtotal - Bonds Payable							1,133,100
City of San Jose Financing Authority - SJFA (Direct Borrowings)							
Regional Wastewater Facility Notes Payable	Public Infrastructure	$ 300,000	10/01/2017	Anytime	Variable	Variable	106,920
Total Business-Type Activities - Bonds and Notes Payable							**$ 1,240,020**

2. Summary of Default Provisions for Long-Term Debt

<u>Governmental Activities – General Obligation Bonds</u>

The City has four series of general obligation bonds outstanding as of June 30, 2020: Series 2019A-1 Bonds, Series 2019B Bonds, Series 2019C Bonds and Series 2019D Bonds (collectively, "General Obligation Bonds"). The City issued each series of General Obligation Bonds pursuant to a fiscal agent agreement with Wilmington Trust, National Association ("Fiscal Agent Agreement"). The events of default under the Fiscal Agent Agreement for the General Obligation Bonds are as follows: (i) failure to pay principal of or redemption premiums on any General Obligation Bond when due; and (ii) failure to pay interest on any General Obligation Bond when due.

The Fiscal Agent Agreement provide any bondholder with the following remedies: (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 bond owners' rights.

Governmental Activities – SJFA Lease Revenue Bonds

The Financing Authority has six series of lease revenue bonds outstanding as of June 30, 2020: 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. 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 bond owners 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 CFD 1 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 bond owners 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"), on February 13, 2003, 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 were a limited obligation of the City. On November 29, 2019, the City elected to redeem all of the outstanding Bonds in the principal amount of $8,600,000. As of June 30, 2020, the CFD 9 Bonds are no longer outstanding.

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 bond owners 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, 2020, 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 2019-20 tax roll was $202.1 billion, which results in a total debt limit of $30.3 billion. As of June 30, 2020, the City had $545,984,000 which includes premium of General Obligation bonds outstanding which represents approximately 1.80% of the General Obligation bonds' debt limit.

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, 2020.

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 respective Redemption Funds for these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

As of June 30, 2020, the City has recorded approximately $15,045,000 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, 2020, the total principal amount outstanding of conduit multi-family housing revenue bonds is $842,239,000.

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 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 a continuing covenant agreement ("Continuing Covenant Agreement") for the direct placement of the Series 2008E Bonds. Prior to the execution of the Continuing Covenant Agreement on December 18, 2013, 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 2008E Bonds with U.S. Bank, such credit facility was terminated and the Series 2008E Bonds ceased to be remarketed on the open market.

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 Ice Centre at San José (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". 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, 2020 are as follows (in thousands):

	Privately-Placed Bonds				
	Balance June 30, 2020	Purchaser	Agreement Expiration	Fixed Fee/ Spread	Interest Index Rate
City of San José Financing Authority:					
Lease Revenue Bonds:					
Series 2008E (Taxable) (Ice Centre)	$ 11,175	U.S. Bank	12/4/2020	0.750%	1-Month LIBOR

On June 2, 2020, the City Council and Financing Authority approved the extension of the Direct Placement of the 2008E Bonds with U.S.Bank for a 178 day period to December 4, 2020 with no "make-whole" fee in the event that the 2008E Bonds are refunded prior to December 4, 2020, but with an increase in the spread from 53 basis points ("bps") (or 0.53%) to 75 bps (or 0.75%) that impacts the fixed fee component of the interest rate on repayment of the Series 2008E Bonds. The variable component of the interest rate on the 2008E Bonds will continue to be determined by the 1-month LIBOR index rate. Pursuant to the Continuing Covenant Agreement for the Series 2008E Bonds, the Financing Authority is required to pay a fixed fee, or spread of 0.75% (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, 2020, 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 4, 2020, 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. See Note IV.D for information related to refunding of the Series 2008E Bonds.

9. *Summary of Changes in Long-term Obligations*

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2020 are as follows (in thousands):

	July 1, 2019	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2020	Principal Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	$ 323,110	$ 502,020	$ (356,150)	$ 468,980	$ 22,520
Issuance premiums:					
For issuance premiums	4,481	80,821	(8,298)	77,004	-
Lease-purchase agreements	13,891	-	(1,460)	12,431	1,500
San Jose Financing Authority					
Direct Placements					
Series 2008E-1	6,550	-	(960)	5,590	1,020
Series 2008E-2	6,540	-	(955)	5,585	1,020
Lease revenue bonds	410,855	-	(22,390)	388,465	13,340
Issuance premiums/discounts:					
For issuance premiums	35,392	-	(1,779)	33,613	-
For issuance discounts	(516)	-	23	(493)	-
Special assessment and special tax bonds with limited governmental commitment	125,185	-	(14,485)	110,700	5,765
Issuance discounts:					
For issuance discounts	(1,471)	-	103	(1,368)	-
Total long-term debt payable	924,017	582,841	(406,351)	1,100,507	45,165
Other Long-term obligations:					
Accrued vacation, sick leave and compensatory time *(1)*	77,223	60,405	(52,401)	85,227	53,273
Accrued landfill postclosure costs	4,185	-	(465)	3,720	465
Estimated liability for self-insurance	128,660	16,605	(19,635)	125,630	21,059
Pollution remediation obligation	2,237	-	(145)	2,092	-
Total other long-term obligations	212,305	77,010	(72,646)	216,669	74,797
Governmental activities long-term obligations	$ 1,136,322	$ 659,851	$ (478,997)	$ 1,317,176	$ 119,962

(1) The General Fund typically has been used in prior years to liquidate the liability for compensated absences liability.

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 ("prior GO") bonds for library, parks and public safety projects. On November 6, 2018, voters approved the Measure T ballot measure that authorized total issuance of $650,000,000 of general obligation ("GO") bonds 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. 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.

On July 25, 2019, the City issued $502,020,000 of General Obligation Bonds ("2019 GO Bonds") that included new money bonds under three separate authorizations: (1) Measure T, approved by the voters on November 6, 2018 in the not-to-exceed amount of $650,000,000 (2) Measure O (approved by the voters on November 7, 2000 in the not-to-exceed amount of $211,790,000 for library projects); and (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). Of the 2019 GO Bonds issued, $239.9 million was issued under the Measure T authorization for acquisition of real property and infrastructure projects as provided under Measure T; $9.2 million issued under prior and remaining Measure O authorization (2000 and 2002) for library and public safety projects; and $252.9 million in GO refunding bonds that refunded all of the prior general obligation bonds issued under Measure O (2000), Measure P (approved by the voters on November 7, 2000 in the not-to-exceed amount of $228,030,000) and Measure O (2002). At the end of FY 2020, the City has remaining authorization under Measure T in the amount of $410.1 million and no remaining authorization under Measure O (2000), Measure P (2000) or Measure O (2002).

The 2019 GO Bonds were issued under a fiscal agent agreement with Wilmington Trust, National Association, as fiscal agent in five series of general obligation bonds: (i) $140,360,000 of the City of San José General Obligation Bonds, Series 2019A-1 (Disaster Preparedness, Public Safety, and Infrastructure) (the "2019A-1 Bonds"); (ii) $33,040,000 of the City of San José Taxable General Obligation Bonds, Series 2019A-2 (Disaster Preparedness, Public Safety, and Infrastructure) (the "2019A-2 Bonds")[1]; (iii) $66,500,000 of the City of San José Taxable General Obligation Bonds, Series 2019B (Disaster Preparedness, Public Safety, and Infrastructure) (the "2019B Bonds"); (iv) $158,185,000 of the City of San José General Obligation Bonds, Series 2019C (Refunding, Libraries, Parks, and Public Safety Projects) (the "2019C Bonds"); and (v) $103,935,000 of the City of San José Taxable General Obligation Bonds, Series 2019D (Refunding, Libraries, Parks, and Public Safety Projects) (the "2019D Bonds").

The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debt in the refunding transaction) and the net carrying amount of the outstanding general obligation bonds of $4,152,000. The difference is reported as deferred inflows of resources in the statement of net position. The 2019 GO Bonds generated total debt service savings of over $74,000,000 and net present value savings of $63,200,000 or 19.6% of the refunded bonds to the property taxpayers.

The 2019 GO Bonds were rated "Aa1" by Moody's, "AA+" by Standard & Poor's and Fitch.

[1] *Proceeds of the Series 2019A-1 Bonds were used to pay principal of and interest on the Taxable Series 2019A-2 Bonds. A bond premium at issuance in the amount of $34,158,933 was 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 table below shows the prior General Obligation Bonds that were refunded by the 2019 GO Bonds:

General Obligation Bonds	Par Amount Outstanding	Amount Refunded with Tax-Exempt 2019C Bond	Amount Refunded with Taxable 2019D Bonds
Series 2001	$ 30,745,000	$ 23,600,000	$ 7,145,000
Series 2002	54,170,000	34,570,000	19,600,000
Series 2004	63,310,000	39,345,000	23,965,000
Series 2005	26,265,000	25,830,000	435,000
Series 2006	63,270,000	37,060,000	26,210,000
Series 2007	57,000,000	43,815,000	13,185,000
Series 2008	22,050,000	-	22,050,000
Series 2009	6,300,000	5,690,000	610,000
Total	**$ 323,110,000**	**$ 209,910,000**	**$ 113,200,000**

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, 2020 is approximately $617,695,000, 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, 2020 is approximately $197,427,000, with the final payment due on May 1, 2042.

A portion of the series 2019B (Measure T) bond proceeds redeemed and defeased or prepaid all outstanding CFD 9 Bonds. The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debit in the refunding transaction) and the net carrying amount of the Refunded Obligations of $37,152. The difference is reported as deferred outflows of resources in the statement of net position.

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.11. 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, 2020 is approximately $15,111,000, 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.

Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2020 are as follows (in thousands):

	July 1, 2019	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2020	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San José International Airport:					
Revenue bonds	$ 1,158,730	$ -	$ (31,040)	$ 1,127,690	$ 33,205
Issuance premiums/discounts:					
For issuance premiums	75,729	-	(3,818)	71,911	3,819
For issuance discounts	(5,050)	-	233	(4,817)	(233)
Clean Water Financing Authority:					
Revenue bonds	10,585	-	(5,175)	5,410	5,410
Issuance premiums:					
For issuance premiums	171	-	(125)	46	46
City of San Jose Financing Authority Subordinate Wastewater Revenue Notes:					
Direct Borrowings					
Notes payable	89,076	17,844	-	106,920	-
Total long-term debt payable	1,329,241	17,844	(39,925)	1,307,160	42,247
Other Long-term obligations:					
Accrued vacation, sick leave and compensatory time	6,980	5,664	(4,712)	7,932	6,765
Estimated liability for self-insurance	12,224	2,219	(891)	13,552	9,148
Pollution remediation obligation	-	33,058	-	33,058	-
Total other long-term obligations	19,204	40,941	(5,603)	54,542	15,913
Business-type activities long-term obligations	$ 1,348,445	$ 58,785	$ (45,528)	$ 1,361,702	$ 58,160

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, 2020 totaled $137,167,000, which is composed of $86,079,000 of Net General Airport Revenues (as defined in the Master Trust Agreement) and $51,087,000 of Other Available Funds (as defined in the Master Trust Agreement). Other Available Funds include surplus carryover of $15,385,000, rolling debt service coverage of $16,645,000, and CFC Revenues of $19,057,000. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to $65,778,000, which is net of $27,479,000 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 $2,041,826,000, 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, 2020 totaled approximately $55,379,000. Bond debt service, payable from net system revenues in the fiscal year totaled approximately $5,497,000. 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, 2020 is approximately $5,526,000, with the final payment due on November 15, 2020.

City of San José Financing Authority Subordinate Wastewater Revenue Notes

Long-Term Direct Borrowings

On October 19, 2017, pursuant to a Credit Agreement dated as of October 1, 2017 ("Credit Agreement") and amended on October 18, 2020 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 2020 were $106,920,000. It is anticipated that the amounts outstanding on the notes will be refinanced during FY 2021.

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. See Note IV. D. for information related to extension of the Credit Agreement.

July 1, 2019	Additions	Deletions	June 30, 2020	Interest Rate
$89,076	$17,844	$ -	$106,920	0.53%

10. Annual Requirements to Maturity

The annual requirements to amortize all bonds and leases outstanding as of June 30, 2020 are as follows (in thousands):

	Governmental Activities							
	City of San Jose General Obligation Bonds		City of San Jose Financing Authority Bonds [2,3]		City of San Jose 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
2021	$ 22,520	$ 18,733	$ 14,630	$ 18,948	$ 2,040	$ 340	$ 5,765	$ 6,734
2022	24,010	18,164	15,235	18,351	2,035	279	6,080	6,412
2023	23,705	17,550	16,005	17,600	2,205	217	6,415	6,076
2024	23,375	16,947	16,800	16,815	2,375	151	6,440	5,722
2025	23,025	16,347	15,945	16,034	2,520	77	2,740	5,469
2026 - 2030	110,920	71,893	88,750	68,174	-	-	16,260	24,788
2031 - 2035	96,515	47,428	107,775	45,154	-	-	21,970	19,082
2036 - 2040	46,110	29,757	109,115	15,549	-	-	30,080	10,970
2041 - 2045	43,415	19,484	4,210	367	-	-	14,950	1,473
2046 2050	55,385	7,194	-	-	-	-	-	-
Total	$ 468,980	$ 263,496	$ 388,465	$ 216,992	$ 11,175	$ 1,063	$ 110,700	$ 86,727

	Governmental Activities		Business-Type Activities			
	Lease-Purchase Agreement		Airport Revenue Bonds [3]		Wastewater Treatment System Revenue Bonds	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
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	1,829	276	28,995	54,670	-	-
2026 - 2030	3,609	397	168,695	250,088	-	-
2031 - 2035	521	61	244,930	192,680	-	-
2036 - 2040	-	-	256,090	123,407	-	-
2041 - 2045	-	-	218,970	53,387	-	-
2046 - 2050	-	-	90,445	6,839	-	-
Total	$ 12,431	$ 2,680	$ 1,127,690	$ 914,136	$ 5,410	$ 116

[1] Projected interest payments for variable rate debt are based on the following rates in effect on June 30, 2020:
- Financing Authority Lease Revenue Bonds, Series 2008E (0.70%)

[2] Includes fixed spread/fee in addition to index rate in effect on June 30, 2020. Does not include projection of future spreads/fees or expenses.

[3] Does not include commercial paper notes.

11. New Debt Issuances and Short-Term Debt Activities

<u>Governmental Activities</u>

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, 2020, 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, 2020, $3,164,000 of tax-exempt CP Notes was outstanding at an interest rate of 0.26% and $69,362,000 of taxable CP Notes was outstanding at an interest rate of 0.28%.

The remaining amount of principal available under both LOCs as of June 30, 2020 is $52,474,000. The changes in commercial paper notes during the year ended June 30, 2020 are as follows (in thousands):

July 1, 2019	Additions	Deletions	June 30, 2020
$77,969	$1,200	$6,643	$72,526

Business-Type Activities

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. 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. The interim facility project with the extension of the six new gates at Terminal B was completed in November 2019.

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 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. 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, 2020.

The change in Subordinated CP Notes payable during FY 2020 was as shown in the table below. The principal amount available under the LOC issued by BofA as of June 30, 2020 is $23.07 million.

July 1, 2019	Additions	Deletions	June 30, 2020	Interest Rates
$52,216	$3,000	$3,286	$51,930	0.35%

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 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"). The City met the operating reserve requirement in August, November, and December 2019 by transferring funds when required. On December 31, 2019 the operating reserve had $20 million in the operating reserve account. The City has complied with the terms of the Revolving Credit Agreement by maintaining $20,000,000 in the Operating Reserve commencing December 31, 2019.

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 $3,720,000 related to the closed landfills is recorded in the government-wide statement of net position as of June 30, 2020. 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 FY 2020, 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, 2019 to October 1, 2020 is provided below:

Coverages	Limit per Occurrence[1]	Deductible per Occurrence[2]
Property, including Business Interruption	$1.0 billion	$100,000
Flood, High and Moderate Hazard Flood Zone Locations[3,4,5]	$10 million per occurrence and annual aggregate	$500,000 per Location
Flood, Other Locations	$100 million per occurrence and annual aggregate	$100,000 per Location

(1) Other sub-limits apply
(2) Other deductibles apply
(3) Refers to High and Moderate Hazard Exposed Flood Locations as defined by the insurance policy
(4) Mineta San José International Airport and the McEnery Convention Center are subject to a $10,000,000 per Location deductible for flood.
(5) The San José – Santa Clara Regional Wastewater Facility is subject to a $5,000,000 deductible for flood.

The policy incepting October 1, 2019, 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 to the base flood coverage from $25,000,000 to $10,000,000, the City has 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 insurers share the financing of losses on a 50/50 basis.

For the policy period of October 1, 2019 to October 1, 2020, the City maintained an Airport General 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 with respect to war liability. During the past five fiscal years, there have not been any instances that the amount of claim settlements exceeded the insurance coverage.

In addition, the Airport Liability policy also provides excess liability coverage with a limit of $5,000,000 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 subject to a $250,000 per accident retention. Physical damage coverage is obtained for the Airport Shuttle Bus Fleet and is subject to a $10,000 comprehensive and $10,000 collision deductible. 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, 2019 to October 1, 2020, the City maintained an aircraft policy covering physical damage to City aircraft used by the San Jose Police Department's Air Support Unit as well as liability coverage for bodily injury and property damage arising from the use of covered aircraft. The aircraft policy provides up to $50,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage caused by war and other perils and is subject to a deductible of $0 per occurrence. To supplement the aircraft policy, the City extended the aircraft policy effective June 17, 2020, to include liability and physical damage coverage for the unmanned aerial systems (UAS) used in the San Jose Police Department's UAS program ("Drone Coverage"). The Drone Coverage provides up to $2,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage.

For the policy period of October 1, 2019 to October 1, 2020, the City maintained a law enforcement liability policy that provides coverage for third party bodily injury, property damage, or personal injury arising from the law enforcement activities conducted on behalf of approved third party employers by City police officers who have been approved to participate in the Secondary Employment program. The law enforcement liability policy provides $2,000,000 in aggregate limits and is subject to a $100,000 per occurrence deductible.

The City also maintained fiduciary liability insurance policies covering the City's defined contribution employee benefit plans: the Deferred Compensation Plans, the Voluntary Employees' Beneficiary Association ("VEBA") Plans; and the Defined Contribution 401(a) Plan. The policies protect the City and the members of the applicable governing board from legal liability arising from fiduciary obligations to plan beneficiaries. For the policy period from June 30, 2019, to June 30, 2020, the City purchased a fiduciary liability policy covering the Deferred Compensation Plans and Defined Contribution 401(a) Plan together. This policy provided $5,000,000 in aggregate limits subject to a $25,000 per claim retention. For the policy period January 1, 2019, to January 1, 2020, the City purchased a fiduciary liability policy covering the VEBA Plans. This policy provided $5,000,000 in aggregate limits subject to a $25,000 per claim retention. The City extended the fiduciary liability policy covering the VEBA Plans to June 30, 2020, to coincide with the renewal of the fiduciary liability policy that covers the Deferred Compensation and Defined Contribution 401(a) Plans.

For the policy period of October 22, 2019 to October 22, 2020, the City purchased liability insurance covering cyber risks to complement the City's cybersecurity efforts. For the policy period of October 1, 2019 to October 1, 2020, 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.

As part of general support services, the City charges the Airport for the cost of general liability, automobile liability, and property insurance coverage including the Airport's pro rata share of broker fees and taxes. The charges are expensed in the year incurred.

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, 2020. 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, 2018	$	142,388
Claims and changes in estimates during FY 2019		21,090
Claims payments		(22,594)
Liability as of June 30, 2019		140,884
Claims and changes in estimates during FY 2020		18,824
Claims payments and other adjustments		(20,526)
Liability as of June 30, 2020	$	139,182

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, 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. 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 $2,236,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2020 is $1,391,000.

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. 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, 2020 was $2,126,000.

	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 site: Las Plumas Warehouse at 1600 Las Plumas Avenue. The former Family Shelter is currently being reviewed for closure by the Santa Clara County Department of Environmental Health and is expected to be closed in FY 2021. In late 2018, a new pollution liability was discovered at the San Jose Fire Training Facility where soil and groundwater contaminated with chemicals used in firefighting foams was discovered. The investigation of the San Jose Fire Training Facility site is still 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, 2020, the government-wide statement of net position reported a net pollution remediation obligation in the amount of $2,092,000 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.

Regional Wastewater Facility Legacy Biosolids - The Regional Wastewater Facility (RWF) is co-owned by the City of San Jose and City of Santa Clara and treats wastewater for over 1.7 million residents and thousands of businesses in the cities of San Jose, Santa Clara, Milpitas, Campbell, Los Gatos, Monte Sereno and Cupertino. As part of the wastewater treatment process, the water is filtered, treated and the solids removed. The solid material byproduct is called biosolids and placed in lagoons in the RWF buffer lands where the biosolids are dredged and then dried to reduce the water content for eventual off-site disposal.

In the 1960s and 1970s, biosolids from the wastewater was kept on the RWF buffer lands and stored in lagoons over about 200-acres. These biosolids, estimated to be approximately 750,000 cubic yards were tested for disposal purposes and found to contain several metals that characterize the biosolids as hazardous waste. The City has been in discussion with the State Water Resources Control Board for several years to determine that ultimate location of the biosolids. In August 2019, the Water Board issued an order to the City to address the biosolids.

The City received approval from the Water Board to consolidate the biosolids in a smaller footprint (about 25-acres) and cap with clean soil. The City has decided to do the work in two phases. Phase 1 has already started and will consist of moving about 160,000 cubic yards of biosolids by June 2021. The estimated cost is $8 million ($1.1 million has been expended by June 30, 2020). The remaining biosolids will be placed in the consolidated area in a second phase implemented over several years at a schedule yet to be determined. The total estimated cost for the Phase 2 removal was originally estimated to be approximately $40 million and has since been refined to be approximately $26.2 million. The City's share of the Phase 2 removal cost will be approximately 65% of the total costs, and the remaining costs will be covered by the City of Santa Clara and the other agencies using the RWF.

G. Interfund Transactions

The composition of interfund balances as of June 30, 2020, 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	$ 1,868	(1)
General Fund	San Jose Financing Authority Debt Service	248	(2)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	1,503	(3)
		$ 3,619	

(1) $1,365 represents accrual of gas tax transfers and $503 represents accrual of construction and conveyance tax transfer.

(2) Represents loan interest for the Rancho Del Pueblo golf course.

(3) 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 $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 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.3. 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.3), 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, 2020, the total outstanding principal and accumulated accrued interest balance of $22,816,000 and $5,871,000, respectively were paid in full.

The terms and repayment schedule of the SERAF Loan, as reinstated, were revised to conform with the Redevelopment Dissolution Law.

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 $733,000 due from the City as of June 30, 2020.

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, 2020 with explanations of transactions (in thousands):

Between governmental and business-type activities:

Transfer from	Transfer to	Amount	
Wastewater Treatment System	Nonmajor Governmental Funds	$ 1,900	(1)
Municipal Water System	General Fund	487	(2)
	Nonmajor Governmental Funds	200	(3)
Parking System	General Fund	1,367	(4)
	Nonmajor Governmental Funds	2,157	(5)
SJ Clean Energy	San José Financing Authority	551	(6)
	Nonmajor Governmental Funds	216	(7)
General Fund	Norman Y. Mineta San José International Airport	487	(8)
		$ 7,365	

(1) Transfer for City Hall debt service payments.
(2) Transfer for late fee collections from water utility customers.
(3) Transfer for City Hall debt service payments.
(4) Transfer of $210 for San José Downtown Association and $1,157 for strategic support.
(5) Transfer of $120 for City Hall debt service payments,$77 for the Downtown Property and Business Improvement District, and $1,960 for strategic support.
(6) Transfer for City Hall debt service payments.
(7) Transfer for City Hall debt service payments.
(8) Transfer for local sales taxes for jet fuel.

Between governmental activities:

Transfer from	Transfer to	Amount	
General Fund	San José Financing Authority	$ 837	(1)
	Nonmajor Governmental Funds	34,683	(2)
	Internal Service Funds	1,500	(3)
	Housing Activities	3,920	(4)
Housing Activities	Nonmajor Governmental Funds	22	(5)
Low & Moderate Income Housing Asset	Nonmajor Governmental Funds	420	(6)
Special Assessment Districts	General Fund	120	(7)
	San Jose Financing Authority	5,934	(8)
Nonmajor Governmental Funds	General Fund	11,243	(9)
	Nonmajor Governmental Funds	17,982	(10)
	San José Financing Authority	44,871	(11)
	Special Assessment Districts	7,595	(12)
Internal Service Funds	General Fund	75	(13)
	Nonmajor Governmental Funds	186	(14)
San José Financing Authority	General Fund	1,200	(15)
		$ 130,588	

(1) Transfer for debt service towards the Energy Conservation Equipment.
(2) Transfer of $21,351 for City Hall debt service and $13,332 for operations and subsidies.
(3) Transfer to fund vehicle and fleet replacement purchases.
(4) Transfer SB (Senate Bill) 89 grant funding to Housing Activities.
(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 transfers for operations, interest earnings, and capital projects.
(10) Transfer of $3,416 for City Hall debt service payments and $14,566 for operations, capital projects, and project savings.
(11) Transfer for fee disbursements and debt service payments.
(12) Transfer for redemption of the special tax bonds, CFD 9.
(13) Transfer interest income to General Fund.
(14) Transfer for City Hall debt service payment.
(15) Transfer for commercial paper payment.

H. Deferred Inflows of Resources

As of June 30, 2020, total deferred inflows of resources in the governmental funds related to the following unavailable resources (in thousands):

Description		
General Fund receivables	$	2,080
Housing Activities loans receivable		18,156
Low and Moderate Income Housing Asset loans receivable		4,805
Special Assessments receivables		15,045
Community Development Block Grant (CDBG) loans receivable		2,563
Total deferred inflows of resources	$	42,649

I. Governmental Fund Balances

As of June 30, 2020, 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	$ 121	$ -	$ -	$ -	$ -	$ -	$ 121
Subtotal	121	-	-	-	-	-	121
Restricted for:							
Affordable Housing	-	168,101	415,079	-	-	-	583,180
Capital Projects & Improvements	1,700	-	-	43,343	-	466,771	511,814
Emplyoment/ Training Services	-	-	-	-	-	1,195	1,195
Drug Abuse Prevention & Control	300	-	-	-	-	943	1,243
Community Development Services	-	-	-	-	-	3,687	3,687
Library Services & Facilities	-	-	-	-	-	6,956	6,956
Small Business Loans	-	-	-	-	-	7	7
Parks, Recreation, & Neighborhood Development	7	-	-	-	-	90,060	90,067
Underground Utility Projects	-	-	-	-	-	11,147	11,147
Storm Drainage Projects	-	-	-	-	-	39,693	39,693
Supplemental Law Enforcement Services	-	-	-	-	-	202	202
Debt Service	-	-	-	-	-	41,974	41,974
Subtotal	2,007	168,101	415,079	43,343	-	662,635	1,291,165
Committed to:							
Building Development Fee Program	23,899	-	-	-	-	-	23,899
Capital Projects and Improvements	21,112	-	-	-	-	1,954	23,066
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	3,610	3,610
Development Enhancement	-	-	-	-	-	407	407
Convention Center, Auditorium, Theaters	-	-	-	-	-	11,276	11,276
Employee Compensation Planning	5,008	-	-	-	-	-	5,008
Fire Development Fee Program	6,109	-	-	-	-	-	6,109
Development Fee Program Technology	235	-	-	-	-	-	235
Residential Program Administration	-	-	-	-	-	2,544	2,544
Government Functions/Services	22,225	-	-	-	-	-	22,225
Public Safety	5,049	-	-	-	-	-	5,049
Community Development Services	3,239	-	-	-	-	5,269	8,508
Fee Supported Programs- Public Works	4,262	-	-	-	-	-	4,262
Salaries & Benefits	4,000	-	-	-	-	-	4,000
Sanitation Projects	276	-	-	-	-	26,396	26,672
Debt Service	-	-	-	-	-	4	4
Subtotal	95,414	-	-	-	-	51,460	146,874
Assigned to:							
Financing Authority Debt Service	3,297	-	-	-	-	-	3,297
Developement Enhancement	-	-	-	-	-	20	20
Community & Culture Projects	-	-	-	-	-	4,214	4,214
Hayes Mansion Operations	-	-	-	-	-	2,349	2,349
Ice Center Operations	-	-	-	-	-	1,095	1,095
Loans to Other Agencies	1,241	-	-	-	-	-	1,241
Capital Projects & Improvements	-	-	-	-	-	88,360	88,360
Government Functions/Services	278,784	-	-	-	-	-	278,784
Subtotal	283,322	-	-	-	-	96,038	379,360
Unassigned	79,368	-	-	-	(27,684)	(21)	51,663
Total Fund Balance	**$ 460,232**	**$ 168,101**	**$ 415,079**	**$ 43,343**	**$ (27,684)**	**$ 810,112**	**$ 1,869,183**

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 ***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-thirds vote of approval by the City Council. As of June 30, 2020, the contingency amount accounts for $40,000,000 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, 2020, the budget stabilization reserve accounts for $32,000,000 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, 2020, 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, 2020, 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, 2020, the emergency reserve amount accounts for $534,000 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 included 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 had those employees been eligible. Tier 2C had retiree dental benefits but no retiree medical benefits.

Tier 2C included employees who were previously Tier 1 members that separated from City service and returned on or after September 30, 2012, but before June 18, 2017. The Frameworks provided that all previous Tier 1 employees who were placed in Tier 2 would be classified as Tier 1. As a result, employees in Tier 2C have subsequently been moved to Tier 1.

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 FY 2018. 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:-

FCERS Membership Tiers

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, 2017	Tier 1(1)	Medical/Dental(2)(4)(5)
Tier 1 Classic	• "Classic" membership with California Public Employees' Retirement System ("CalPERS")/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013	Tier 1(6)	Medical/Dental
	• "Classic" membership with CalPERS/reciprocal agency hired on or after September 27, 2013	Tier 1(6)	Not Eligible(3)(4)
Tier 2 (or Tier 2A)	• Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013	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)

(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 Federated Healthcare Plan or opt into the Federated VEBA. Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.

(3) Employees in these tiers were mandatorily placed into the Federated VEBA.

(4) Unrepresented employees were eligible to opt into the Federated VEBA but are not eligible to make ongoing contributions to the Federated VEBA.

(5) All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan 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:

PFDRP Membership Tiers

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[(1)]	Medical/Dental[(2)(4)]
Police Tier 1 Rehire	• Tier 1 employee rehired between August 4, 2013 through June 17, 2017	Tier 1[(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	Tier 1[(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	Tier 1[(5)]	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)]

(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 Police and Fire Healthcare Plan or opt into the Police and Fire VEBA. Employees that opted into the Police and Fire VEBA are not eligible for the Police and Fire Healthcare Plan. The Police and Fire VEBA was implemented on March 25, 2018.

(3) Employees in these tiers were mandatorily placed into the Police and Fire VEBA.

(4) Unrepresented employees were eligible to opt into a Police and Fire VEBA but are not eligible to make ongoing contributions to the Police and Fire 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 City service: 50% of Final Compensation (2.5% per year) Next 21-30 years City service: 4% per year of service x Final Compensation (90% max)	First 20 years of City service: 50% of Final Compensation (2.5% per year) Next 21-30 years City 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 Retirement System (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 Retirement	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 Retirement System. (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 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 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	
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 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 or more 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 or more 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 or more 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 or more 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: Police Tier 1: 37.5% to 42.5% of member's Final Compensation depending on the years of service and date of retirement Police Tier 1 Classic: 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 or more 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 their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner. This election must be made within 30 days of marriage or establishment of domestic partnership.

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
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 or more 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 or more 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 or more 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
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 or more 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: Fire Tier 1: 37.5% to 45% of member's Final Compensation depending on the years of service and date of retirement Fire Tire 1 Classic: 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 or more 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 Retirement System'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 Retirement System'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, the children's survivorship allowance will be reduced so that the total benefit does not exceed 80% of final compensation.

	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) Final Compensation is the highest average monthly earnable pensionable salary during 12 consecutive months, capped at 108% of the second highest 12 comsecutive months. 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 (continued)			
	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	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 services. (Maximum 75% of Final Compensation) For those who entered the Retirement System on 8/31/98 or before, the calculation is as follows: 40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55		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, CPI-U, 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 June 18, 2017. 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% minimum, 75% maximum, except that "deferred vested" members not eligible for 40% minimum) If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% 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% 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% of retiree's allowance If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% 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% max) 40% minimum, 70% maximum, except that "deferred vested" members not eligible for 40% minimum) If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance 4 or more children: Split equal share of 75% 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% of the salary earned in year prior to death.)
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% of Retiree's Allowance If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% 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, 2020, 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)	695	3,733	13	-	4,441
Terminated vested members entitled to future benefits	823	156	635	-	1,614
Active members	159	1,368	2,138	77	3,742
Total	1,677	5,257	2,786	77	9,797

(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 Entitled to Future Benefits		Active Members		
PFDRP	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Totals
Police							
Pension & Medical (2)	1,374	-	10	-	580	-	1,964
Pension only (3)	110	-	182	98	40	427	857
Police Total	1,484	-	192	98	620	427	2,821
Fire							
Pension & Medical (2)	843	-	1	-	495	-	1,339
Pension only (3)	53	-	37	7	29	138	264
Fire Total	896	-	38	7	524	138	1,603
Total	2,380	-	230	105	1,144	565	4,424

(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 year ended June 30, 2020. However, the City elected to not prefund its actuarially determined contribution for Tier 1 members for the year ending June 30, 2020.

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 FY 2011, the Retirement Systems' Boards approved the establishment of a "floor funding method", commencing with FY 2012, 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 FY 2017.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the year ended June 30, 2020 were based on the actuarial valuations performed as of June 30, 2018. The contribution rates in effect and the amounts contributed to the pension plans for the year ended June 30, 2020 are as follows (in thousands):

	PFDRP									
	City						Participants [1]			
Defined Benefit Pension Plan	Police Tier 1	Minimum Dollar Amount[3]	Police Tier 2	Fire Tier 1	Minimum Dollar Amount[3]	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Actuarial Rate:										
06/28/20-06/30/20	31.80%		14.18%	33.18%		15.53%	10.72%	14.18%	11.72%	15.53%
07/01/19-06/27/20	31.43%	$ 70,024,000	14.06%	32.25%	$ 55,031,000	15.39%	10.70%	14.06%	11.46%	15.39%

	FCERS				
	City			Participants [2]	
Defined Benefit Pension Plan	Tier 1	Minimum Dollar Amount[3]	Tier 2	Tier 1	Tier 2
Actuarial Rate:					
06/28/20-06/30/20	19.82%		7.92%	7.22%	7.92%
07/01/19-06/27/20	19.34%	$ 137,409,000	8.33%	7.06%	8.33%

(1) 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, 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.

(2) 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.

(3) Contributions are structured as a normal cost, plus a payment on the Unfunded Actuarial Liability (UAL). City contributions are administered as a contribution rate plus a minimum dollar amount based on actuarial payroll.

	Annual Pension Contribution for the Year Ended 06/30/20		
Defined Benefit Pension Plan	**City**	**Participants**	**Total**
PFDRP	$ 188,481	$ 27,645	$ 216,126
FCERS	$ 181,327	$ 25,082	$ 206,409

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, 2019. The City's net pension liability as of June 30, 2020 of each of the Defined Pension Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 and rolled forward to June 30, 2019 using standard update procedures by the actuary for the respective plans. In summary, the City's net pension liability at June 30, 2020 is as follows (in thousands):

PFDRP	$ 1,284,369
FCERS	2,097,461
CalPERS	1,395
Total net pension liability	$ 3,383,225

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, 2019, were as follows[2] (in thousands):

	Increase (Decrease)		
PFDRP	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2018	$ 4,635,937	$ 3,496,191	$ 1,139,746
Changes for the Year:			
Service costs	81,883	-	81,883
Interest	313,565	-	313,565
Changes of benefit terms	-	-	-
Contributions-employer	-	176,618	(176,618)
Contributions-employees	-	24,811	(24,811)
Net investment income	-	114,179	(114,179)
Difference between expected and actual experience	(17,011)	-	(17,011)
Changes of assumptions	76,425	-	76,425
Benefit payments, including refunds of member contributions	(218,008)	(218,008)	-
Administrative expenses	-	(5,369)	5,369
Net changes	236,854	92,231	144,623
Balance at 6/30/2019	$ 4,872,791	$ 3,588,422	$ 1,284,369

	Increase (Decrease)		
FCERS	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2018	$ 4,057,348	$ 2,069,333	$ 1,988,015
Changes for the Year:			
Service costs	61,808	-	61,808
Interest	272,787	-	272,787
Changes of benefit terms	-	-	-
Contributions-employer	-	173,006	(173,006)
Contributions-employees	-	22,606	(22,606)
Net investment income	-	76,855	(76,855)
Difference between expected and actual experience	(11,662)	-	(11,662)
Changes of assumptions	54,398	-	54,398
Benefit payments, including refunds of member contributions	(205,066)	(205,066)	-
Administrative expenses	-	(4,582)	4,582
Net changes	172,265	62,819	109,446
Balance at 6/30/2019	$ 4,229,613	$ 2,132,152	$ 2,097,461

[2] *The schedules of changes in the net pension liability as of June 30, 2020 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 6.75%, for both the PFDRP and FCERS plans for the valuations dated June 30, 2018. 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 was 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 6.75% 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 (5.750%) or one percentage point higher (7.750%) than the rates used, for the PFDRP and FCERS plans, respectively (in thousands):

PFDRP - Sensitivity Analysis	1% Decrease (5.75%)	Measurement Date Rate (6.75%)	1% Increase (7.75%)
Total pension liability	$ 5,582,819	$ 4,872,791	$ 4,298,441
PFDRP fiduciary net position	3,588,422	3,588,422	3,588,422
Net pension liabiltiy	$ 1,994,397	$ 1,284,369	$ 710,019
PFDRP fiduciary net position as a percentage of the total pension liability	64.3%	73.6%	83.5%

FCERS - Sensitivity Analysis	1% Decrease (5.75%)	Measurement Date Rate (6.75%)	1% Increase (7.75%)
Total pension liability	$ 4,814,252	$ 4,229,613	$ 3,752,961
FCERS fiduciary net position	2,132,152	2,132,152	2,132,152
Net pension liabiltiy	$ 2,682,100	$ 2,097,461	$ 1,620,809
FCERS fiduciary net position as a percentage of the total pension liability	44.3%	50.4%	56.8%

Pension Expense and Deferrals– For the year ended June 30, 2020, the City recognized pension expense of $117,626,000 in FCERS and $120,108,000 in PFDRP. As of June 30, 2020, the City reported deferred outflows of resources related to pensions from the following sources (in thousands):

Schedule of Deferred Outflows and Inflows of Resources - PFDRP

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Contributions subsequent to measurement date	$	188,481	$	-
Differences between expected and actual experience		27,917		12,758
Changes in assumptions		75,489		33,443
Net difference between projected and actual earnings on pension plan investments		107,160		-
Total	**$**	**399,047**	**$**	**46,201**

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
2021	$	82,234
2022		20,463
2023		37,451
2024		24,217
	$	**164,365**

Schedule of Deferred Outflows and Inflows of Resources - FCERS

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Contributions subsequent to measurement date	$	181,327	$	-
Differences between expected and actual experience		8,730		8,747
Changes in assumptions		40,799		7,791
Net difference between projected and actual earnings on pension plan investments		86,402		-
Total	**$**	**317,258**	**$**	**16,538**

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
2021	$	57,029
2022		23,251
2023		26,641
2024		12,472
	$	**119,393**

As of June 30, 2020, $188,481,000 and $181,327,000 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, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense shown in the tables above.

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) (5.0 Years at June 30, 2019 measurement date)

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 6.75% for the valuations dated June 30, 2018 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, 2019, are summarized in the following tables:

	PFDRP	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	31%	6.2%
Short-term investment grade bonds	20%	0.8%
Private equity	8%	7.3%
Market neutral strategies	7%	2.7%
Core real estate	5%	3.1%
Immunized cash flows	5%	0.8%
Private debt	4%	4.6%
Venture / growth capital	4%	7.2%
Emerging market bonds	3%	2.6%
Growth real estate	3%	5.3%
Private real assets	3%	6.7%
Sovereign bonds ex US	3%	-0.3%
Commodities	2%	2.3%
Treasury inflation - protected securities	2%	1.0%

	FCERS	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	30%	6.2%
Private equity	10%	7.3%
Core real estate	5%	3.1%
Immunized cash flows	5%	0.8%
Venture / growth capital	5%	7.2%
Emerging market bonds	3%	2.6%
Growth real estate	3%	5.3%
Market neutral strategies	7%	2.7%
Private debt	4%	4.6%
Private real assets	3%	6.7%
Treasury inflation-protected securities	2%	1.0%
Commodities	3%	2.3%
Short-term investment grade bonds	20%	0.8%

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 measured as of June 30, 2019 are from the actuarial valuation report with a valuation date of June 30, 2018.

	PFDRP	FCERS
Description	**Method/Assumption**	**Method/Assumption**
Measurement date	June 30, 2019	June 30, 2019
Valuation date	June 30, 2018	June 30, 2018
Inflation rate	2.75%	2.50%
Discount rate	6.75% per annum (net of investment expenses) The long-term expected return on assets based on Meketa's capital market assumptions for a 20-year time horizon is 7.0%. The Board applied a margin for adverses deviation to improve the probabity of achieving the discount rate	6.75% The Board expects a long-term rate of return of 7.3% based on Meketa's 20-year capital market assumptions and the Retirement System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate
Post-retirement mortality		
(a) Healthy annuitants:	CALPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using SOA MP-2017 on a generational basis from the base year of 2009.	0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table.
(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.	1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected from 2009 on a generatiaonal basis using the MP-2018 scale.
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 (0.50% real wage growth).	The base wage inflation assumption of 3.25% 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 0.50%.	For the amortization schedule, payroll is assumed to grow 3.25% 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, 2020, 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	9.680% + $140,622 for unfunded liability	6.985%

As of June 30, 2020, 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, 2020, the amount contributed to the CalPERS plan was as follows (in thousands):

	Classic Rate Plan	PEPRA Rate Plan	Total
Contributions - employer	$ 166	$ 56	$ 222
Contributions - employee	18	54	72
Total	$ 184	$ 110	$ 294

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, 2019 prepared by CalPERS. As of June 30, 2020, the City reported a net pension liability of $1,395,000 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, 2018.

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, 2019, 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, 2018 rolled forward to June 30, 2019 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, 2018 and 2019 was as follows (in thousands):

	Plan		
Proportion - June 30, 2018	$	1,334	0.03540%
Proportion - June 30, 2019		1,395	0.03485%
Change - Increase (Decrease)	$	61	(0.00055%)

For the year ended June 30, 2020, the City recognized pension expense of $72,000. At June 30, 2020, 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	$ 222	$ -
Differences between actual and expected experience	90	8
Changes in assumptions	66	23
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	23
Net differences between projected and actual earnings on plan investments	-	9
Total	$ 378	$ 63

$221,000 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 ended June 30, 2020. 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
2021	$	104
2022		(21)
2023		6
2024		4
	$	93

Actuarial Assumptions – The collective total pension liability for the June 30, 2019 measurement period was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. 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, 2019 prepared by CalPERS.

	Plan
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
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	$ 2,238	$ 1,395	$ 700

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 125 participants in the 401(a) plan as of June 30, 2020. In FY 2020, the City and the participating employees contributed $439,000 to the 401(a) plan. As of June 30, 2020, the balance of the 401(a) plan was $2,094,000.

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 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 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 FY 2018. 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, 2020, is as follows:

	Police		Fire		
PFDRP	**Tier 1**	**Tier 2**	**Tier 1**	**Tier 2**	**Totals**
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits*	1,374	-	843	-	2,217
Terminated vested members not yet receiving benefits	10	-	1	-	11
Active members	580	-	495	-	1,075
Total	1,964	-	1,339	-	3,303

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

FCERS	**Tier 1**	**Tier 2A****	**Totals**
Postemployment Healthcare Plan:			
Retirees and beneficiaries currently receiving benefits*	3,733	-	3,733
Terminated vested members not yet receiving benefits	156	-	156
Active members	1,368	77	1,445
Total	5,257	77	5,334

**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 ended 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, 2020. However, the City elected to not prefund its actuarially determined contribution for Tier 1 members for the year ended June 30, 2020.

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 FY 2019 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 FY 2019 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 2020 are shown below:

PFDRP	**City - Board Adopted**		**Member**			
	Police Tier 1	**Fire Tier 1**	**Police Tier 1**	**Police Tier 2**	**Fire Tier 1**	**Fire Tier 2**
Actuarial Rate:						
Postemployment Healthcare Plan**:						
07/01/2019 - 06/30/2020	$14,595,000*	$9,408,000*	8.00%	-	8.00%	-

**Throughout the year, explicit subsidy amount*

*** In March 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dolloar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment Healthcare Plan during the year ended June 30, 2020, was $27,350,000, $24,003,000 in City contributions, $3,347,000 in implicit subsidy.*

FCERS	**City - Board Adopted**		**Member with Healthcare**
	Tier 1	**Tier 2**	**Tier 1 and Tier 2**
Actuarial Rate:			
Postemployment Healthcare Plan:			
07/01/2019 - 06/30/2020	$21,790,000*		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 Health Plan during the fiscal year ended June 30, 2020 was $26,533,000, $21,790,000 in regular contributions and $4,743,000 in implicit subsidy.*

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, 2019 measurement date. The City's net OPEB liability as of June 30, 2020 for each of the Postemployment Healthcare Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 and rolled forward to June 30, 2019 using standard update procedures by the actuary for the respective plans. In summary, the City's net OPEB asset and liability at June 30, 2020 is as follows (in thousands):

PFDRP net OPEB liability	$	598,125
FCERS net OPEB asset	$	(715)
FCERS net OPEB liability		378,420
Total	$	975,830

Actuarial Methods and Assumptions

	PFDRP
Measurement Date	June 30, 2019
Valuation Date	June 30, 2018
Actuarial Cost Method:	Entry Age Normal, level of percentage of pay
Actuarial Assumptions:	
Discount Rate	6.5%
Inflation Rate	2.75%
Merit Increase	Merit component added based on an individual's years of service ranging from 6.00% to 0.50%.
Wage Inflation Rate	3.25% for FY 2020 and for all years
Rate of Mortality*	Mortality is projected from 2009 on a generational basis using the SOA MP-2017.
Pre-Retirement Turnover**	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 56 or more year period for medical pre-age 65 and 6.00% to 4.25% per annum graded down over 56 year period for medical post-age 65.
Healthcare Trend Rate - Dental	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 for males	1.048 times the CALPERS 2009 Healthy Annuitant Mortality Table for females
Healthy Non-Annuitant	0.948 times the CALPERS 2009 Employee Mortality Table for males	1.048 times the CALPERS 2009 Employee Mortality Table for males
Disabled Annuitant	0.903 times the CALPERS 2009 Industial Disability Mortality Table for males	0.903 times the CALPERS 2009 Industial Disability Mortality Table for females

** 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 6.5% for the valuation year ended June 30, 2018 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, 2019 measurement date are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	56.0%	6.1%
Short-term investment grade bonds	29.0%	0.8%
Core real estate	10.0%	4.3%
Commodities	5.0%	2.3%
Cash and cash equivalents	0.0%	0.3%

Discount Rate for PFDRP

The discount rate used to measure the total OPEB liability was 6.5% for the measurement year ended June 30, 2019 and is based on the long-term expected rate of return on investments. It is assumed that PFDRP member contributions are 8% of pay for employees eligible to participate in the postemployment healthcare plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 11% of the total payroll of the employees in PFDRP and that the City also contributes the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the PFDRP's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments for PFDRP was applied to all periods of projected benefit payments to determine the total OPEB liability.

	FCERS
Measurement Date	June 30, 2019
Valuation Date	June 30, 2018
Actuarial Cost Method:	Entry Age Normal, level of percentage of pay
Actuarial Assumptions:	
Discount Rate	6.75% per year. The Board expects a long-term rate of return of 6.8% based on Meketa's 20-year capital market assumptions and the System's current investment policy.
Inflation Rate	2.50%
Merit Increase	Merit component added based on an individual's years of service ranging from 4.50% at hire to 0.25%.
Wage Inflation Rate	3.25%
Rate of Mortality*	Mortality is projected from 2009 on a generational basis using the MP-2018 scale.
Pre-Retirement Turnover**	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 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 3.5%

* Actuarial Methods and Assumptions – FCERS Mortality Rates

Category	Male	Female
Healthy Annuitant	0.952 for males times the CalPERS 2009 Healthy Annuitant Mortality Table	0.921 for females times the CalPERS 2009 Healthy Annuitant Mortality Table
Disabled Annuitant	1.051 for males times the CalPERS 2009 Ordinary Disabilty Mortality Table	1.002 for females times the CalPERS 2009 Ordinary Disabilty 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 6.75% for the valuation year ended June 30, 2018, 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, 2019 measurement date are summarized in the following table. The assets were invested in a 115 trust account because the 401(h) account within the pension fund was depleted during FY 2019.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	56.0%	6.1%
Short-term investment grade bonds	29.0%	0.8%
Core real estate	10.0%	4.3%
Commodities	5.0%	2.3%
Cash	0.0%	0.3%

Discount Rate for FCERS

The discount rate used to measure the total OPEB liability was 6.75% for the measurement year ended June 30, 2019 and is based on the long-term expected rate of return on investments. It is assumed that FCERS member contributions remain fixed at 7.5% of pay for employees eligible to participate in the postemployment healthcare plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of the total payroll. In addition, the City pays the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the FCERS's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments for 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 (c) = (a) - (b)
Balance at June 30, 2019 (Measurement Date June 30, 2018)	$ 711,832	$ 162,520	$ 549,312
Changes recognized for the measurement period:			
Service cost	15,003	-	15,003
Interest	48,208	-	48,208
Changes of benefits	-	-	-
Differences between expected and actual experience	(3,401)	-	(3,401)
Changes of assumptions	38,843	-	38,843
Contributions - employer	-	28,744	(28,744)
Contributions - employee	-	13,315	(13,315)
Net investment income	-	7,907	(7,907)
Benefit payments including refunds	(26,403)	(26,403)	-
Administrative expense	-	(126)	126
Net changes	72,250	23,437	48,813
Balance at June 30, 2020 (Measurement Date June 30, 2019)	$ 784,082	$ 185,957	$ 598,125

FCERS	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2019 (Measurement Date June 30, 2018)	$ 651,222	$ 277,257	$ 373,965
Changes recognized for the measurement period:			
Service cost	7,723	-	7,723
Interest	43,182	-	43,182
VEBA transfer	-	(19)	19
Differences between expected and actual experience	(10,418)	-	(10,418)
Changes of assumptions	9,310	-	9,310
Contributions - employer	-	26,410	(26,410)
Contributions - employee	-	10,578	(10,578)
Net investment income	-	9,472	(9,472)
Benefit payments including refunds	(28,826)	(28,826)	-
Administrative expense	-	(384)	384
Net changes	20,971	17,231	3,740
Balance at June 30, 2020 (Measurement Date June 30, 2019)	$ 672,193	$ 294,488	$ 377,705

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, 2019:

PFDRP (consolidated with Police and Fire)

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Total OPEB Liability	$ 900,255	$ 784,082	$ 690,264
Plan Fiduciary Net Position	185,957	185,957	185,957
Net OPEB Liability	$ 714,298	$ 598,125	$ 504,307
PFDRP plan fiduciary net position as a percentage of the Total OPEB Liability	20.7%	23.7%	26.9%

FCERS

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Total OPEB Liability	$ 767,787	$ 672,193	$ 594,436
Plan Fiduciary Net Position	294,488	294,488	294,488
Net OPEB Liability	$ 473,299	$ 377,705	$ 299,948
FCERS plan fiduciary net position as a percentage of the Total OPEB Liability	38.4%	43.8%	49.5%

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	$ 680,019	$ 784,082	$ 913,575
Plan Fiduciary Net Position	185,957	185,957	185,957
Net OPEB Liability	$ 494,062	$ 598,125	$ 727,618
PFDRP plan fiduciary net position as a percentage of the Total OPEB Liability	27.3%	23.7%	20.4%

FCERS

	1% Decrease	Health Care Cost Trend Rates	1% Increase
Total OPEB Liability	$ 586,304	$ 672,193	$ 778,112
Plan Fiduciary Net Position	294,488	294,488	294,488
Net OPEB Liability	$ 291,816	$ 377,705	$ 483,624
FCERS plan fiduciary net position as a percentage of the Total OPEB Liability	50.2%	43.8%	37.8%

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) (5.0 Years at June 30, 2019 measurement date)

PFDRP

For the year ended June 30, 2020, the City recognized an OPEB expense of $36,284,000. As of June 30, 2020, 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	$ 24,003	$ -
Difference between expected and actual experience	6,358	2,475
Changes in assumptions	35,427	-
Net difference between projected and actual earnings on OPEB plan investments	3,173	-
Total	$ 68,961	$ 2,475

The $24,003,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2021.

The City's contribution for the Postemployment Healthcare Plan during the year ended June 30, 2020, was $24,003,000. This consisted of City contributions in the amount of $23,843,000, and $160,000 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
2021	$ 22,058
2022	14,947
2023	4,847
2024	631
	$ 42,483

FCERS

For the year ended June 30, 2020, the City recognized a negative OPEB expense of $23,805,000. As of June 30, 2020, the City reported deferred outflows and inflows 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	$ 21,790	$ -
Difference between expected and actual experience	-	7,276
Changes in assumptions	6,207	25,932
Net difference between projected and actual earnings on OPEB plan investments	10,662	-
Total	$ 38,659	$ 33,208

The $21,790,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2021.

The City's contributions for the Postemployment Healthcare Plan during the year ended June 30, 2020, was $21,790,000. This consisted of City contributions in the amount of $21,645,000, and $145,000 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
2021	$ (23,774)
2022	2,491
2023	3,044
2024	1,900
	$ (16,339)

B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Lease Commitments. In September 2009, the Airport entered into a restated operating lease and maintenance agreement for ten Compressed Natural Gas (CNG) powered buses 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. In May 2020, the third amendment to the restated agreement was executed, extending the term for up to three additional one-year option terms. The second amended and restated option was exercised in June 2020, extending through May 2021 and reducing the number of CNG buses from ten to six as of August 2020. Rental and maintenance expenses were $1,048,000 for year ended June 30, 2020.

The future minimum lease and maintenance payments required under the existing agreement for the six CNG powered buses are as follows:

Fiscal Year Ending June 30,		Amount
2021	$	400,260
Total minimum lease payments	$	400,260

Purchase Commitments and Capital Outlay Projections. As of June 30, 2020, the Airport was obligated for purchase commitments of approximately $20,500,000 primarily for the parking revenue control system upgrade, network replacement, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately $209,200,000 on construction related 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 a comprehensive update to the previous 1980 Master Plan. In turn, the FAA in 1999 conditionally approved a new Airport Layout Plan (ALP) displaying the proposed Master Plan projects and unconditionally approved all the near-term projects. Both the Master Plan and the ALP, which identify facility improvements needed to accommodate forecast demand for commercial passenger service, air cargo, and general aviation, have been kept up to date through periodic amendments. Implementation of the Master Plan has been ongoing, and since 1997 has included major runway extensions, new taxiways, new terminal buildings, parking garages, roadways, and environmental mitigation programs.

The City Council approved the most recent amendment to the Master Plan in April 2020. This Master Plan Amendment extended the planning horizon year out to 2037, incorporated the airfield reconfiguration improvements recommended in an FAA-funded Runway Incursion Mitigation/Design Standards Analysis Study, modified the passenger, cargo, and general aviation facility improvement program to serve projected 2037 demand, and added a proposed business hotel to the passenger terminal complex. The Master Plan is currently intended to serve a projected 2037 demand of 22.5 million annual passengers and a total of 184,000 annual aircraft operations, and includes up to 42 airline terminal gates in 1.80 million square feet of passenger terminal facilities. In June 2020, the FAA conditionally approved a new ALP that incorporates the amended Master Plan development program.

Phase I of the Master Plan's Terminal Area Improvement Program (TAIP) was substantially completed in 2010. The Phase I improvements included nine new airline gates and approximately

366,000 square feet of terminal space in a new Terminal B; improvements to existing Terminal A, including new ticketing facilities, in-line baggage system, security checkpoint, and concession space; the demolition of the original Terminal C; design and construction of a Consolidated Rental Car Facility (ConRAC); and realignment and improvement of existing terminal roadways and parking facilities. The Phase I program also included preliminary design of certain TAIP Phase II projects. On the airfield, the build-out of the Airport's two commercial runways (12R/30L and 12L/30R) to 11,000 x 150 feet was completed in 2004, allowing the Airport to regularly serve takeoffs and landings by all domestic and most international commercial airline aircraft. Airfield project construction since 2004 has consisted of improvements to taxiways, aircraft parking aprons, and navigational aids to increase efficiency and compliance with current FAA airfield design standards.

TAIP Phase II projects (also referred to as the "New Terminal Project") will consist primarily of the design and construction of a Terminal C extending from the south end of existing Terminal B, including a total of fourteen (14) additional airline gates plus a new parking garage. Eight of those 14 future gates will replace existing interim gates bolted on to the south end of Terminal B in 2018 and 2019 to accommodate increases in airline flights and passenger volume. Pursuant to the terms of the current signatory Airline-Airport Lease and Operating Agreement and subject only to prior consultation with the signatory airlines, the City retains sole discretion to proceed to construct the New Terminal Project upon its determination that an increase in terminal capacity to be achieved by the New Terminal Project is needed. After completing its consultation with the signatory airlines, and having given due consideration to the information provided by the signatory airlines, the City may proceed with the New Terminal Project if the City determines, in its sole discretion, that the New Terminal Project continues to be needed and can be financed on reasonable terms.

Two Master Plan construction projects underway at the time of this report include the first phase of a multi-story parking garage (Lot 1) on a portion of the existing public parking lot on the northeast side of the Airport, and a new larger Aircraft Rescue and Fire Fighting (ARFF) Facility, partially funded by the FAA, on an existing vacant site on the southwest side of the Airport (to replace the smaller, 1960s-era ARFF Facility located on the southeast side of the Airport).

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 2020-2024 CIP budget. The City's FY 2020 approved operating budget included a 3% increase in the Sewer Service and Use Charge rate for FY 2020.

Revenues for the 2020-2024 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 2020-2024 Adopted CIP, contributions from the City of Santa Clara and other agencies are approximately $298,067,990.

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 2020-2024 Adopted CIP assumes the need to issue bonds in FY 2023.

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, 2020, 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, 2020 is $65,535,000.

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, and FY 2019 with no adjustment to share cost. In January 2021, the audit report for the fifth year of full operations for the year ended June 30, 2020 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 2020 is $24,685,000. The City's annual bond surcharge for FY 2020 was estimated to be $818,800 based the City's actual wholesale water use in the year ended June 30, 2018. 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, 2018 water use is included in the FY 2020 bond surcharge. The current best projection on the City's annual surcharge for the future is $820,416.

4. Retirement Systems – Unfunded Commitments

As of June 30, 2020, PFDRP had unfunded commitments to contribute capital for investments in the amount of $299,880,000. FCERS had unfunded commitments to contribute capital for private market fund investments in the amount of $211,800,000.

5. 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, U.S. Department of Justice, U.S. Department of the Treasury, U.S. Department of Homeland Security, 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, 2020, 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.

6. 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, 2020, total governmental fund encumbrance balances for the City are as follows (in thousands):

General Fund	$	57,227
Housing Activities		35,674
Low and Moderate Income Housing Asset		14,091
Special Assessment Districts		88
San José Financing Authority Debt Service		1
Nonmajor Governmental Funds		75,654
Total governmental funds	$	182,735

7. Consent Decree with San Francisco Baykeeper

San Francisco Baykeeper ("Baykeeper") filed a lawsuit in federal district court against the City in February 2015. Baykeeper's complaint alleged violations of the CWA and the Stormwater Permit. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements, and that there were violations resulting from the discharge of sewage from the City's Sanitary Sewer System that infiltrated into the City's municipal separate storm sewer systems ("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;

• 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:

- o Identify and design $25,000,000 in total projects by September 2024;
- o Award $25,000,000 in total projects by September 2025;
- o Identify and design an additional $10,000,000 ($35,000,000 in the aggregate) in total projects by September 2025;
- o Award an additional $10,000,000 ($35,000,000 in the aggregate) in total projects by the termination date of the consent decree; and
- o Identify and design an additional $15,000,000 ($50,000,000 aggregate) in total projects by the termination date of the consent decree.

If 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 its 10-year term and caps Baykeeper litigation fees for dispute resolution 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 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. In April 2019, the City and Baykeeper entered into the Second Amendment to the Consent Decree ("Second Amendment"), 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 mechanisms to fund its obligations under the Consent Decree. However, polling to date on parcel tax measures indicates that the measures would not attain the required two-thirds voter approval.

Status of Green Storm Water Infrastructure Projects. On September 10, 2019, City Council approved the 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 draft 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.

Before City Council approval and 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. The City and Baykeeper continue to meet and confer about the adequacy of the GIP.

Baykeeper contends that the City should identify additional projects in the GIP. The City submitted the GIP to the Regional Water Board and is awaiting approval. The Board has not provided an estimate of when it may act on the City's GIP. The City staff is working on the River Oaks Project identified in the GIP. However, it is unable to predict which projects will ultimately be approved or whether funding for the GIP will be available.

8. Workers' Compensation Program

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.

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 of June 30, 2020, open claims data for Intercare were at 2,520. The total number of open claims has been reduced (by approximately 5%) since June 30, 2019 when the open claim inventory was 2,647.

The City is required to submit to the State a Public Annual Report. The Public Annual Report completed jointly with Intercare describes: (1) Claims paid in indemnity and medical, (2) Future liability on open claims, and (3) A list of all open indemnity claims. The annual report for FY 2020 was submitted by the November 1, 2020 deadline.

9. COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (“COVID-19”), has been declared a pandemic by the World Health Organization, a national emergency by the President of the United States and a state of emergency by the Governor of the State, the County Board of Supervisors, and the City Council. It has caused tremendous economic volatility in the United States and globally, producing significant declines and the onset of a national and global recession.

The County’s shelter-in-place order will likely impact almost all sectors of sales tax revenue, including retail sales, construction, transportation, and business-to-business. Additionally, high unemployment rates and recessionary economic conditions are likely to continue after the shelter-in-place restrictions are lifted.

As of June 30, 2020, the City was awarded and/or appropriated $253.6 million in federal, state and local grants and relief funding, including approximately $178.3 million of Coronavirus Relief Fund (“CRF”) money under the CARES Act, to address the impact of the COVID-19 pandemic. Subsequent awards and/or appropriations added $64.2 million to support the City’s COVID-19 response efforts, totaling $317.8 million in pandemic-related funding through November 20, 2020.

As of June 30, 2020, the City has expended $70.9 million of these various sources of moneys. These expenditures include food distribution, emergency housing and shelter, local business and residential assistance and various public health functions in partnership with the County of Santa Clara. The remaining amount, along with a contribution from the City’s Continuity of Operations reserve fund of $11.0 million, have been appropriated and partially expended for projects, in accordance with their respective grant or other funding authorizations, to continue emergency and recovery efforts. CRF funding is required to be refunded to the federal Treasury Department if not expended by December 30, 2020.

In addition to the preceding moneys, the Norman Y. Mineta San José International Airport was appropriated $65.6 million through the CARES Act Airport Grant Program (“AGP”) on April 14, 2020. This AGP is overseen by the U.S. Department of Transportation Federal Aviation Administration and will be used solely to support airport activities.

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, 2020 (in thousands):

Cash & Investments		Amount
Cash and Investments	$	6,211
Restricted Cash and Investments		118,994
Total Cash and Investments	$	125,205

A summary of SARA's cash and investments at June 30, 2020 is as follows:

	Moody's Credit Rating	Maturity (in Days) Under 30	31-180	181-365	Balance
Investments:					
LAIF	Not rated	$ -	$ -	$ 5,746	$ 5,746
Money Market Mutual Fund	Aaa	118,994	-	-	118,994
Subtotal Investments					124,740
Bank Deposits					465
Total Cash & Investments					$ 125,205

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.

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.

2. Capital Assets Held by SARA

The following is a summary of capital assets activity for the year ended June 30, 2020 (in thousands):

	July 1, 2019	Addition	Disposal	Transfer	June 30, 2020
Capital Assets, Not Being Depreciated:					
Land	$ 2,892	$ -	$ -	$ (815)	$ 2,077
Capital Assets, Being Depreciated:					
Buildings	75,455	-	-	(74,384)	1,071
Less Accumulated Depreciation:					
Buildings	24,857	118	-	(24,600)	375
Total Capital Assets, Being Depreciated, net	50,598	(118)	-	(49,784)	696
Total Capital Assets, net	$ 53,490	$ (118)	$ -	$ (50,599)	$ 2,773

On August 27, 2015, the Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the Long Range Property Management Plan ("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 2020, the SARA disposed the following properties:

- On July 18, 2019, the SARA transferred one property, California Theater, to the City with a net book value of $50,599,000. 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.

3. Summary of SARA's Long-Term Debt

The following is a summary of long-term debt of the SARA as of June 30, 2020 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2020 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	1,177,030
Total Senior Tax Allocation Bonds							1,256,855
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	219,965
Total Subordinate Tax Allocation Bonds							219,965
Total Long-Term Debt							$ 1,476,820

A summary of the changes in long-term debt and other obligations for the year ended June 30, 2020 follows (in thousands):

	June 30, 2019	Additions	Reductions	June 30, 2020	Amount Due Within One
Senior Tax Allocation Bonds:					
2017 Refunding Bonds Series A	$ 79,825	$ -	$ -	$ 79,825	$ -
2017 Refunding Bonds Series A-T	1,247,600	-	(70,570)	1,177,030	72,050
Subtotal Senior Tax Allocation Bonds	1,327,425	-	(70,570)	1,256,855	72,050
Subordinate Tax Allocation Bonds:					
2017 Refunding Bonds Series B	240,155	-	(20,190)	219,965	21,200
Subtotal Subordinate Tax Allocation Bonds	240,155	-	(20,190)	219,965	21,200
Other Long -Term Debt:					
City of San José - SERAF Loans (Principal)	22,816	-	(22,816)	-	-
City of San José - SERAF Loans (Interest)	5,871	-	(5,871)	-	-
City of San José - Parking Fund Loans (Principal)	13,528	-	(13,528)	-	-
City of San José - Parking Fund Loans (Interest)	4,334	-	(4,334)	-	-
Subtotal Other Long-Term Debt	46,549	-	(46,549)	-	-
Subtotal Long-Term Debt before Unamortized	1,614,129	-	(137,309)	1,476,820	93,250
Issuance Premium (Discount), Net	44,821	-	(4,205)	40,616	4,204
Total Long-Term Obligations	$ 1,658,950	$ -	$ (141,514)	$ 1,517,436	$ 97,454

Total Redevelopment Property Tax Trust Fund ("RPTTF") revenue distributed by the County to the SARA in the FY 2020 was $139,508,000, 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, 2020, the County withheld $42,492,000 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 ($8,073,000), Basic Aid subordinate pass-through ($409,000), AB1290 subordinate pass-through ($27,953,000), and residual balance ($118,184,000) 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), 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 and 2017A-T Bonds are subject to call on or after August 1, 2027 at par. The 2017A Bonds have $79,825,000 in principal subject to call and the 2017A-T Bonds have nearly $544,790,000 in principal subject to call. The total debt service payments on the 2017 Senior Tax Allocation Refunding Bonds was $111,359,000 for the year ended June 30, 2020. The principal and interest remaining on the 2017 Senior Tax Allocation Refunding Bonds as of June 30, 2020 is $1,597,079,000.

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 $17,490,000 in principal 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 $31,693,000 for the year ended June 30, 2020. The principal and interest remaining on the 2017 Subordinate Tax Allocation Refunding Bonds as of June 30, 2020 is $270,964,000.

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, 2020, 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

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, 2020, the total outstanding principal and accumulated accrued interest balance of $22,816,000 and $5,871,000, respectively, was paid in full.

The terms and repayment schedule of the SERAF Loan, as reinstated, were revised to conform with 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, 2020, the total outstanding principal and accumulated accrued interest balance of $13,528,000 and $4,334,000, respectively were paid in full.

The terms and repayment schedule of the Parking Fund Loan, as reinstated, were revised to conform with 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 outstanding at June 30, 2020, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Principal	Interest
2021	$ 93,250	$ 49,704
2022	95,940	46,890
2023	98,880	43,842
2024	102,035	40,555
2025	105,455	37,023
2026-2030	539,590	126,860
2031-2035	387,860	45,004
2036	53,810	1,345
Total	$ 1,476,820	$ 391,223

4. 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, 2020.

Contractual Commitments

At June 30, 2020, the SARA had $2,766,000 for contractual obligations and commitments. In addition, the SARA has unpaid contractual obligations in the amount of $26,000.

D. Subsequent Events

1. 2020 Tax and Revenue Anticipation Notes

On July 1, 2020, the City issued two $65,000,000 short-term notes at a variable interest rate (the "2020 Notes") to facilitate the prefunding of employer retirement contributions in FY 2021. The 2020 Notes were sold in a direct placement. One of the 2020 Notes was purchased by Bank of America, N.A., and the other 2020 Note was purchased by U.S. Bank. Security for repayment of the 2020 Notes is a pledge of the City's FY 2021 secured property tax plus all other legally available General Fund revenues available to the City, if required. The interest expense for the 2020 Notes is estimated to be $1,486,875, and costs associated with the financing were $73,000, resulting in a total projected cost of borrowing at approximately $1,554,875. The 2020 Notes mature on June 30, 2021, and are subject to prepayment as follows:

As of:	The minimum amount of prepayment of each 2020 Note shall be:
February 1, 2021	$19,500,000
April 1, 2021	$39,000,000
June 1, 2021	$52,000,000

2. City of San José Financing Authority Bonds

On September 24, 2020, the Financing Authority issued $355,620,000 of Taxable Lease Revenue Bonds, Series 2020A Bonds ("2020A Bonds"). The 2020A Bonds were issued to (i) refund on a current basis, all of the outstanding 2006A Bonds in the outstanding principal amount of $51.7 million and prepay the related lease payment obligations of the City, (ii) refinance on an advanced basis, all of the outstanding 2013A Bonds in the outstanding principal amount of $267.8 million and the related lease payment obligations of the City, (iii) to refund on a current basis all of the outstanding 2007A

Bonds in the outstanding principal amount of $8.2 million and prepay the related lease payment obligations of the City; (iv) prepay the City's rental obligations under the Master Equipment Lease/Purchase Agreement in the outstanding principal amount of $12.4 million which is anticipated to occur on December 1, 2020 (v) finance the acquisition and construction of public improvements benefitting the City, including the build-out of existing space within the 4th and San Fernando Garage for office space to be occupied by the San José Community Energy Department and other City operations in the principal amount of $4.8 million; and (vi) pay the costs of issuing the 2020A Bonds. The 2020A Bonds received ratings of "Aa2" by Moody's Investors Service, "AA" by S&P Global Ratings, and "AA" by Fitch.

On October 15 , 2020, the Financing Authority issued $146,535,000 of Taxable Lease Revenue Bonds, Series 2020B Bonds ("2020B Bonds"). The 2020B Bonds were issued to (i) refund 2008E-1 Bonds in the amount of $5,590,000 and 2008E-2 Bonds in the amount of $5,585,000 for a total amount of $11,175,000 and thereby replace bonds that bear interest at a variable rate with bonds that bear interest at a fixed rate, (ii) finance the acquisition and construction of two additional ice rinks and related facilities (the "Project") at the Solar4America Ice at San Jose (the "Ice Centre") in the amount of $120,000,000, (iii) fund a deposit to the debt service reserve account and capitalized interest account for the 2020B Bonds, and (iv) pay the issuing costs for the 2020B Bonds. The Project will add two additional ice rinks to meet increase in regional demand for ice time and public skating; provide an alternate home arena for the San José Barracuda; and add approximately 204,193 square feet of space to the existing Ice Centre facility. The 2020B Bonds received ratings of "Aa3" by Moody's Investors Service, "AA" by S&P Global Ratings, and "AA-" by Fitch.

3. 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. Subsequently, on October 26, 2019, the IRS notified the SARA that it had closed the audit on the 1996 Bonds without change to the status of the Series 1996 Bonds.

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).

On July 16, 2020, SARA made payment to the IRS the amount of $193,000 pursuant to a closing agreement with the IRS to close out the arbitrage rebate audit on the Series 1999 Bonds. The amount paid included interest but no penalties. The IRS considers the matter closed with no change in the status of the Series 1999 Bonds.

4. Norman Y. Mineta San José International Airport

Subsequent to June 30, 2020, some airlines announced new routes from the Airport with various start dates in fiscal year 2021. Beginning in September 2020, Alaska Airlines (Alaska) will begin daily round trip service to Spokane, Washington. Beginning in November 2020, Volaris Airlines will begin three weekly round trip flights to Mexico City, Mexico. Beginning December 17, 2020, Alaska will begin twice daily flights to Palm Springs, California through April 12, 2021. Beginning December 19, 2020, Alaska will begin twice weekly flights to Jackson Hole, Wyoming, which will last until April 10,

2021. In March 2021, Alaska will begin daily round trip service to Redmond, Oregon and Missoula, Montana.

On August 7, 2020, S&P placed the Airport Revenue Bonds on CreditWatch with negative implications. S&P placed 99 ratings on most U.S. airports and airport related obligations on CreditWatch with negative implications due to the impact of the COVID-19 pandemic. On October 1, 2020, S&P downgraded the Airport Revenue Bonds to "A-" from "A" with a negative outlook.

On August 4, 2020, the City Council adopted Resolution 79667, which authorized the City Manager to negotiate and execute Concession Agreement Amendments to Non-Aeronautical Concession Agreements at the Airport. It also approves continued financial relief to Non-Aeronautical Concessionaires at the Airport retroactive from July 1, 2020 to December 31, 2020. The financial relief could include, 1) suspension of the MAG Rent, and charge only percentage rent; and 2) allow Non-Aeronautical Concessionaires to charge higher prices by allowing a higher percentage markup over street prices.

On August 4, 2020, the City Council adopted Resolution 79668, which authorized the City Manager to negotiate and execute Concession Agreement Amendments to Non-Aeronautical Rental Car Operations Agreements and Lease Agreements at the Airport. It also approves continued financial relief to Non-Aeronautical Rental Car Concessionaires at the Airport retroactive from July 1, 2020 to December 31, 2020. The financial relief could include, 1) suspension of the MAG Rent, and charge only percentage rent; 2) defer the reallocation date of construction and any relocation services to a later date; and 3) defer rent adjustment appraisals to a later date and instead increase leased premises rent by the Consumer Price Index formula as set out in the agreement.

On August 4, 2020, the City Council adopted Resolution 79669, which authorized the Director of Aviation to provide support in the form of fee waivers for Air Canada, Alaska Airlines, All Nippon Airways (ANA), British Airways, Southwest Airlines, Volaris Airlines, and Hainan Airlines at the Airport. The following fee waivers would apply after the resumption and reinstatement of international flights at the Airport. These include, 1) three months of landing fees for Air Canada resuming service to Vancouver three times daily; 2) three months of landing fees and FIS fees for Alaska Airlines resuming service to Guadalajara and San José del Cabo three times daily; 3) six months of landing fees and FIS fees for ANA resuming service to Tokyo once daily; 4) six months of landing fees and FIS fees for British Airways resuming service to London once daily; 5) three months of landing fees and FIS fees for Southwest Airlines resuming service to San José del Cabo once daily or fewer; 6) three months of landing fees and FIS fees for Volaris Airlines resuming service to Guadalajara, Leon, Morelia, and Zacatecas three times daily; 7) six months of landing fees and FIS fees for Hainan Airlines resuming service to Beijing four times a week.

Beginning in August 2020, the Airport sent out additional offers of deferral of payments to the Airlines, which offered deferral of payments of fixed rents for the months of July 2020 (until November 1, 2020), August 2020 (until January 1, 2021), and September 2020 (until March 1, 2021). Additionally, all activity-based fees for these three months will be due 60 days from the invoice dates. To be eligible for these deferrals, the Airlines must be current on all amounts due to the Airport.

5. San José /Santa Clara Regional Wastewater Treatment Facility

The Credit Agreement in place at June 30, 2020 for the interim financing of San José-Santa Clara Regional Wastewater Facility with Wells Fargo Bank, National Association (the “Bank”) under which the Financing Authority has 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 was scheduled to expire on

October 18, 2020. Pursuant to a Second Amendment to the Credit Agreement ("Second Amendment") by and among the City, the Financing Authority and the Bank, dated October 15, 2020, the term of the Credit Agreement and the associated notes was extended to October 18, 2023. In connection with the Second Amendment, the Financing Authority and the Bank entered into a Second Amended and Restated Fee Letter Agreement ("Fee Agreement" and together with the Second Amendment, the "Agreements") with the Bank. The Agreements include the following changes: an increase in the undrawn fee from 25 basis points ("bps") or 0.25% per year on the portion of the $300 million facility that is undrawn to 35 bps; the Applicable Spread on the Tax-Exempt draws is increased from 39 bps (0.39%) to 95 bps (0.95%) and on Taxable draws, the Applicable Spread increased from 45 bps to 110 bps; the index used to calculate variable rate interest costs remains the one-month LIBOR index (a widely used taxable interest rate) but includes a LIBOR Floor of 50 basis points (or 0.50%) and provides for a replacement Index upon the expiration of the LIBOR index in December 2021.

6. Curb Ramp Consent Decree

Plaintiffs filed a class action lawsuit in the case of *Lashbrook v. City of San Jose* in the United States District Court for the Northern District of California. This lawsuit alleged that the City violated federal and state disability access laws by failing to ensure that its pedestrian right of way contains curb ramps that are necessary to ensure that the pedestrian right of way is accessible to individuals with mobility disabilities. On April 14, 2020, the City Council approved a proposed settlement of this case in the form of a consent decree whereby Mr. Lashbrook will recover a total of $55,000. The City will pay attorney's fees and costs in the amount of $725,000. The City will be required to expend $13 million each year until 2030 to remediate curb ramps, and after 2030 will expend 10% of its pavement maintenance budget to remediate curb ramps, which is accounted for within the City's pavement maintenance budget. The Court preliminarily approved the consent decree on May 27, 2020. At a Fairness Hearing on September 2, 2020, the Court granted final approval of the Consent Decree.

7. Insurance Coverage

Citywide Property Policy

Effective October 1, 2020, the City obtained a new all-risk property policy. Key changes to insurance coverage for the policy period commencing October 1, 2020 include the reduction in business interruption coverage from $1.0 billion to $300.0 million; the reduction in policy limits available for Communicable Disease Response and Interruption by Communicable Disease coverage from $1.0 million to $10,000; and the reduction in policy limits available to cover the cost of replacement power at the San José – Santa Clara Regional Wastewater Facility, should the cogeneration facility there experience a covered property loss from $1.0 billion to $11.0 million.

Fiduciary Liability

For the policy period from June 30, 2019, to June 30, 2020, the City purchased a fiduciary liability policy covering the Deferred Compensation Plans and Defined Contribution 401(a) Plan together. This policy provided $5,000,000 in aggregate limits subject to a $25,000 per claim retention. The City renewed the policy covering the Deferred Compensation Plans for the period from June 30, 2020, to June 30, 2021. A key change to the insurance coverage as of June 30, 2020, is the application of a $100,000 per claim retention to any Mass Class Claim as defined by the policy.

In addition, effective June 30, 2020, the City began purchasing a separate fiduciary liability insurance policy for the Defined Contribution 401(a) Plan which provides $1,000,000 in aggregate limits of liability subject to a $25,000 per claim retention.

8. San José Clean Energy

In October 2020, SJCE paid $6,791,000 to the California Public Utilities Commission (CPUC) as a penalty payment for deficiencies in satisfying certain State of California year-ahead resource adequacy obligations for calendar year (CY) 2019 and also filed an application for rehearing of the imposition of the CY 2019 penalty. SJCE was not able to purchase the state mandated amount of resource adequacy for CY 2019 due to unfavorable market conditions. This payment reduced the estimated liability for claims and judgment by the same amount leaving a remaining estimated liabilities associated with penalties levied by the CPUC of $1,116,000, which reflects the penalty levied by the CPUC for SJCE not satisfying certain year-ahead resource adequacy obligations for CY 2020. SJCE is appealing the 2020 penalty with the CPUC.

9. County Notice Related to Residual Property Tax Distribution

On October 1, 2020, the County sent its notice of estimated distribution (the "County Notice") of Redevelopment Property Tax Trust Fund ("RPTFF") to successor agencies and taxing entities within the County, including the City, for the period of January to June 2021. The County Notice advised that commencing with this period the County will revise its method of calculating the share of residual property tax increment that is generated in the redevelopment project areas of the City's former redevelopment agency to be distributed to taxing entities, including the City, under Section 34183 of the Health and Safety Code. According to the County Notice, as a result of an appellate court decision in *City of Chula Vista v. Sandoval*, 49 Cal.App.5th 539 (2020), it will distribute all such residuals in accordance with the pro rata tax share of each taxing entity and that it will adjust distributions of such residuals for the past three years as required by Health and Safety Code Section 34186(b). Based on the amounts specified in the County Notice, the City believes that its distribution for FY 2021 will be reduced by a total of $10 million which is comprised of a $3 million reduction for the FY 2021 and $7 million as the repayment amount for the three prior fiscal years. The City is reviewing this matter and has made no determination of what action, if any, to take in response to the County's Notice. In the event that budgetary actions are necessary to make adjustments to the City's 2020-2021 Adopted Operating Budget as a result of the reduced distribution of residual property tax increment then City staff anticipate bringing such action in connection with the City Council's mid-year budget review in February 2021. The City is unable to predict the impact this change will have on the City's revenues in the future.

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General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2020
($000's)

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget	Actual Amounts Budgetary	Budgetary to GAAP	Actual Amounts	
	Original	Final	Over (Under)	Basis	Differences	GAAP Basis	
REVENUES							
Taxes:							
Property	$ 351,600	361,600	4,870	366,470	-	366,470	
Utility	119,645	116,645	3,568	120,213	-	120,213	
Franchise	48,641	48,641	(4,205)	44,436	-	44,436	
Business tax	73,930	71,930	48	71,978	-	71,978	
Other	22,500	13,500	604	14,104	-	14,104	
Sales taxes	258,300	249,300	11,258	260,558	-	260,558	
State of California in-lieu	83	500	326	826	-	826	
Licenses, permits and fines	76,493	75,493	2,254	77,747	-	77,747	
Intergovernmental	8,305	203,921	(113,099)	90,822	-	90,822	
Charges for current services	58,351	49,637	(1,102)	48,535	-	48,535	
Other revenues	56,577	66,085	(5,154)	60,931	-	60,931	
Investment income	6,900	6,900	2,990	9,890	4,622	14,512	(1)
Total revenues	1,081,325	1,264,152	(97,642)	1,166,510	4,622	1,171,132	
EXPENDITURES							
Current:							
General government	202,803	299,085	(51,263)	247,822	(22,224)	225,598	(2)
Public safety	703,987	700,213	(53,948)	646,265	(4,968)	641,297	(2)
Community services	143,949	143,949	(19,442)	124,507	(3,239)	121,268	(2)
Sanitation	5,136	5,136	(846)	4,290	(276)	4,014	(2)
Capital maintenance	158,236	115,112	(6,509)	108,603	(22,595)	86,008	(2)
Capital outlay	-	23,471	-	23,471	-	23,471	
Debt service:							
Principal	2,961	2,961	(1,501)	1,460	-	1,460	
Interest	-	-	700	700	-	700	
Total expenditures	1,217,072	1,289,927	(132,809)	1,157,118	(53,302)	1,103,816	
Excess (deficiency) of revenues over expenditures	(135,747)	(25,775)	35,167	9,392	57,924	67,316	
OTHER FINANCING SOURCES (USES)							
Proceeds from sale of capital assets	5,353	5,353	(1)	5,352	-	5,352	
Transfers in	9,784	18,700	(4,208)	14,492	-	14,492	
Transfers out	(48,967)	(43,724)	2,297	(41,427)	-	(41,427)	
Total other financing sources (uses)	(33,830)	(19,671)	(1,912)	(21,583)	-	(21,583)	
Net change in fund balance	(169,577)	(45,446)	33,255	(12,191)	57,924	45,733	
Fund balance - beginning	365,118	365,118	-	365,118	49,381	414,499	
Add beginning encumbrance balance	-	-	-	45,764	(45,764)	-	
Fund balance - ending	$ 195,541	319,672	33,255	398,691	61,541	460,232	

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.

Housing Activities Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2020
($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	$ 3,239	37,269	(19,456)	17,813	-	17,813	
Investment income	560	620	1,806	2,426	1,463	3,889	(1)
Other revenues	6,689	15,193	10,777	25,970	(640)	25,330	(2)
Total revenues	10,488	53,082	(6,873)	46,209	823	47,032	
EXPENDITURES							
Current:							
Community services	44,762	96,043	(29,088)	66,955	(35,935)	31,019	(2)
Total expenditures	44,762	96,043	(29,088)	66,955	(35,935)	31,019	
Excess (deficiency) of revenues over expenditures	(34,274)	(42,961)	22,215	(20,746)	36,758	16,013	
OTHER FINANCING SOURCES (USES)							
Transfers in		3,920		3,920		3,920	
Transfers out	(56,334)	(22)		(22)		(22)	
Total other financing sources (uses)	(56,334)	3,898		3,898		3,898	
Net change in fund balance	(101,085)	(39,063)	22,215	(16,848)	36,758	19,911	
Fund balance - beginning	73,136	73,136	-	73,136	75,055	148,190	
Add beginning encumbrance balance			-	19,791	(19,791)	-	
Fund balance - ending	$ (27,949)	34,073	22,215	76,079	92,022	168,101	

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.

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, 2020
($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	$ 2,000	2,000	16,398	18,398	2,424	20,822	(1)
Other revenues	16,500	40,194	(17,832)	22,361	(14,388)	7,974	(2)
Total revenues	18,500	42,194	(1,435)	40,759	(11,963)	28,796	
EXPENDITURES							
Current:							
Community services	49,242	80,996	(28,319)	52,678	(41,811)	10,867	(2)
Capital outlay			79	78		78	
Total expenditures	49,242	80,996	(28,240)	52,756	(41,811)	10,945	
Excess (deficiency) of revenues over expenditures	(30,742)	(38,803)	26,806	(11,997)	29,848	17,851	
OTHER FINANCING SOURCES (USES)							
Transfers out	(420)	(420)		(420)		(420)	
Total other financing sources (uses)	(420)	(420)		(420)		(420)	
Net change in fund balance	(31,162)	(39,223)	26,806	(12,417)	29,848	17,431	
Fund balance - beginning	144,321	144,321	-	144,321	253,326	397,648	
Add beginning encumbrance balance			-	5,145	(5,145)	-	
Fund balance - ending	$ 113,159	105,098	26,806	137,050	278,029	415,079	

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.

Schedule of Employer Contributions – Defined Benefit Pension Plans

PFDRP Schedule of Employer Contributions

(Dollar Amounts in Thousands)

	2020	2019	2018	2017	2016
Actuarially determined contribution	$ 188,481	$ 176,618	$ 157,712	$ 136,957	$ 132,480
Contributions in relation to actuarially determined contribution	188,481	176,618	157,712	136,957	132,480
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 230,401	$ 218,619	$ 203,164	$ 188,177	$ 186,874
Contributions as a percentage of covered payroll	81.81%	80.79%	77.63%	72.78%	70.89%

Fiscal year	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**
Valuation date	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
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 a 15-year periods. Methods and assumptions are amortized over closed 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.	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	6.75%	6.875%	6.875%	7.00%	7.00%
Salary increases	3.25% per annum (.75% 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 6.00% for new hires to .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 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%	3.25%
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, 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 SOA MP-2017 on a generational basis Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, 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, 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, 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.

Schedule of Employer Contributions – Defined Benefit Pension Plans (Continued)

PFDRP Schedule of Employer Contributions

(Dollar Amounts in Thousands)

	2015	2014	2013	2012	2011
Actuarially determined contribution	$ 129,279	$ 123,583	$ 105,234	$ 121,008	$ 77,918
Contributions in relation to actuarially determined contribution	129,279	123,583	105,234	121,008	77,918
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 180,226	$ 180,083	$ 180,333	$ 184,750	$ 222,464
Contributions as a percentage of covered payroll	71.73%	68.63%	58.36%	65.50%	35.02%

Fiscal year	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**	**June 30, 2011**
Valuation date	**June 30, 2013**	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**	**June 30, 2009**
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.				
Discount rate	7.125%	7.25%	7.50%	7.75%	8.00%
Salary increases	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.	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.
Amortization growth rate	3.50%	3.50%	4.25%	4.25%	4.25%
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.

Schedule of Employer Contributions – Defined Benefit Pension Plans

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2020	2019	2018	2017	2016
Actuarially determined contribution	$ 181,327	$ 173,006	$ 156,770	$ 138,483	$ 129,456
Contributions in relation to actuarially determined contributions	181,327	173,006	156,770	138,483	124,723
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ 4,733
Covered payroll	$ 319,980	$ 298,824	$ 290,504	$ 271,153	$ 257,771
Contributions as a percentage of covered payroll	56.67%	57.90%	53.96%	51.07%	48.39%

Fiscal year	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**
Valuation date	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
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	6.75%	6.875%	6.875%	7.00%	7.00%
Salary increases	3.25% plus merit component based on years of service	3.25% 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%	3.00%	2.85%	2.85%	2.85%
Amortization method	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.	As of June 30, 2009, the funded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amortization payment for the 2015 assumption changes is phased-in over 3 years.	As of June 30, 2009, the funded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amortization payment for the 2015 assumption changes is phased-in over 3 years.	As of June 30, 2009, the funded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay.
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	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-2015 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

Schedule of Employer Contributions – Defined Benefit Pension Plans (Continued)

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2015	2014	2013	2012	2011
Actuarially determined contribution	$ 114,751	$ 102,811	$ 103,109	$ 87,082	$ 59,180
Contributions in relation to actuarially determined contributions	114,751	107,544	103,109	87,082	59,180
Contribution deficiency (excess)	$ -	$ (4,733)	$ -	$ -	$ -
Covered payroll	$ 240,678	$ 219,434	$ 217,375	$ 223,158	$ 275,869
Contributions as a percentage of covered payroll	47.68%	49.01%	47.43%	39.02%	21.45%

Fiscal year	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
Valuation date	**June 30, 2013**	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**	**June 30, 2009**
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	7.00%	7.25%	7.00%	7.50%	7.95%
Salary increases	2.85% plus merit component based on years of service	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
Amortization growth rate	2.85%	2.43%	3.00%	3.25%	3.90%
Amortization method	The unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30 year period commencing June 30, 2009 as a level percentage of Tier 1 pay. Actuarial gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of Tier 1 and Tier 2 pay.	The entire unfunded actuarial liability as of June 30, 2009 was amortized as a level percentage of payroll over a closed 30-year period commening June 30, 2009. Actuarial gains and losses, assumption changes and plan changes since June 30, 2009 are amortized as a level percentage of payroll over a closed 20-year periods beginning with the valuation in which they are first recognized.	Level percent of pay, closed, layered	Level percent of pay, closed, layered	Level percent of pay, closed, layered
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	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.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2020

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	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Service cost (middle of year)	$ 87,641	$ 81,883	$ 75,481	$ 72,760	$ 74,531	$ 74,895
Interest (includes interest on service cost)	329,612	313,565	300,378	290,961	274,487	262,738
Changes of benefit terms	-	-	178	5,752	-	-
Differences between expected and actual experience	37,127	(17,011)	33,082	67,557	(8,673)	21,457
Changes of assumptions	80,852	76,425	(100,328)	72,680	90,179	56,311
Benefit payments, including refunds of member contributions	(231,007)	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)
Net change in total pension liability	304,225	236,854	102,161	313,678	243,585	239,148
Total pension liability - beginning	4,872,791	4,635,937	4,533,776	4,220,098	3,976,513	3,737,365
Total pension liability - ending	$ 5,177,016	$ 4,872,791	$ 4,635,937	$ 4,533,776	$ 4,220,098	$3,976,513
Plan fiduciary net position						
Contibutions - employer	$ 188,481	$ 176,618	$ 157,712	$ 136,957	$ 132,480	$ 129,279
Contibutions - member	27,645	24,811	23,841	20,580	21,508	20,747
Net investment income	134,085	114,179	233,475	292,734	(29,206)	(27,690)
Benefit payments, including refunds of member contributions	(231,008)	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)
Administrative expense	(5,605)	(5,369)	(5,464)	(4,635)	(4,254)	(4,191)
Net change in plan fiduciary net position	113,598	92,231	202,934	249,604	(66,411)	(58,108)
Plan fiduciary net position - beginning	3,588,422	3,496,191	3,293,257	3,043,653	3,110,064	3,168,172
Plan fiduciary net position - ending	$ 3,702,020	$ 3,588,422	$ 3,496,191	$ 3,293,257	$ 3,043,653	$3,110,064
Net pension liability - ending	$ 1,474,996	$ 1,284,369	$ 1,139,746	$ 1,240,519	$ 1,176,445	$ 866,449
Plan fiduciary net position as a percentage of the total pension liability	71.51%	73.64%	75.41%	72.64%	72.12%	78.21%
Covered payroll	$ 218,619	$ 203,164	$ 188,177	$ 186,874	$ 180,226	$ 180,083
Net pension liability as a percentage of covered payroll	674.69%	632.18%	605.68%	663.83%	652.76%	480.76%

(Dollar amounts in thousands):	FCERS					
Total pension liability	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Service cost (middle of year)	$ 61,014	$ 61,808	$ 59,628	$ 51,887	$ 49,011	$ 46,795
Interest (includes interest on service cost)	280,131	272,787	264,250	249,388	229,609	221,690
Changes of benefit terms	-	-	1,781	12,132	-	-
Differences between expected and actual experience	(27,723)	(11,662)	17,461	40,853	39,720	13,005
Changes of assumptions	(2,937)	54,398	(15,582)	60,233	205,875	108,674
Benefit payments, including refunds of member contributions	(216,728)	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)
Net change in total pension liability	93,757	172,265	134,138	231,063	350,897	225,602
Total pension liability - beginning	4,229,613	4,057,348	3,923,210	3,692,147	3,341,250	3,115,648
Total pension liability - ending	$ 4,323,370	$ 4,229,613	$ 4,057,348	$ 3,923,210	$ 3,692,147	$ 3,341,250
Plan fiduciary net position						
Contibutions - employer	$ 181,327	$ 173,006	$ 156,770	$ 138,483	$ 124,723	$ 114,751
Contibutions - employee	25,082	22,606	20,501	17,227	15,920	13,621
Net investment income	90,909	76,855	117,493	146,010	(35,010)	(16,642)
Benefit payments, including refunds of member contributions	(216,728)	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)
Administrative expense	(4,725)	(4,582)	(4,823)	(4,380)	(3,940)	(3,898)
Net change in plan fiduciary net position	75,865	62,819	96,541	113,910	(71,625)	(56,730)
Plan fiduciary net position - beginning	2,132,152	2,069,333	1,972,792	1,858,882	1,930,507	1,987,237
Plan fiduciary net position - ending	$ 2,208,017	$ 2,132,152	$ 2,069,333	$ 1,972,792	$ 1,858,882	$ 1,930,507
Net pension liability - ending	$ 2,115,353	$ 2,097,461	$ 1,988,015	$ 1,950,418	$ 1,833,265	$ 1,410,743
Plan fiduciary net position as a percentage of the total pension liability	51.07%	50.41%	51.00%	50.29%	50.35%	57.78%
Covered payroll	$ 298,824	$ 290,504	$ 271,153	$ 257,771	$ 240,678	$ 219,434
Net pension liability as a percentage of covered payroll	707.89%	722.01%	733.17%	756.65%	761.71%	586.15%

Schedule of Investment Returns – Defined Benefit Pension Plans

	PFDRP						
	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	2.98%	4.00%	6.89%	9.68%	(0.85%)	0.85%	13.00%

	FCERS						
	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	3.79%	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):	2020	2019	2018	2017	2016	2015
Measurement date:	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.03485%	0.03540%	0.03597%	0.03634%	0.03783%	0.01697%
Proportionate share of the net pension liability	$ 1,395	$ 1,334	$ 1,419	$ 1,262	$ 1,038	$ 1,056
Covered payroll	$ 797	$ 822	$ 776	$ 756	$ 589	$ 692
Proportionate share of the net pension liability as percentage of covered payroll	175.03%	162.29%	182.86%	166.93%	176.23%	152.60%
Plan's fiduciary net position as a percentage of the total pension liability	75.65%	76.39%	74.67%	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)	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 222	$ 188	$ 184	$ 162	$ 148	$ 107
Contributions in relation to the contractually required contributions	222	188	184	162	156	107
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ (8)	$ -
Covered payroll	$ 1,006	$ 797	$ 822	$ 776	$ 756	$ 589
Contributions as a percentage of covered payroll	22.07%	23.59%	22.38%	20.88%	20.63%	17.06%

Notes to Schedule:

Valuation Date	6/30/2017	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	7.25% (net of administrative expenses)	7.375% (net of administrative expenses)	7.5% (net of administrative expenses)			
Termination Liability Discount Rate	2.61%	1.75%	2.75%	2.91%	3.72%	2.98%
Salary Growth	0.40% to 8.50%	3.20% to 12.20%			3.30% to 14.20%	
	Depending on Age, Service and Type of Employment					
Inflation	2.625%	2.75%				
Payroll Growth	2.875%	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	2020	2019	2018	2017
Service cost (middle of year)	$ 12,813	$ 15,003	$ 13,001	$ 16,112
Interest (includes interest on service cost)	44,676	48,208	45,314	46,774
Changes of benefit terms	-	-	(69,434)	-
Differences between expected and actual experience	(99,319)	(3,401)	14,877	-
Change of assumptions	8,567	38,843	21,243	-
Benefit payments, including refunds of member contributions	(25,031)	(26,403)	(27,686)	(24,799)
Net change in total OPEB liability	(58,294)	72,250	(2,685)	38,087
Total OPEB liability - beginning	784,082	711,832	714,517	676,430
Total OPEB liability - ending	$ 725,788	$ 784,082	$ 711,832	$ 714,517
Plan fiduciary net position				
Contibutions - employer	$ 27,350	$ 28,744	$ 25,382	$ 20,667
Contibutions - employees	13,135	13,315	16,127	18,116
Net investment income	7,243	7,907	7,070	12,453
Benefit payments, including refunds of member contributions	(25,031)	(26,403)	(27,686)	(24,799)
Administrative expense	(122)	(126)	(158)	(182)
VEBA transfer	-	-	(7,897)	-
Net change in plan fiduciary net position	22,575	23,437	12,838	26,255
Plan fiduciary net position - beginning	185,957	162,520	149,682	123,427
Plan fiduciary net position - ending	$ 208,532	$ 185,957	$ 162,520	$ 149,682
Net OPEB liability - ending	$ 517,256	$ 598,125	$ 549,312	$ 564,835
Plan fiduciary net position as a percentage of the total OPEB liability	28.73%	23.72%	22.83%	20.95%
Covered payroll	$ 218,619	$ 203,164	$ 188,177	$ 186,874
Net OPEB liability as a percentage of covered payroll	236.60%	294.41%	291.91%	302.25%

(Dollar amounts in thousands):	FCERS			
Total OPEB liability	2020	2019	2018	2017
Service cost (BOY)	$ 7,040	$ 7,723	$ 7,889	$ 11,109
Interest (includes interest on service cost)	41,855	43,182	42,669	49,978
Changes of benefit terms	-	-	(57,623)	-
Differences between expected and actual experience	(25,639)	(10,418)	(995)	-
Changes of assumptions	(14,804)	9,310	(77,795)	-
Benefit payments, including refunds of member contributions	(30,779)	(28,826)	(29,724)	(31,007)
Net change in total OPEB liability	(22,327)	20,971	(115,579)	30,080
Total OPEB liability - beginning	672,193	651,222	766,801	736,721
Total OPEB liability - ending	$ 649,866	$ 672,193	$ 651,222	$ 766,801
Plan fiduciary net position				
Contibutions - employer	$ 26,533	$ 26,410	$ 32,397	$ 31,905
Contibutions - employee	10,692	10,578	15,545	16,827
Net investment income	3,075	9,472	12,336	17,041
Benefit payments, including refunds of member contributions	(30,779)	(28,826)	(29,724)	(31,007)
Administrative expense	(686)	(384)	(170)	(242)
VEBA transfer	(13)	(19)	(13,497)	-
Net change in plan fiduciary net position	8,822	17,231	16,887	34,524
Plan fiduciary net position - beginning	294,488	277,257	260,370	225,846
Plan fiduciary net position - ending	$ 303,310	$ 294,488	$ 277,257	$ 260,370
Net OPEB liability - ending	$ 346,556	$ 377,705	$ 373,965	$ 506,431
Plan fiduciary net position as a percentage of the total OPEB liability	46.67%	43.81%	42.57%	33.96%
Covered payroll	$ 298,824	$ 290,504	$ 271,153	$ 257,771
Net OPEB liability as a percentage of covered payroll	115.97%	130.02%	137.92%	196.47%

Changes in assumptions. The discount rate was changed from 6.875% (net of administrative expense) to 6.5% and from 6.875% (net of administrative expense to 6.75%, respectively, for PFDRP and FCERS for the measurement period ended June 30, 2020. 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	2020	2019	2018	2017
Actuarially Determined Contribution (ADC)	$ 27,350	$ 28,744	$ 25,382	$ 20,667
Contribution in relation to the ADC	(27,350)	(28,744)	(25,382)	(20,667)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 230,401	$ 218,619	$ 203,164	$ 188,177
Contribution as a percentage of covered payroll	12%	13%	12%	11%

**Actuarial methods and assumption used to set the actuarially determined contributions for fiscal year 2020 were from the June 30, 2018 actuarial valuation.*

Methods and assumptions used to determine contributions:

Fiscal Year	6/30/2020	6/30/2019
Valuation Date	6/30/2018	6/30/2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	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	Individual entry age
Asset Valuation Method	Market value of assets	Market value of assets
Amortization Method	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Discount rate	6.500%	6.875%
Amortization growth rate	3.25%	3.25%
Ultimate rate of medical inflation	4.250%	4.250%
Salary increases	3.25% plus merit component based on years of service	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	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 ended June 30, 2020 and June 30, 2019 can be found in the June 30, 2018 and June 30, 2017 actuarial valuation report, respectively.

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	2020	2019	2018	2017
Actuarially Determined Contribution (ADC)	$ 26,533	$ 26,410	$ 32,397	$ 31,905
Contribution in relation to the ADC	(26,533)	(26,410)	(32,397)	(31,905)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 319,980	$ 298,824	$ 290,504	$ 271,153
Contribution as a percentage of covered payroll	8%	9%	11%	12%

** *Actuarial methods and assumption used to set the actuarially determined contributions for FY 2020 were from the June 30, 2018 actuarial valuation*

Methods and assumptions used to determine contributions:

Fiscal Year	6/30/2020	6/30/2019
Valuation Date	6/30/2018	6/30/2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	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	Individual entry age
Asset Valuation Method	Market value of assets	Market value of assets
Amortization Method	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Discount rate	6.750%	6.875%
Amortization growth rate	3.00%	3.25%
Ultimate rate of medical inflation	4.250%	4.250%
Salary increases	3.25% plus merit component based on years of service	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-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ended June 30, 2020 and June 30, 2019 can be found in the June 30, 2018 and June 30, 2017 actuarial valuation report, respectively.

Schedule of Investment Returns – Postemployment Healthcare Plans

	PFDRP			
	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	1.95%	4.86%	3.56%	7.17%

	FCERS			
	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	0.53%	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.

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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 20, 2020, the City Council approved certain fiscal year 2020 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.

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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 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 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, 2020, 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 30, 2020, except for our report on the schedule of expenditures of federal awards as to which the date is June 18, 2021.

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, 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

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 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 an instance of other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as item 2020-002.

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 30, 2020

MGO Certified Public Accountants

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, 2020. 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, 2020.

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

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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
June 18, 2021

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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:				
Child Nutrition Cluster:				
Summer Food Service Program for Children	10.559	05394-SFSP-43	$ 46,317	$ -
Total U.S. Department of Agriculture			46,317	-
U.S. Department of Housing and Urban Development				
Direct programs:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B16-MC-06-0021	552,692	-
Community Development Block Grants/Entitlement Grants	14.218	B17-MC-06-0021	2,036,649	1,203,658
Community Development Block Grants/Entitlement Grants	14.218	B18-MC-06-0021	2,724,994	2,265,091
Community Development Block Grants/Entitlement Grants	14.218	B19-MC-06-0021	2,455,271	1,670,935
Subtotal CDBG - Entitlement Grants Cluster			7,769,606	5,139,684
Emergency Solutions Grant Program	14.231	E17-MC-06-0021	87,087	85,273
Emergency Solutions Grant Program	14.231	E18-MC-06-0021	141,923	141,489
Emergency Solutions Grant Program	14.231	E19-MC-06-0021	629,720	621,942
Subtotal Emergency Solutions Grant Program			858,730	848,704
Home Investment Partnerships Program	14.239	M16-MC-06-0215	64,263	64,263
Home Investment Partnerships Program	14.239	M17-MC-06-0215	353,737	353,737
Home Investment Partnerships Program	14.239	M18-MC-06-0215	368,637	-
Home Investment Partnerships Program	14.239	M19-MC-06-0215	20,697	20,697
Subtotal Home Investment Partnerships Program			807,334	438,697
Housing Opportunities for Persons with AIDS	14.241	CA-H17-F004	12,680	12,680
Housing Opportunities for Persons with AIDS	14.241	CA-H18-F004	721,356	696,403
Housing Opportunities for Persons with AIDS	14.241	CA-H19-F004	405,541	394,407
Housing Opportunities for Persons with AIDS	14.241	CA-H16-0004	130,808	113,121
Housing Opportunities for Persons with AIDS	14.241	CA-H15-0001	544,106	530,520
Housing Opportunities for Persons with AIDS	14.241	CA-H19-0001	267,421	263,206
Subtotal Housing Opportunities for Persons with AIDS			2,081,912	2,010,337
Total U.S. Department of Housing and Urban Development			11,517,582	8,437,422
U.S. Department of Justice				
Direct programs:				
Missing Children's Assistance	16.543	2017-MC-FX-K020	462,696	-
Missing Children's Assistance	16.543	2016-MC-FX-K048	14,340	-
Missing Children's Assistance	16.543	2018-MC-FX-K003	138,362	-
Subtotal Missing Children's Assistance			615,398	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2018-WE-AX-0029	136,854	-
Bulletproof Vest Partnership Program	16.607	2018 BVP	127,187	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2018-MO-BX-K0015	12,285	-
STOP School Violence	16.839	2018-YS-BX-0042	9,960	-
Total U.S. Department of Justice			901,684	-
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	K9110058202	533,203	236,855
WIOA Adult Program	17.258	K9110058500	600,000	266,526
WIOA Adult Program	17.258	AA011037201	282,088	125,307
WIOA Adult Program	17.258	AA011037202	844,840	375,287
WIOA Adult Program	17.258	AA011037500	43,395	19,276
Subtotal - WIOA Adult Program			2,303,526	1,023,251
WIOA Youth Activities	17.259	K9110058301	870,724	481,329
WIOA Youth Activities	17.259	K9110058302	5,691	3,146
WIOA Youth Activities	17.259	AA011037301	772,696	427,140
WIOA Youth Activities	17.259	AA011037302	554	306
Subtotal - WIOA Youth Activities			1,649,665	911,921
WIOA Dislocated Worker Formula Grants				
WIOA Dislocated Worker Formula Grants	17.278	K9110058501	253,052	65,664
WIOA Dislocated Worker Formula Grants	17.278	K9110058502	1,118,853	290,327
WIOA Dislocated Worker Formula Grants	17.278	AA011037292	20,732	-
WIOA Dislocated Worker Formula Grants	17.278	AA011037293	98,367	-
WIOA Dislocated Worker Formula Grants	17.278	AA011037540	82,117	-
WIOA Dislocated Worker Formula Grants	17.278	AA011037541	261,550	-
WIOA Dislocated Worker Formula Grants	17.278	AA011037501	161,788	41,982
WIOA Dislocated Worker Formula Grants	17.278	AA011037502	133,526	34,648
Subtotal WIOA Dislocated Worker Formula Grants			2,129,985	432,621
Subtotal WIOA Cluster			6,083,176	2,367,793
Total U.S. Department of Labor			6,083,176	2,367,793

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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	3-06-0226-086-2015	$ 100,246	$ -
Airport Improvement Program	20.106	3-06-0226-094-2017	4,058	-
Airport Improvement Program (Note 4)	20.106	3-06-0226-096-2018	(126)	-
Airport Improvement Program	20.106	3-06-0226-097-2018	1,442,516	-
Airport Improvement Program	20.106	3-06-0226-098-2020	1,389,155	-
Subtotal Airport Improvement Program			2,935,849	-
Highway Planning and Construction Cluster:				
Pass-through California Department of Transportation:				
Highway Planning and Construction	20.205	HPLUL-5005 (085)	184,107	-
Highway Planning and Construction	20.205	BRLS-5005 (089)	294,274	-
Highway Planning and Construction	20.205	HSIP7-04-022	57,165	-
Highway Planning and Construction	20.205	HSIP-5005(149)	223,772	-
Highway Planning and Construction	20.205	HSIPL-5005(150)	60,349	-
Highway Planning and Construction	20.205	5005(147)	57,938	-
Highway Planning and Construction	20.205	5005(148)	114,853	-
Highway Planning and Construction	20.205	5005(158)	6,361	-
Subtotal Highway Planning and Construction			998,819	-
Subtotal pass-through California Department of Transportation			998,819	-
Pass-through Metropolitan Transportation Commission:				
Highway Planning and Construction:				
Highway Planning and Construction	20.205	CML-5005(142)	918,954	-
Highway Planning and Construction	20.205	CML-5005(133)	597,440	-
Highway Planning and Construction	20.205	CMLNI-5005(141)	56,043	-
Highway Planning and Construction	20.205	STPL-5005(154)	393,614	-
Highway Planning and Construction	20.205	SCL-170029	317,480	-
Highway Planning and Construction	20.205	STPL-5005(153)	307,526	-
Highway Planning and Construction	20.205	SCL170031	140,612	-
Subtotal pass-through Metropolitan Transportation Commission			2,731,669	-
Subtotal Highway Planning and Construction Cluster			3,730,488	-
Pass-through California Office of Traffic Safety:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	PS19028	73,797	-
State and Community Highway Safety	20.600	PT19129	24,907	-
State and Community Highway Safety	20.600	PT20159	11,956	-
Subtotal State and Community Highway Safety			110,660	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18075	64,556	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT19129	24,269	-
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			88,825	-
Subtotal pass-through California Office of Traffic Safety			199,485	-
Total U.S. Department of Transportation			6,865,822	-
U.S. Department of the Treasury				
COVID-19 Coronavirus Relief Fund	21.019	N/A	70,982,697	-
Total U.S. Department of the Treasury			70,982,697	-
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	180,986	-
Nutrition Services Incentive Program	93.053	4300010957	44,739	-
Subtotal Aging Cluster			225,725	-
Total U.S. Department of Health and Human Services			225,725	-
U.S. Department of Homeland Security				
Direct programs:				
Assistance to Firefighters Grant	97.044	EMW-2017-FP-00756	22,037	-
Pass-through California Office of Emergency Services:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4301-DR	608,796	-
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4482-DR	2,051,052	-
Subtotal pass-through California Office of Emergency Services:			2,659,848	-
Pass-through the Bay Area UASI:				
Homeland Security Grant Program:				
Homeland Security Grant Program (Note 3)	97.067	2017-0083	(4,169)	-
Homeland Security Grant Program	97.067	2018-0054	556,668	-
Homeland Security Grant Program	97.067	2019-0035	326,907	-
Homeland Security Grant Program	97.067	2016-0102	45,044	-
Homeland Security Grant Program	97.067	2016-0102	11,400	-
Homeland Security Grant Program	97.067	FY2016-2017	192,505	-
Homeland Security Grant Program	97.067	2018-0054	350,518	-
Homeland Security Grant Program	97.067	NCRIC 18	106,226	-
Homeland Security Grant Program	97.067	NCRIC 19	105,186	-
Subtotal pass-through the Bay Area UASI			1,690,285	-
Total U.S. Department of Homeland Security			4,372,170	-
Total Expenditures of Federal Awards			$ 100,995,173	$ 10,805,215

See accompanying notes to the Schedule of Expenditures of Federal Awards.

(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.

During the year ended June 30, 2020, the City discovered overage related to the Homeland Security Grant Program Grant number 2017-0083. The excess expenditures in the amount of $4,169 were subsequently transferred out to the general fund, however, they were reported in the SEFA for the year ended June 30, 2019, and are reported as a negative amount in the SEFA for the year ended June 30, 2020.

(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, 2020, the Airport discovered an expenditure overage related to the Terminal B apron south ramp construction project under AIP Grant number 3-06-0226-096-2018. The excess expenditures in the amount of $126 were subsequently transferred out and returned to FAA; however, they were reported in the SEFA for the year ended June 30, 2019, and are reported as a negative amount in the SEFA for the year ended June 30, 2020.

(5) 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, 2020.

Program Title and Expenditure Category	Grant Number Grant Period	Cumulative Expenditures through June 30, 2019	Actual 7/1/19-6/30/20 Non-match	Actual 7/1/19-6/30/20 Match	Cumulative Expenditures through June 30, 2020	Cumulative Program Revenue
Internet Crimes Against Children						
Task Force Program (Federal)	2019-MC-FX-K048					
Personnel Services	10/1/2016 - 9/30/2019	$ 124,440	$ 14,340	$ -	$ 138,780	$ 138,780
Operating Expenses		9,456	-	-	9,456	9,456
Total		$ 133,896	$ 14,340	$ -	$ 148,236	$ 148,236
Internet Crimes Against Children						
Task Force Program (Federal)	2017-MC-FX-K020					
Personnel Services	7/01/2017-09/30/2021	$ 208,056	$ 206,038	$ -	$ 414,094	$ 414,094
Operating Expenses		365,381	256,658	-	622,039	622,039
Total		$ 573,437	$ 462,696	$ -	$ 1,036,133	$ 1,036,133
Internet Crimes Against Children						
Task Force Program (Federal)	2018-MC-FX-K003					
Personnel Services	10/01/2018-09/30/2021	$ 11,591	$ 138,601	$ -	$ 150,192	$ 150,192
Operating Expenses		8,154	(239)	-	7,915	7,915
Total		$ 19,745	$ 138,362	$ -	$ 158,107	$ 158,107
Internet Crimes Against Children						
Task Force Program (State)	IC-1810-7928					
Personnel Services	07/01/2018-12/31/2020	$ -	$ -	$ -	$ -	$ -
Operating Expenses		111,450	1,193,782	-	1,305,232	1,305,232
Total		$ 111,450	$ 1,193,782	$ -	$ 1,305,232	$ 1,305,232

(6) SUBSEQUENT EVENT

In March 2021, the Office of Management and Budget (OMB) issued OMB Memo M-21-20 to provide federal agencies with direction and expectations from OMB relating to the implementation of the American Rescue Plan Act, including key points such as single audit submission extension. OMB instructed awarding agencies to allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of OMB Memo M-21-20 that have fiscal year-ends through June 30, 2021, to delay the completion and submission of the single audit reporting package to six months beyond the normal due date. The City's extended due date for the fiscal year 2019/20 single audit is September 30, 2021.

City of San José, California
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I Summary of Audit 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 that are not considered to be material weaknesses?	None reported
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 that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance with 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
20.106	Airport Improvement Program
21.019	Coronavirus Relief Fund
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs:	$3,000,000
Auditee qualified as a low-risk auditee?	No

Section II Financial Statement Findings

Finding 2020-001 – Material Weakness
Internal Controls Over the Financial Reporting Process

Criteria and Condition
Internal control is an integral process that is effected by the City's governing body, management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the organization's goals, the following general objectives are being achieved:

- Executing orderly, ethical, economical, efficient and effective operations;
- Fulfilling accountability obligations;
- Complying with applicable laws, regulations, contracts and grant agreements; and
- Safeguarding resources against loss, misuse and damage.

Internal control is a dynamic integral process that should be continuously adapting to the changes the City is facing. The City started to address its staffing challenges by filling vacant positions and adding new personnel in the Finance Department.

Cause
While the City has made significant efforts in improving its financial reporting process over the past several years, the progress has been hampered by turnover.

Effect or Potential Effect
While the City has been successful in recruiting professionals to fill vacant positions over the past three 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, which contributed to errors or proposed audit adjustments to the financial reporting such as the following:

- An error in reporting Coronavirus Aid, Relief, and Economic Security (CARES) Act funding received in advance. Reporting non-exchange revenues can be complex under generally accepted accounting principles, as revenue recognition depends upon whether the revenues have purpose restrictions or eligibility requirements. For the CARES Act program, revenue is only recognized to the extent the City has incurred eligible COVID-19 related costs. As the City recognized the entire advance received by the U.S. Treasury, an adjustment of $115 million to unearned revenue was necessary to properly recognize the CARES Act revenues earned during fiscal year 2019/20.
- An error in reporting interfund notes payable, resulting in an overstatement of $10 million at the government-wide financial statements level.
- Errors made in accounts payable for end of year cut-off analysis, in the amounts of $4.9 million and $3.1 million in it governmental and proprietary funds, respectively.
- Timely resolution of bank reconciling items.

In addition, late numerous and significant adjusting entries made by the City after the "initial close" of its financial records and preparation of final financial statements to be audited resulted in increased staff effort in re-performing reconciliations substantiating accounts and balances.

Recommendation
We recommend that the City evaluate the causes for the deficiencies reported above in an effort to incorporate the necessary tasks during its closing process to prevent these kinds of errors in the future. In addition, the City should continue to develop 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.

Management Response
See Management's Corrective Action Plan.

Finding 2020-002 – Control Deficiency
Application of the Availability Criterion for Revenue Recognition

Criteria
The availability principle requires that revenues be recognized when they are collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. The City considers governmental fund revenues to be available if they are collected within 60 days after year-end.

Condition, Cause, and Effect
We noted that some of the City's departments did not consistently apply the availability criterion in their governmental fund financial statements, which resulted in overstated revenues of $7.4 million in governmental funds.

Recommendation
We recommend that the Finance Department continue training financial statement preparers in other departments on the application of the availability criterion. In addition, the Finance Department should establish a review process at the end of the 60-day period to compare governmental departments' significant revenue year-end accruals with remittances received. Departments that show significant variances in collections of receivables should provide documentation supporting the validity and propriety of the revenue recorded.

Management Response
See Management's Corrective Action Plan.

Section III Federal Award Findings and Questioned Costs

None reported.

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Management's Corrective Action Plan – Unaudited
Year Ended June 30, 2020

Finding 2020-001 – Material Weakness
Internal Controls Over the Financial Reporting Process

Management Response:

Management agrees with MGO's comment and acknowledges that staffing turnover resulting from resignations, retirement, and extended leaves in the Specialized Accounting and Financial Reporting Sections of the Finance Department, Accounting Division contributed negatively to the completion of the FY 2019-2020 audit process.

Newly hired or promoted accounting staff had little to no institutional knowledge in the City's accounting processes. Work and training activities were hampered further, due to the COVID-19 pandemic and resulting County of Santa Clara Shelter-in-Place mandate effective March 17, 2020, by the unexpected and subsequently complete remote work environment of the Specialized Accounting and Financial Reporting sections, who have primary responsibility for producing the Comprehensive Annual Financial Report. The remote work environment severely hindered the usual daily face-to-face collaboration of the Comprehensive Annual Financial Report team, as well as constraining management engagement. Review of staff work was challenging and often made for lengthier process times due to the remote work environment. Additionally, managers new to the organization and their roles did not have the opportunity to fully develop a working relationship with their staff prior to the onset of the COVID-19 pandemic. Three (3) key employees – Supervising Accountant, Senior Accountant and Accountant – were concurrently on approved family medical leave ("FMLA"), along with a vacant Accounting Technician position for much of the audit period, which reduced staff time available for Comprehensive Annual Financial Report production by approximately 2,300 hours. Given COVID-19 and time restrictions, it was not feasible to hire and train temporary, skilled staff to backfill these positions in a remote work environment. Lastly, the work units were faced with the resignation of the Accounting Division Deputy Director in September 2020 after only twenty-two months (22) of employment with the City.

In the FY 2017-18 Governance Report, MGO highlighted similar concerns regarding staff turnover and training. As a result of the audit finding, the Finance Department submitted budget proposals to address this finding, adding two (2) Accountant positions and funding for dedicated training for accounting staffing. These positions and funding for training were added to the Finance Department budget in FY 2019-20; positions were filled in October/November 2019 and training commenced. The addition of these two positions increased the staffing to 19 positions as compared to the Accounting Division's 20 positions in 2008 for these two work units, a peak staffing year for the Comprehensive Annual Financial Report team. The current 19 positions reflect a reduction of 5% in staffing levels in these two work sections during a period of time where financial reporting has become increasingly complicated with the numerous Governmental Accounting Standards Board ("GASB") pronouncements the City is required to implement.

These Accounting work sections are responsible for recording citywide accounting and budget transactions, maintaining the general ledger database, coordinating the City's annual external audit process, and preparing and producing the Comprehensive Annual Financial Report, in addition to approximately twenty (20) stand-alone financial reports. Additional work includes producing the City's annual cost allocation plans. Further complicating the governmental financial reporting this year was an increase in the volume and complexity of accounting and reporting for COVID-19 federal grants and Coronavirus Aid, Relief, and Economic Security ("CARES") Act funding, which had continually varying and sometimes conflicting guidance.

Management believes the staffing challenges are demonstrated by more than half of the employees in these two work groups being either hired or promoted into their position in the last two and half years. During this same period of time, nine (9) employees left City service or the Finance Department for opportunities in other City departments. The table below shows average years of tenure of the Accounting Division's professional accounting classifications in the Financial Reporting/Special Accounting sections. The statistics indicate that an average tenure of professional accounting staff in their current classification is less than two years for three of the five classifications, which negatively affects staff's technical growth and the quality of work product as mentioned in the Governance Report.

Finance Department – Accounting Division
Financial Reporting/Special Accounting Sections
As of November 30, 2020

	Number of Positions	Average Years in Classification	Average Years with the City
Accounting Technician	2	1.21	10.96
Accountant I/II	10	2.54	6.56
Senior Accountant	3	1.67	1.67
Supervising Accountant	2	1.96	3.84
Principal Accountant	2	2.13	3.30

Despite these challenges, the Finance Department is undertaking various steps to address the issues raised in the Governance Report.

1. The Department commenced the recruitment to fill the Deputy Director of Finance, Accounting, position which has been vacant since September 2020. Currently this is the only vacant position in the Accounting Division. An area of focus during the recruitment will be identifying a candidate and subsequent hire with strong management, organization and mentoring skills. A person who can develop the team and effectively cross-train to build critical skill sets is essential.

2. In the FY 2017-2018 Governance Report, the Department included several workplan items to institute and implement changes to address internal control issues. Department senior management has reviewed those commitments and recognizes that turnover has affected our ability to fully implement. It is appropriate to re-examine and refocus our efforts. First efforts include a detailed review of the process for developing the FY 2019-20 audit documenting challenges and developing a written workplan to avoid a repeat for FY 2020-21 and beyond.

a. The Department anticipates during FY 2020-21, the Division will be able to institute and implement changes to address internal control issues including the following:
   - Ensure proper training and cross training of professional accounting staff in core job assignments, including developing and maintaining detailed desk procedures;
   - Reconcile and review of accounting transactions, including review and approval by Supervising and Principal Accountants in a timely manner;
   - Plan and execute citywide fiscal year-end close activities and recording of accounting transactions in a timely manner;
   - Prepare and review audit documents and draft financial reports for the external auditor's review; and
   - Prepare a citywide audit completion schedule in consultation with the external auditors and conduct weekly or bi-weekly status meetings to ensure that tasks are completed by the targeted dates.

b. As the City has decentralized accounting operations, proper coordination among department accounting staff and the Accounting Division staff is critical for the successful execution of the audit process and completion of the Comprehensive Annual Financial Report and other reports. The Accounting Division will coordinate and prepare a detailed work plan that will list fiscal year-end milestones to be completed by department accounting staff and delivered to the Accounting Division within the timelines prescribed in the work plan. The Finance Department will ensure department senior management is aware of fiscal year-end close responsibilities and the related deliverables.

c. The Finance Department continues to research and encourage participation in the training opportunities in the governmental accounting and financial reporting areas to professional accounting staff offered by the Government Finance Officers Association ("GFOA"), the California Society of Municipal Finance Officers ("CSMFO"), and the Association of Government Accountants ("AGA"). Finance Accounting staff will be encouraged to attend local CSMFO chapter meetings to maintain professional relationships with their counterparts and to facilitate exchange of professional knowledge. Training in the COVID-19 pandemic environment is largely remote via webinars and self-directed training, which does have its limitations but provides opportunity for more staff to participate.

Contact person responsible for corrective action plan:
Rick Bruneau, Deputy Director of Finance, Accounting Division

Target Completion Date: June 30, 2021

Finding 2020-002 – Control Deficiency
Application of the Availability Criterion for Revenue Recognition

Management Response:

The Finance Department will continue training financial statement preparers in other departments on the application of the availability criterion. In addition, the Finance Department will establish a review process at the end of the 60-day period to compare governmental departments' significant revenue year-end accruals with remittances received with those departments showing significant variances in collections of receivables will be required to provide documentation supporting the validity of the revenue recorded.

Contact person responsible for corrective action plan:
Rick Bruneau, Deputy Director of Finance, Accounting Division

Targeted Completion Date: June 30, 2021.

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Finding 2019-001 – Material Weakness
Internal Controls Over the Financial Reporting Process

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.

During the fiscal year ended June 30, 2019, the City was imposed a fine from the State's Public Utility Commission in the amount of $6,791,155. The City appealed the fee and initially did not record 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 in accordance with generally accepted accounting principles. 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.

The City established 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.

Status: Corrected.

Finding 2019-002 – Significant Deficiency
Completeness of the Schedule of Expenditures of Federal Award

During the fiscal year ended June 30, 2019, 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 grant. 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 grant is managed by the City's Department of Parks, Recreation and Neighborhood Services.

The City continued 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 assist in reconciling 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: Corrected