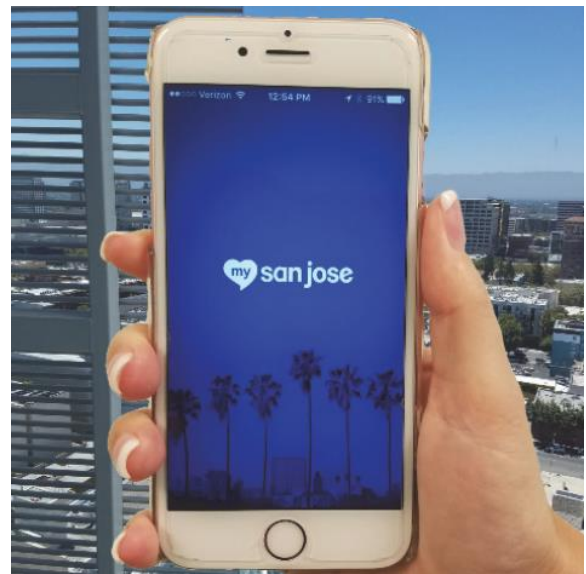
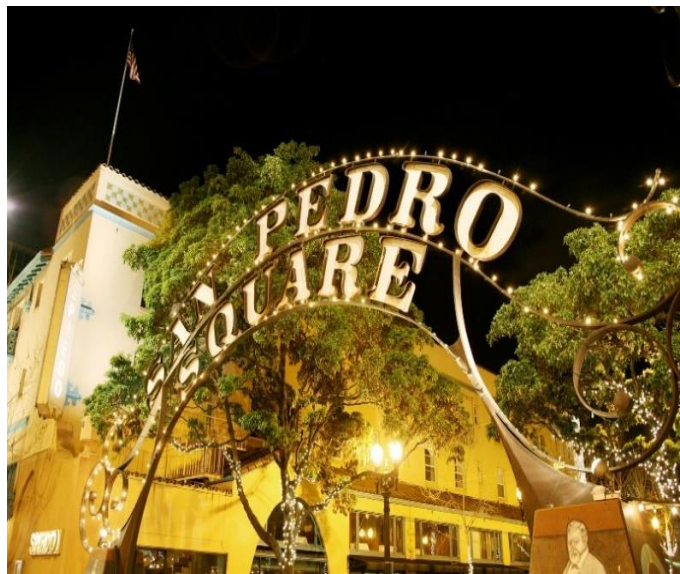




2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED JUNE 30, 2017

San Jose, California

City of San José
California

Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2017

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 Fire
 Housing
 Human Resources
 Information Technology
 Library

Planning, Building and Code Enforcement
 Police
 Public Works
 Successor Agency to the Redevelopment Agency
 Retirement Services
 Transportation

Parks, Recreation and Neighborhood Services

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Introductory Section

November 16, 2017

HONORABLE MAYOR and CITY COUNCIL

**THE COMPREHENSIVE ANNUAL FINANCIAL
REPORT OF THE CITY OF SAN JOSE**

We are pleased to present the Comprehensive Annual Financial Report ("CAFR") of the City of San José ("City") for the fiscal year July 1, 2016 through June 30, 2017 as required by Sections 805(a) and 1215 of the City Charter. Although submitted to the Mayor and City Council ("Council") for consideration, the CAFR is also intended to provide relevant financial information to the residents of San José, taxpayers, creditors, investors, and other interested parties.

This letter of transmittal provides a non-technical summary of City finances, services, achievements, and economic prospects. We ask that readers who wish a more detailed discussion of the City's financial results refer to Management's Discussion & Analysis contained in the Financial Section of the CAFR.

The City Administration is responsible for the accuracy of the information contained in this report, the adequacy of its disclosures, and the fairness of its presentation. We believe this CAFR to be complete and reliable in all material respects. To provide a reasonable basis for making this representation, we have established a comprehensive system of internal controls designed to protect City assets from loss, to identify and record transactions accurately, and to compile the information necessary to produce financial statements in conformity with generally accepted accounting principles.

The City contracted with Grant Thornton LLP, a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the City's financial statements for fiscal year 2016-2017 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an "unmodified" or "clean" opinion. The independent auditor's report is included in the Financial Section of this report.

In addition, Grant Thornton is in the process of auditing the City's major program expenditures of federal funds for compliance with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement*, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR, and when completed, may be obtained upon request from the City's Department of Finance.



Letter of Transmittal (Continued)

This CAFR is organized into three sections:

- The Introductory Section is intended to familiarize the reader with the organizational structure of the City, the nature and scope of City services, and specifics of the City's legal operating environment.
- The Financial Section includes Management's Discussion & Analysis, Basic Financial Statements, Notes to Basic Financial Statements, required supplementary information, and other supplemental information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for each of the City's major funds, nonmajor governmental funds, as well as proprietary funds, internal service funds, and fiduciary funds. This section also contains the independent auditor's report on the Basic Financial Statements.
- The Statistical Section presents up to ten years of detailed statistical data on the City's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.

REPORTING ENTITY

San José is a charter city that has operated under a council-manager form of government since 1916. Under the City Charter, the Mayor and Council form the legislative body that represents the community and is empowered to formulate Citywide policy. The Council consists of a Mayor and ten Council members. The Mayor is elected at large for a four-year term, and Council members are elected by district for staggered four-year terms. The Mayor and Council members are limited to two consecutive four-year terms. Under the Charter, the Mayor recommends policy, program, and budget priorities to the Council, which in turn approves policy direction for the City. The City Manager is appointed by the Council and serves as the chief administrative officer of the organization responsible for the administration of City affairs, day-to-day operations, and implementation of Council policies. In addition to the City Manager, the City Attorney, City Clerk, City Auditor, and Independent Police Auditor are appointed by and report directly to the Council.

The City Charter provides that the boards of administration for each of the City's retirement plans, the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan hire and prescribe the duties of the chief executive officer and chief investment officer within the Office of Retirement Services who serve at the pleasure of the retirement boards. The City Charter also specifies certain duties and obligations of each retirement board and authorizes the chief executive officer to hire and oversee the Office of Retirement Services' employees, subject to any applicable Civil Service Rules.

The City provides a range of municipal services, including police and fire protection, sanitation services, environmental management, maintenance of streets and infrastructure, and the administration of library services, recreational activities, and cultural facilities. The City operates a parking program, a municipal water system, a wastewater treatment facility, the Mineta San José International Airport, and three municipal golf courses. In addition, the City provides an oversight in the management of convention, cultural event and hospitality facilities that include the San José McEnery Convention Center, Center for the Performing Arts, California Theatre, Mexican Heritage Plaza, Ice Centre, Dolce Hayes Mansion and Conference Center, and the SAP Center at San José – home of the San José Sharks of the National Hockey League.

Letter of Transmittal (Continued)

The City organization is structured into six City Service Areas (“CSAs”) that integrate services provided by separate departments and offices into key alignments from the community’s perspective. The CSAs are:

- **Community and Economic Development:** The Community and Economic Development CSA seeks to manage the growth and change of the City in order to encourage a strong economy, create and preserve healthy neighborhoods, ensure a diverse range of employment and housing opportunities, and encourage a diverse range of arts, cultural and entertainment offerings.
- **Environmental and Utility Services:** The Environmental and Utility Services CSA is designed to achieve the outcomes of a reliable utility infrastructure; healthy streams, rivers, marsh, and bay; and a safe, reliable and sufficient water supply.
- **Neighborhood Services:** The goal of the Neighborhood Services CSA is to provide services to residents and neighborhoods in ways that support and maintain positive social connections and outcomes. These connections build capable communities and the quality of life that make San José a desirable place to live. This means that residents have access to nearby parks, trails, sports fields, community centers, libraries, and diverse range of recreational and learning opportunities.
- **Public Safety:** The goal of the Public Safety CSA is to provide prevention and emergency response services for crime, fire, medical, hazardous, and disaster-related situations.
- **Transportation and Aviation Services:** The Transportation and Aviation Services CSA provides a safe and efficient transportation system that is dedicated to improving freeways, transit, streets, bicycle and parking facilities, and sidewalks, as well as the Mineta San José International Airport and its support facilities. Transportation and aviation infrastructure and services provide an important resource to support the community’s livability and economy, along with the City’s economic development efforts.
- **Strategic Support:** The Strategic Support CSA is comprised of internal functions that enable the five other CSAs to provide services to the community. The City departments within the Strategic Support CSA endeavor to develop, manage, and safeguard the City’s fiscal, physical, technological and human resources to enable and enhance the delivery of City services and projects.

San José covers approximately 179 square miles at the south end of the San Francisco Bay and is the county seat of Santa Clara County. With a 2017 estimated population of 1,046,079¹, it is the tenth largest city in the United States and the third largest city in California. San José is the oldest city in California, developing from a Spanish pueblo established on November 29, 1777. The City has transformed dramatically from the rich agricultural setting of its early years into the largest city in the Silicon Valley, known as the “Capital of Silicon Valley.” Silicon Valley is home to many of the world’s largest technology companies and is a global center of technology innovation. Service providers account for approximately 79.8 percent² of the employment in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (“MSA”) with the majority of employment related to professional and business services, education and health services, government, and retail. In addition, durable goods manufacturing, primarily computer equipment, semiconductor components, and electronic instruments, account for approximately 14.0 percent² of the MSA employment.

The CAFR includes all funds of the City, as well as all governmental organizations and activities for which the Council has financial accountability. These organizations include the San José-Santa Clara Clean

¹ State of California, Department of Finance, Population Estimates for Cities and Counties January 2017.

² State of California, Employment Development Department, Labor Market Information Division, June 2017.

Letter of Transmittal (Continued)

Water Financing Authority, the City of San José Financing Authority, and the Successor Agency to the Redevelopment Agency of the City of San José.

ECONOMIC CONDITION and FISCAL OUTLOOK

Fiscal year 2016-2017 ended with continued solid growth in several revenue categories such as Property Tax, Transient Occupancy Tax, Utility Tax and development-related fees and taxes. With the local economy's sustained growth over the past several years, and as expenditures were closely forecasted and monitored, the City's budget remained stable. Accordingly, the 2016-2017 Adopted Budget maintained existing service levels while also providing limited enhancements to service delivery in priority areas and providing some investments in City infrastructure. The 2017-2018 Adopted Budget addressed a projected General Fund shortfall of \$10.0 million. In the 2018-2022 General Fund Forecast, incremental deficits were also anticipated in the following four years ranging from \$11.5 million to \$34.8 million annually. Therefore, it is important for the organization to continue to monitor increasing costs and to seek new opportunities to increase tax base revenues for maintaining service levels.

The 2016-2017 Adopted Budget was developed with the assumption of continued economic growth. Economic indicators and actual revenue performance supported this assumption, with continued improvement during fiscal year 2016-2017. Employment indicators, construction activity, median single-family home prices, and the number of days it took to sell these homes all performed well in 2016-2017.

The June 2017 MSA employment level was 1.097 million, which was 1.6%³ higher than the June 2016 level of 1.080 million³. This represents the seventh consecutive year of sustained growth from June to June. The unemployment rate in the San José metropolitan area continued to improve in 2016-2017, dropping from 4.0% in June 2016 to 3.6% in June 2017. The June 2017 unemployment rate in this region was well below the unadjusted rate for the State (4.9%) and the nation (4.5%).

Led by the commercial and residential sectors, overall construction activity was especially strong in 2016-2017 at \$1.9 billion, exceeding 2015-2016 levels of \$1.5 billion and the peak of \$1.7 billion experienced in 2013-2014. Commercial valuation of \$702.6 million ended above the prior year level of \$474.0 million. Residential valuation of \$599.1 million also exceeded the prior year total of \$440.9 million. Industrial activity of \$574.5 million fell slightly from prior year actuals of \$594.7 million.

The housing market also remained strong in 2016-2017. The median price for single family homes increased in value, with a median home price in June 2017 of \$996,000, up 8.3% from the June 2016 price of \$920,000. However, the number of property transfers in 2016-2017 was 7,883, which represents a 4.1% decrease from the number of transfers that occurred during the prior year. The amount of time it is taking to sell these homes has remained fairly consistent with the average days-on-market for single-family and multi-family dwellings in 2016-2017 totaling 26 days, compared to 24 days during the previous year.

In November 2016, the voters approved the Alternative Pension Reform Act known as Measure F, that the City Council had placed on the ballot as a result of settlement frameworks entered into with the City's bargaining groups to settle the litigation and other proceedings related to Measure B, the pension measure, approved by the voters in June 2012. Following the adoption of Measure F, in February and May 2017, the City Council enacted ordinances amending the provisions of both the Police and Fire Department Retirement Plan and the Federated City Employees Retirement System and to provide for the Voluntary Employee Beneficiary Association ("VEBA"), a defined contribution healthcare benefit for retiree healthcare costs. These amendments to the Municipal Code were enacted to implement the terms of the settlement frameworks and Measure F. The terms of both retirement plans in place as of June 30, 2017 are described

³ State of California, Employment Development Department, Labor Market Information Division, June 2017.

Letter of Transmittal (Continued)

in Note IV.A. to the basic financial statements. The status of the litigation and other proceedings related to Measure B is described in Note IV.B.8 to the basic financial statements.

In October 2017, in order to address various implementation issues, the City Council and the bargaining units have entered into side letters and the City Council has approved ordinances further amending the terms of both retirement plans and the VEBA provisions.

One aspect of the settlement frameworks that was not implemented during 2016-2017 is the VEBA. On October 18, 2017, the City commenced the VEBA opt-in process for eligible employees currently in the defined benefit healthcare plans provided by the retirement plans. These employees will be provided with a one-time irrevocable opportunity to voluntarily choose to opt-in to the VEBA or stay in the defined benefit retiree healthcare plan. For the employees who elect to participate in the VEBA, their previous employee retiree healthcare contributions (without interest) will be placed into an individual VEBA account. This election period ends on December 1, 2017 and is subject to approval of the Internal Revenue Service, which is pending.

In 2017, the President of the United States declared disasters for winter storms that struck California. The flood in January and the Coyote Creek Flood in February 2017 resulting from these winter storms were included in the disaster declared areas. The City is eligible to file for public assistance claims for costs incurred for emergency response and immediate protective measures for the floods. Such declarations also provide Federal Emergency Management Agency (FEMA) disaster mitigation grant funding, which are administered by the California Governor's Office of Emergency Services (CalOES). City staff is currently selecting potential projects for grant funding based on the project's ability to reduce the impact of any hazard and thereby improve community resilience.

On May 16, 2017, the San José City Council voted unanimously to establish the San José Clean Energy (SJCE), the City of San José's Community Choice Energy (CCE) program, pursuant to State law known as the Community Choice Aggregation Law. This law allows local governments to establish a CCE to buy electricity for their businesses and residents. With SJCE, San José will be the largest single jurisdiction in California to operate a CCE. SJCE is expected to launch in spring 2018.

The City Council adopted a balanced fiscal year 2017-2018 budget in June 2017. This marks the sixth consecutive year that the operating budget did not include significant reductions in services, staffing, and compensation to achieve a balanced budget. The fiscal year 2017-2018 budget focused on the following Council investment priorities:

- Public Safety and Disaster Preparedness
- Flood Recovery
- Investments that Produce Long-Term Savings, Revenues, and Efficiencies
- Investments that Leverage External Sources of Funding
- Investments Leveraging Community Energy and Volunteerism: #Beautify SJ
- Savings and Improving Fiscal Resiliency

These goals were met by using a balanced approach to maintaining stability, meeting service delivery needs, and planning for uncertainties. The 2017-2018 Adopted Budget takes a multi-year approach with one-time funding set aside in 2017-2018 to address a portion of the projected General Fund shortfall in 2018-2019. It also holds the line with a limited number of new additions in strategically important areas. It maintains existing service levels, enhances service delivery in limited areas, invests in City infrastructure, and avoids service cuts. The adopted budget also address various service delivery and infrastructure needs for many other funds.

The City's current general obligation credit ratings are Aa1/AA+/AA+ from Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively. These credit ratings have remained the same from the

Letter of Transmittal (Continued)

prior year, and the City continues to be one of the highest rated large cities (with population over 250,000) in California, and second highest among the nation's ten largest cities. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence and sound financial management and prudent budgetary practices.

SIGNIFICANT COMMUNITY EVENTS and SERVICE DELIVERY ACCOMPLISHMENTS

Examples of significant community events and service delivery accomplishments for the fiscal year ended June 30, 2017, include the following:

- ❖ Mineta San José International Airport (SJC) became the fastest growing major U.S. airport. Based upon published flight schedules, SJC ended calendar year 2016 with the highest growth rate in airline seat capacity among the nation's top 50 airports. SJC seat capacity grew by 13 percent in the calendar year 2016. This increase is due to airlines launching several new routes and additional frequencies to many destinations Silicon Valley travelers have requested. In September 2016, SJC received the award for 'Best Passenger Assistance Initiative' for its pioneering spirit and commitment to improving the passenger experience at the 6th Future Travel Experience Awards ceremony held in Las Vegas. The "Explore SJC" 3D augmented reality app project will assist SJC passengers with wayfinding, proximity-based search functionality for SJC restaurants and shops, and gaming entertainment while between flights.
- ❖ In August 2016, the Environmental Services Department held a groundbreaking ceremony to mark the first major project of the \$1.4 billion, 10-year Capital Improvement Program at the San José-Santa Clara Regional Wastewater Facility (RWF). The \$108 million digester processing equipment project will improve operational reliability and safety and increase biogas production, a sustainable energy source used for RWF operations. The milestone event launches the RWF program to rebuild and modernize the 60-year-old facility. The RWF capital program is one of the largest public works projects in South Bay history and addresses critical rehabilitation projects to ensure reliable operations and improved efficiency through new technologies.
- ❖ In May 2017, the Department of Parks, Recreation and Neighborhood Services and its project partner received the Trail Planning & Design Award for the SKY Lane Trail Vision Study at the International Trails Symposium recently held in Dayton, Ohio. If developed, the SKY Lane Trail would link the Three Creeks Trail West to Coyote Creek and Kelley Park. The Vision Study was developed to help stakeholders understand the major challenges and opportunities for an elevated trail concept that could cross active rail lines, a freeway, and future high-speed rail.
- ❖ San Jose Public Library (SJPL) was one of eight winners of the prestigious John Cotton Dana Public Relations Award in May 2017. The award recognizes excellence, creativity, and effectiveness of library communications campaigns. SJPL was chosen for its multi-lingual campaign to launch the new teen center headquarters, TeenHQ. The campaign reached well over 200,000 people with marketing tactics targeted to schools, parks, local businesses, and recreation centers. The initiative resulted in 400 attendees on opening day, 84,000 social media impressions, news stories that ran for days, engagement interest from high tech companies, and growing numbers of teens using TeenHQ.
- ❖ The City won the 2016 National Community Improvement Award for Litter Prevention at Keep America Beautiful annual conference in Washington, D.C., in January 2017. The award recognizes the innovative and successful efforts by the City and its partners, to reduce illegal dumping in the community. A citywide task force developed a comprehensive program focused on prevention, cleanup, education, and community engagement to provide practical and convenient alternatives to reduce illegal dumping on streets and in creeks. The program includes free curbside pickup of large items such as furniture and appliances; regular cleanup routes in areas with a high incidence of illegal dumping; and a new fulltime illegal dumping rapid response team to address resident cleanup requests.

Letter of Transmittal (Continued)

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

The City publishes a five-year Capital Improvement Program (“CIP”) that guides the City in the planning, scheduling, and budgeting of capital improvement projects. The CIP is updated annually and approved by the City Council. The CIP continues the approach of balancing resource investments to maintain, rehabilitate, and rejuvenate a wide array of public infrastructure to improve system reliability, enhance recreational experiences, advance public safety, and ensure that San José remains well-positioned for further economic growth and opportunity while building on the efforts of the last several years of making targeted investments that align with the City’s economic development and community livability goals contained within the Envision San José 2040 General Plan.

In total, the City’s 2017-2018 Adopted Capital Budget totals \$1.0 billion and the 2018-2022 Adopted CIP totals \$3.3 billion. The 2017-2018 Adopted Capital Budget reflects a 14.0% increase from the 2016-2017 Adopted Capital Budget of \$878.4 million, and from a five-year perspective, the 2018-2022 Adopted CIP is 35.3% higher than the \$2.4 billion 2017-2021 Adopted CIP. The 2018-2022 Adopted CIP programs include significant amounts for the following purposes: upgrade and revitalization of the RWF; rehabilitation and enhancement of a variety of park assets and recreational facilities; pavement maintenance; and renovation of the City’s outstanding cultural facilities.

Key components of the 2018-2022 Adopted Capital Improvement Program include:

- Water Pollution Control Capital Program is the largest capital program accounting for 45.9% of the 2018-2022 CIP with a total of \$1.51 billion, of which \$238.1 million is budgeted in 2017-2018, directed to renovate and upgrade the RWF infrastructure to ensure capacity and reliability of treatment plant processes.
- Traffic Capital Improvement Program is the second largest program at 18.8% of the CIP with a budget of \$621.6 million, of which \$235.7 million is budgeted in 2017-2018. The 2018-2022 CIP invests approximately \$106.9 million in traffic safety and local multimodal improvements, supporting the use of all modes of travel and placing emphasis on the safe travel of pedestrians, bicyclists, and transit users and \$301.2 million for maintenance activities, of which \$294.2 million is earmarked for pavement maintenance.
- Airport Capital Program for fiscal years 2018-2022 totals \$313.5 million, of which \$99.8 million is budgeted in 2017-2018. After the successful completion of several large Airport Master Plan projects, the 2018-2022 CIP focuses on the maintenance and preservation of Airport infrastructure, security enhancement, and technology improvement to provide a favorable environment for sustained growth.
- Parks, and Community Facilities Development Capital Program in the 2018-2022 CIP has funding of \$304.9 million, of which \$168.3 million is budgeted in 2017-2018. The Program’s key priority for the fiscal year 2017-2018 is to develop the scope of work and funding plan to repair the damage at 65 parks caused by the winter storms of 2016-2017. All Park Bond Projects, with the exception of a softball complex and a soccer sports complex have been completed and opened to the public. The 2018-2022 CIP provides resources to operate and maintain existing and newly-constructed parks and recreational facilities and to continue with long-term capital investment plans in the coming years.
- Sanitary Sewer System Capital Program in the fiscal years 2018-2022 CIP programs funding of \$228.4 million, of which \$87.0 million is budgeted in 2017-2018. The program’s funding is used to enhance sewer capacity for continued development and to rehabilitate existing sewers. The Program Funding is supported by the Sewer Service and Use Charge Fees, Sanitary Sewer Connection Fees, and “Joint Participations” contributions from other jurisdictions served by the Sanitary Sewer System for the use of San José sewer lines.

Letter of Transmittal (Continued)

- Library Capital Program for fiscal years 2018-2022 plans funding of \$54.2 million, of which \$22.7 million is allocated in 2017-2018. The Program Funding is derived primarily from Library Construction and Conveyance Tax, Library Parcel Tax and bond proceeds in the Branch Libraries Bond Projects Fund.
- Storm Sewer System Capital Program for fiscal years 2018-2022 plans funding of \$46.3 million, of which \$28.7 million is budgeted in 2017-2018. Funding in the Program is supported primarily by the transfers from the Storm Sewer Operating Fund, California Proposition 84 Grants and Storm Sewer Connection Fees.
- Public Safety Capital Program for fiscal years 2018-2022 plans funding of \$55.4 million, of which \$29.7 million is budgeted in 2017-2018. The majority of the Public Safety Bond Projects for the Police and the Fire Departments funded by the Neighborhood Security Act Bond Measure have been completed. However, there is insufficient bond funding to complete the last project, Fire Station 37. This project has been on hold until additional funding sources are identified to complete the project and provide for ongoing operating and maintenance costs once constructed.

Even with strong emphasis placed on rehabilitation and renewal, the City continues to lack the resources required to fully maintain its existing infrastructure portfolio. The persistent gap between optimal levels of capital investment and available resources, including grants and revenues from other agencies, results in a growing backlog of unmet/deferred infrastructure needs. Nowhere is this gap between need and funding more apparent than in the City's pavement maintenance with a backlog of \$584.4 million in unmet/ deferred maintenance need. However, with the recent passage of the State Transportation Bill SB1 and the Valley Transportation Authority 2016 Measure B, there is a significant increase in funding allocated towards pavement maintenance. At the same time, the City's pavement maintenance funding continues to fall short of the annual ongoing investment of \$109 million that is estimated to be required to maintain an overall "good" condition. Regardless of the fiscal challenges, within available resources, the City remains dedicated to providing a safe, reliable, and efficient public infrastructure that meets the needs of its residents and businesses, now and in the future.

FINANCIAL INFORMATION

The City's Administration is responsible for establishing and maintaining internal controls that safeguard the City's assets from loss, theft, or misuse, and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of federal, state and county funding, the City is responsible for providing assurance that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these award programs. Internal controls are subject to periodic evaluation by management, the Office of the City Auditor, and the City's external independent auditors.

As part of the City's single audit procedures, tests are performed to test the effectiveness of the internal controls over major federal award programs and the City's compliance with applicable laws and regulations related to these award programs.

Letter of Transmittal (Continued)

Budgetary Controls

The City maintains budgetary controls through the City Council's adoption of an annual appropriation ordinance and by maintaining an encumbrance accounting system. Expenditures for City operations and other purposes identified in the annual budget cannot legally exceed the budgeted amounts approved by the City Council.

The City also uses encumbrance accounting as another technique for accomplishing budgetary control. An encumbrance is a commitment of a future expenditure earmarked for a particular purpose that reduces the amount of budgetary authority available for general spending. At the end of the fiscal year, encumbered appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse.

The City continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

Debt Management Policy

The City's Debt Management Policy was adopted by the City Council on May 21, 2002 and most recently revised on March 7, 2017, and is reviewed annually. The Debt Management Policy establishes the following equally important objectives:

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve the highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure financial controls are in place with respect to proceeds of debt issuances; and
- Ensure compliance with applicable State and Federal laws.

The first set of program-specific policies, related to the City's multifamily housing program, was adopted by the City Council on June 11, 2002 and subsequently amended on December 6, 2005.

AWARDS

The Government Finance Officers Association ("GFOA") of the United States and Canada awarded its Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2016. This was the twenty-ninth consecutive year the City has received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such report must satisfy accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

The Certificate of Achievement is valid for only one year. The City believes this CAFR continues to conform to the Certificate of Achievement Program requirements and will be submitting it to GFOA for consideration of the annual award.

For the twenty-seventh consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the fiscal year beginning July 1, 2016. To qualify for this award, the government unit must publish a budget document that meets program criteria as a policy document, a financial plan, an operations guide, and a communications medium.

Letter of Transmittal (Concluded)

ACKNOWLEDGMENTS

The preparation of this CAFR represents the culmination of a concerted team effort by the entire staff of the Finance Department. Many members of the Department demonstrated exemplary personal determination and dedicated many long days of focused attention to produce this document.

In addition, staff in all City departments and the Successor Agency of the Redevelopment Agency should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The City also recognizes the contributions and positive working relationship with Grant Thornton LLP.

Finally, we wish to express our sincere appreciation to the Mayor and City Council for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors, especially their role in guiding the City to a secure financial condition that assures resources are available to provide core services to the community.

Respectfully submitted,

A handwritten signature in black ink that reads "D. Sykes". The signature is stylized with a long horizontal line extending from the end of the "s".

DAVID SYKES
City Manager

A handwritten signature in blue ink that reads "Julia H. Cooper". The signature is written in a cursive style.

JULIA H. COOPER
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
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Presented to

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California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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PRESENTED TO

**City of San Jose
California**

For the Fiscal Year Beginning

July 1, 2016

Executive Director

San José Mayor & City Council

To contact members of the San José City Council by mail, send to:
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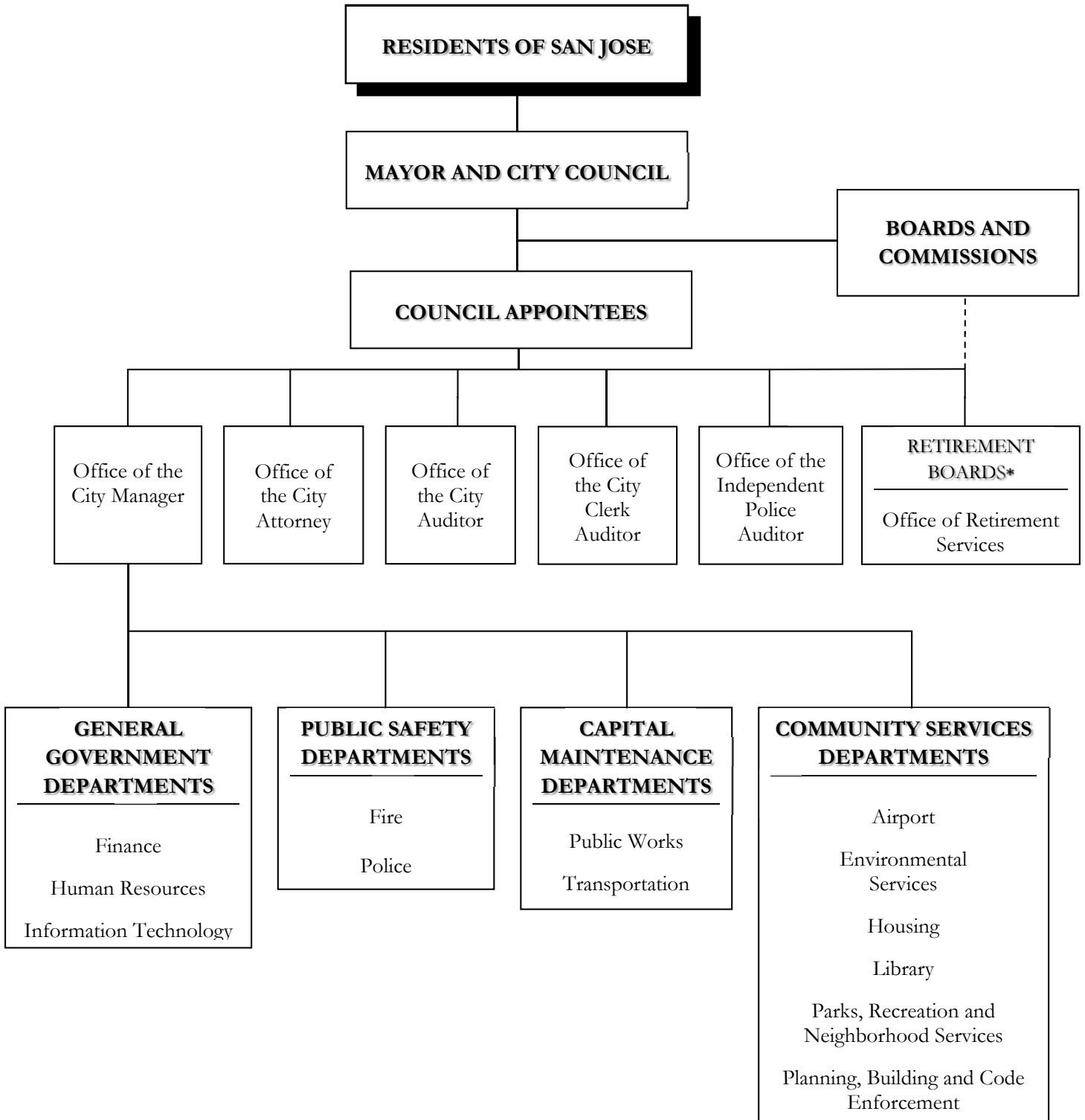


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CITY ORGANIZATION BY FUNCTION



* Federated City Employees Retirement System Board of Administration and Police and Fire Department Retirement Plan Board of Administration

Financial Section



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable City Council
City of San José, California

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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 (the “City”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 City’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 City’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California as of June 30, 2017, 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 schedules of employer contributions – defined benefit pension plans; the schedule of changes in the employer's net pension liability – 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; and the schedules of funding progress – postemployment healthcare benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

Supplementary 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 combining financial statements of the nonmajor governmental funds, nonmajor special revenue funds, nonmajor debt service funds, nonmajor capital project funds, internal service funds, and trust and agency funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

GRANT THORNTON LLP



San José, California
November 16, 2017

City of San José
Management's Discussion and Analysis
Required Supplementary Information (Unaudited)
June 30, 2017

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, 2017. Readers are encouraged to read the MD&A in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal at the beginning of the Introductory Section, and with other portions of this Comprehensive Annual Financial Report ("CAFR"). All amounts have been rounded to the nearest one hundred thousand dollars and one tenth of a percent.

FINANCIAL HIGHLIGHTS

- The government-wide statement of net position for the City's governmental and business-type activities indicates that as of June 30, 2017, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$4.679 billion. Of this amount, a deficit of \$1.584 billion represent unrestricted net position, which is comprised of a deficit balance of \$1.935 billion for governmental activities, and a positive balance of \$351.1 million for business-type activities. In addition, the City's restricted net position totals \$1.058 billion (\$982.2 million for governmental activities and \$75.9 million for business-type activities) and is dedicated to specific purposes. Lastly, net position of \$5.206 billion is the City's net investment in capital assets (\$4.391 billion for governmental activities and \$814.5 million for business-type activities).
- The net position decreased by \$189.0 million or 3.9 percent during 2016-2017 to \$4.679 billion from \$4.868 billion. Expenses continued to exceed revenues although tax revenues and sales taxes shared revenues increased by \$47.4 million over the past year.
- Governmental funds reported a combined ending fund balances of \$1.415 billion at June 30, 2017, which is \$48.0 million or 3.5 percent more than the June 30, 2016 balance. The increase was attributable to an increase in the Housing Activities Fund of \$41.3 million, the Low and Moderate Income Housing Asset Fund of \$3.9 million, the San José Financing Authority Debt Service Fund of \$10.7 million, the Integrated Waste Management Fund of \$1.1 million, the Nonmajor Governmental Funds of \$1.8 million, and offset by decrease in the General Fund of \$6.2 million and the Special Assessment Districts Fund of \$4.5 million.
- Unassigned fund balance of governmental funds totals \$79.9 million, which is 5.6 percent of combined governmental fund balances at June 30, 2017.
- Total long-term liabilities (excluding net pension liability) decreased by \$67.3 million to \$3.263 billion at June 30, 2017, which represents a decrease of 2.0 percent compared to \$3.331 billion at June 30, 2016. The primary factors leading to the decrease in long-term liabilities for governmental activities of \$41.2 million were due to the scheduled debt service payments of \$56.4 million, offset by net increases in compensated absences liability of \$4.3 million and other post-employment benefit costs ("OPEB") liability of \$10.9 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of \$26.1 million were due to the scheduled debt service payments of \$25.5 million.
- Net pension liability increased by \$732.8 million or 32.2 percent during 2016-2017 to \$3.011 billion from \$2.278 billion. Deferred outflows of resources related to pensions increased by \$522.6 million or 99.0 percent, and deferred inflows of resources related to pensions increased by \$6.4 million or 1,871.8 percent. The changes were mainly due to a net loss of \$414.5 million between projected and actual investment earnings on the San José Police & Fire Retirement Plan and the San José Federated Employees' Retirement Systems Plan ("Retirement Plans"), and an increase of \$327.1 million to the total pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an introduction to the City's basic financial statements, which are comprised of four components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Basic Financial Statements
- Required Supplementary Information

In addition, this report also contains other supplementary information.

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2017

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, the San José Financing Authority Debt Service Fund, and the Integrated Waste Management 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, and parking operations 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, the Low and Moderate Income Housing Asset Fund, and the Integrated Waste Management 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.

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of net position: As noted earlier, net position may serve as a useful indicator of a government's financial position. As of June 30, 2017, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$4.679 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, 2017 and 2016
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Assets:						
Current and other assets.....	\$ 1,819,677	\$ 1,762,904	\$ 872,457	\$ 858,111	\$ 2,692,134	\$ 2,621,015
Capital assets.....	5,439,984	5,571,397	2,061,572	2,020,445	7,501,556	7,591,842
Total assets.....	<u>7,259,661</u>	<u>7,334,301</u>	<u>2,934,029</u>	<u>2,878,556</u>	<u>10,193,690</u>	<u>10,212,857</u>
Deferred outflows of resources:						
Loss on refundings of debt.....	905	1,090	9,686	3,397	10,591	4,487
Deferred outflows of resources related to pensions.....	929,516	468,238	120,954	59,620	1,050,470	527,858
Total deferred outflows of resources	<u>930,421</u>	<u>469,328</u>	<u>130,640</u>	<u>63,017</u>	<u>1,061,061</u>	<u>532,345</u>
Liabilities:						
Current and other liabilities.....	198,169	176,594	96,180	90,803	294,349	267,397
Long-term liabilities.....	1,869,208	1,910,414	1,394,086	1,420,159	3,263,294	3,330,573
Net pension liability.....	2,678,942	2,030,227	332,035	248,000	3,010,977	2,278,227
Total liabilities.....	<u>4,746,319</u>	<u>4,117,235</u>	<u>1,822,301</u>	<u>1,758,962</u>	<u>6,568,620</u>	<u>5,876,197</u>
Deferred inflows of resources:						
Gain on refundings of debt.....	-	-	107	373	107	373
Deferred inflows of resources related to pensions.....	5,982	341	742	-	6,724	341
Total deferred inflow of resources	<u>5,982</u>	<u>341</u>	<u>849</u>	<u>373</u>	<u>6,831</u>	<u>714</u>
Net position:						
Net investment in capital assets	4,391,069	4,478,760	814,473	766,107	5,205,542	5,244,867
Restricted	982,168	930,553	75,945	76,709	1,058,113	1,007,262
Unrestricted	(1,935,456)	(1,723,260)	351,101	339,422	(1,584,355)	(1,383,838)
Total net position.....	<u>\$ 3,437,781</u>	<u>\$ 3,686,053</u>	<u>\$ 1,241,519</u>	<u>\$ 1,182,238</u>	<u>\$ 4,679,300</u>	<u>\$ 4,868,291</u>

At June 30, 2017, 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 them) of \$5.206 billion comprise 111.2 percent of the City's total net position. These capital assets facilitate providing services to the San José community, but they are not liquid, and therefore they are not available for future spending. During 2016-2017, net investment in capital

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2017

assets decreased by \$39.3 million primarily due to the depreciation expense of \$299.3 million offset by additions (net) to capital assets of \$209.0 million, and decrease of \$81.9 million in the long-term debt. A portion of the City's net position, \$1.058 billion or 22.6 percent, are subject to legal restrictions on their use, including \$982.2 million in governmental activities and \$75.9 million in business-type activities. Of the total net position at June 30, 2017, a deficit balance of \$1.584 billion or 33.9 percent represents unrestricted net position, which comprises a deficit balance of \$1.935 billion for governmental activities, and a positive balance of \$351.1 million for business-type activities. The primary factor contributing to the deficit unrestricted net position is the City's net pension liability.

During 2016-2017, the City's total net position decreased by \$189.0 million. Notable changes in the statement of net position between June 30, 2017 and June 30, 2016 include:

- Capital assets decreased by \$90.3 million or 1.2 percent compared to the prior fiscal year. Governmental capital assets decreased by \$131.4 million and business-type capital assets increased by \$41.1 million. The decrease in governmental capital assets resulted from depreciation expense of \$217.8 million for major infrastructure and other assets, partially offset by additions to capital assets of \$92.6 million, which included transfers of \$7.5 million of properties from the Successor Agency to the Redevelopment Agency of the City of San José (the "SARA") to the City for City's governmental use. The increase in business-type capital assets was primarily due to depreciation expense of \$81.5 million, offset by additions to capital assets of \$122.6 million primarily at the Airport and Wastewater Treatment Facility.
- Current and other assets increased by \$71.1 million or 2.7 percent due to an increase of \$56.8 million for governmental activities and also an increase of \$14.3 million for business-type activities. The increase in governmental activities is mainly due to increases in cash and investments and receivables, as a result of the timing of payments for goods and services of \$27.1 million and offset by the payoff of commercial paper notes in the amount of \$15.2 million for governmental activities. The increase in current assets for business-type activities is mainly due to an increase in cash and investments, as a result of revenues exceeding expenses by \$59.3 million.
- Total long-term liabilities (excluding net pension liability) decreased by \$67.3 million to \$3.263 billion at June 30, 2017, which represents a decrease of 2.0 percent compared to \$3.331 billion at June 30, 2016. The primary factors leading to the decrease in long-term liabilities for governmental activities of \$41.2 million were due to the scheduled debt service payments of \$56.4 million, offset by net increases in compensated absences liability of \$4.3 million and OPEB liability of \$10.9 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of \$26.1 million were due to the scheduled debt service payments of \$25.5 million.
- Current and other liabilities for the City increased by \$27.0 million or 10.1 percent due to increases of \$21.6 million for governmental activities and \$5.4 million for business-type activities. The increases in governmental activities is mainly due to increase in accounts payable and accrued liabilities by \$27.1 million, as a result of timing of invoice payments; and offset by the payoff of commercial paper notes in the amount of \$15.2 million. The increase in business-type activities is mainly due to an increase in accounts payable and accrued liabilities by \$22.2 million, as a result of timing of services payments; and offset by the Airport's payoff of commercial paper notes in the amount of \$9.2 million and a decrease of interest payable of \$7.3 million resulted from the refunding of Airport Revenue Bonds Series 2007A (AMT) and Series 2007B (non-AMT).
- Net pension liability increased by \$732.8 million or 32.2 percent during 2016-2017 to \$3.011 billion from \$2.278 billion. Deferred outflows of resources related to pensions increased by \$522.6 million or 99.0%, and deferred inflows of resources related to pensions increased by \$6.4 million or 1,871.8%. The changes were mainly due to a net loss of \$414.5 million between projected and actual investment earnings on the Retirement Plans, and an increase of \$327.1 million to the net pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2017

- Unrestricted net position for governmental activities decreased by \$212.2 million or 12.3 percent with a deficit balance of \$1.935 billion at June 30, 2017. The primary factor contributing to the deficit unrestricted net position for governmental activities is the City's net pension liability. For business-type activities, unrestricted net position increased by \$11.7 million or 3.4 percent with a positive balance of \$351.1 million at June 30, 2017. The net increase in unrestricted net position in business-type activities was primarily due to revenue exceeding expenses by \$62.7 million. Primary factors contributing to the increase are \$33.6 million increase in fees, fines, and charges for services, and \$16.9 million increase in other revenue.

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, 2017 and 2016
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Revenues:						
Program revenues:						
Fees, fines, and charges for services.....	\$ 462,862	\$ 423,820	\$ 479,003	\$ 445,372	\$ 941,865	\$ 869,192
Operating grants and contributions.....	86,779	107,583	1,233	864	88,012	108,447
Capital grants and contributions.....	63,647	69,848	13,258	15,437	76,905	85,285
General revenues:						
Property and other taxes.....	431,138	404,878	-	-	431,138	404,878
Utility	121,046	113,474	-	-	121,046	113,474
Franchise	49,642	48,949	-	-	49,642	48,949
Transient occupancy taxes.....	45,511	41,125	-	-	45,511	41,125
Business taxes.....	54,159	50,864	-	-	54,159	50,864
Sales taxes shared revenue.....	207,695	201,797	-	-	207,695	201,797
State of California in-lieu.....	467	410	-	-	467	410
Unrestricted interest and investment income.....	9,062	7,790	3,955	6,383	13,017	14,173
Other revenue.....	4,459	2,103	19,211	2,314	23,670	4,417
Total revenues.....	<u>1,536,467</u>	<u>1,472,641</u>	<u>516,660</u>	<u>470,370</u>	<u>2,053,127</u>	<u>1,943,011</u>
Expenses:						
General government.....	127,090	122,363	-	-	127,090	122,363
Public safety.....	694,557	555,072	-	-	694,557	555,072
Community services.....	310,470	274,838	-	-	310,470	274,838
Sanitation.....	156,299	145,516	-	-	156,299	145,516
Capital maintenance.....	444,867	395,393	-	-	444,867	395,393
Interest and fiscal charges.....	54,844	56,768	-	-	54,844	56,768
Norman Y. Mineta San José International Airport Wastewater Treatment System.....	-	-	204,774	201,017	204,774	201,017
Municipal Water System.....	-	-	42,647	36,246	42,647	36,246
Parking System.....	-	-	14,269	13,607	14,269	13,607
Total expenses.....	<u>1,788,126</u>	<u>1,549,950</u>	<u>453,992</u>	<u>414,855</u>	<u>2,242,118</u>	<u>1,964,805</u>
Excess (deficiency) before transfers.....	<u>(251,659)</u>	<u>(77,309)</u>	<u>62,668</u>	<u>55,515</u>	<u>(188,991)</u>	<u>(21,794)</u>
Transfers.....	<u>3,387</u>	<u>3,680</u>	<u>(3,387)</u>	<u>(3,680)</u>	<u>-</u>	<u>-</u>
Change in net position.....	<u>(248,272)</u>	<u>(73,629)</u>	<u>59,281</u>	<u>51,835</u>	<u>(188,991)</u>	<u>(21,794)</u>
Net position at beginning of year.....	<u>3,686,053</u>	<u>3,759,682</u>	<u>1,182,238</u>	<u>1,130,403</u>	<u>4,868,291</u>	<u>4,890,085</u>
Net position at end of year.....	<u>\$3,437,781</u>	<u>\$3,686,053</u>	<u>\$1,241,519</u>	<u>\$1,182,238</u>	<u>\$4,679,300</u>	<u>\$ 4,868,291</u>

Governmental activities: Net position for governmental activities decreased by \$248.3 million or 6.7 percent during 2016-2017 from \$3.686 billion to \$3.438 billion. Total expenses increased by \$238.2 million and total revenues increased by \$63.8 million. The increase in revenues was not sufficient to offset total expenses resulting in a decrease in net position before transfers. Significant elements of the decrease in net position before transfers for governmental activities from June 30, 2016 to June 30, 2017 are as follows:

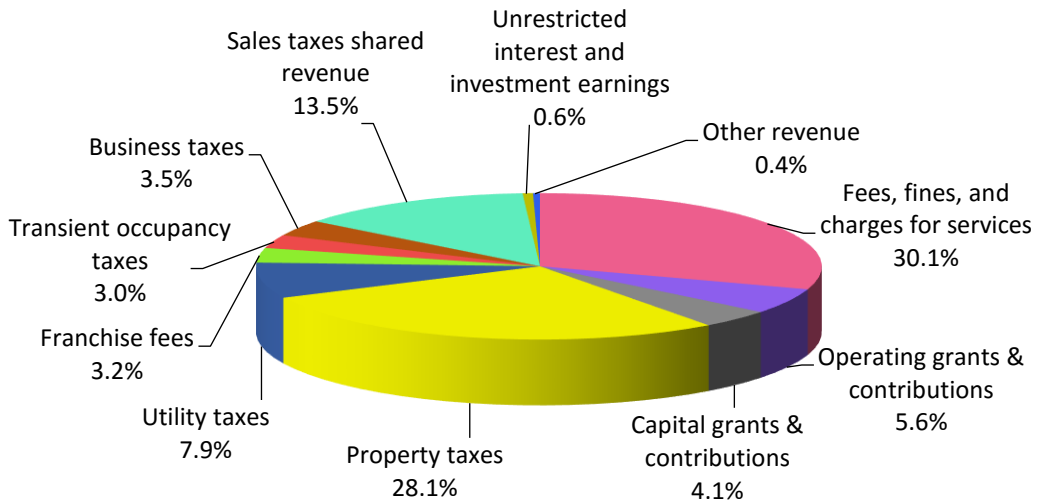
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- Contributing factors resulting in increases to certain revenue categories are as follows: Fees, fines, and charges for services increased by \$39.0 million or 9.2 percent, from a HUD judgment award of \$36.0 million recorded in the Housing Activities Fund, an increase of \$7.9 million in revenues from additional conference activities in the Convention Center, and offset by a decrease of \$2.5 million in the Construction Excise Tax Fund due to a one-time collection of traffic impact fee for Trammel Crow's manufacturing building improvement in the amount of \$4.3 million in FY 2015-2016, and a decrease of \$1.7 million in the Integrated Waste Management Fund due to completion of the solar panel project and a significant reduction of late/lien revenue because of waste management billing conversion from the City to the County property tax roll collection. Property and other taxes revenue increased by \$26.3 million or 6.5 percent due to an increase in assessed property tax valuations. Other revenues increased by \$2.4 million or 112.0 percent due to an increase of \$2.0 million in Special Assessment Districts Fund for the fees received from developers to operate St. James Park began in current fiscal year. Utility taxes increased by \$7.6 million or 6.7 percent due to an increase in General Fund, which is explained in more detail in the General Fund section. Sales tax shared revenue increased by \$5.9 million or 2.9 percent indicating a modest improvement in consumer spending. Transient occupancy tax receipts from guests staying in the City's local hotels increased by \$4.4 million or 10.7 percent. For the fourteen largest hotels in the City, the average daily room rate increased by approximately 6.8 percent during the year indicating signs of continued economic recovery.
- Contributing factors resulting in decreases to certain revenue categories are as follows: Operating grants and contributions decreased by \$20.8 million or 19.3 percent primarily due to a decrease of \$17.1 million in interest repayment of developer loans in the Low and Moderate Income Housing Asset Fund, a decrease of \$8.3 million in the General Fund related to the partial reinstatement of Supplemental Educational Revenue Augmentation Funds loan of \$10.0 million plus accrued interest of \$0.2 million were recognized in FY15-16 compared to \$1.9 million accrued interest recorded in FY 2017, and offset by an increase of \$4.6 million in community services in the Housing Activities Fund due to increase in HOME, Emergency Shelter, and Housing Opportunities for Persons with AIDS grant revenues and an increase of \$2.2 million of the Community Development Block Grant Fund due to issuance of a new CDBG loan in the amount of \$2.0 million resulted in an increase in CDBG grant revenue. Capital grants and contributions decreased by \$6.2 million or 8.9 percent primarily due to the City purchased of capital assets from the SARA were \$2.9 million less and donated capital assets received were \$2.2 million less when compared to prior fiscal year, and a decrease of special hotel taxes due to set aside of special hotel taxes of \$1.7 million received from non-annexed hotels for FY15-16 as liabilities in current fiscal year.
- General government expenses increased by \$4.7 million or 3.9 percent during 2016-2017 due to an increase of \$18.6 million in net pension liability, a write-off of construction-in-process in the amount of \$6.0 million for various projects, and offset by a decrease of \$4.5 million in the estimate for self-insurance liabilities.
- Public safety expenses increased by \$139.5 million or 25.1 percent primarily due to an increase in pension expense of \$111.3 million and an increase in the General Fund of \$22.1 million, which is explained in more detail in the General Fund section.
- Community services expenses increased by \$35.6 million or 13.0 percent primarily due to an increase in pension expense of \$18.2 million; an increase of \$7.4 million in operating expenses in the Convention Center, which corresponded to increased conference activities and revenues in the Convention Center, an aggregated increase of \$5.9 million in the Housing Activities, Low and Moderate Income Housing Asset, and Community Development Block Grant Funds due to increased loan loss allowance, an increase of \$1.2 million in the Transient Occupancy Tax Fund due to an increase of \$1.2 million reimbursement to Team San José for marketing and promotion activities, and an increase of \$1.3 million in the General Fund, which is explained in more detail in the General Fund section.

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- Sanitation expenses increased by \$10.8 million or 7.4 percent primarily due to increase in pension expense of \$4.7 million, and an increase of \$5.8 million in the Integrated Waste Management Fund due to increases in operating costs for the solid waste recycling program.
- Capital maintenance increased by \$49.5 million or 12.5 percent primarily due to an increase of \$26.4 million in the General Fund which is explained in more detail in the General Fund section, an increase of \$4.1 million in the Special Assessment Districts Fund due to the Route 101/Blossom Hill Road Interchange Project and the Convention Center renovation and expansion program, and an increase of \$21.6 million in pension expense. These increases were offset by decreases of \$8.1 million due to a one-time write off of loans to the SARA for the low income housing voucher program that was invalidated by SB 107 effective September 22, 2015.
- Interest and fiscal charges decreased by \$1.9 million or 3.4 percent primarily due to the payoff and retirement of long-term obligations. The balance of debt payable for various bonds and loans decreased by \$56.4 million or 4.6 percent from the prior year.

Governmental Activities Revenues 2017

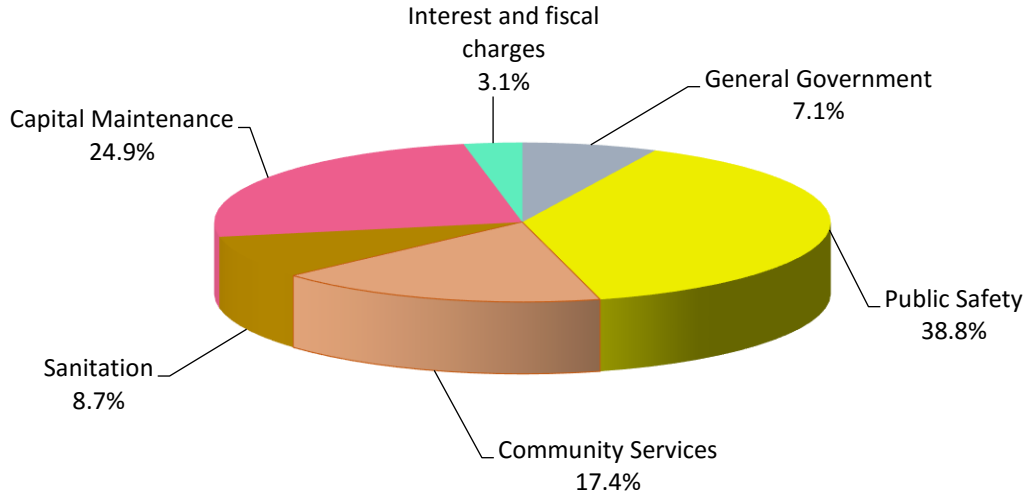


The chart shows the primary components of governmental activities revenue sources for 2016-2017. Of the \$1.536 billion in total revenues generated by governmental activities, 79.6 percent is attributable to four categories: fees, fines, and charges for services (30.1 percent), property taxes (28.1 percent), sales taxes shared revenue (13.5 percent), and utility taxes (7.9 percent).

The chart below shows the principal categories of 2016-2017 expenses for governmental activities. Of the \$1.788 billion in total expenses incurred by governmental activities, the categories accounting for 81.1 percent of the totals are: public safety (38.8 percent); capital maintenance (24.9 percent); and community services (17.4 percent).

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Governmental Activities Expenses 2017



Business-type activities: Business-type activities net position increased by \$59.3 million or 5.0 percent to \$1.242 billion during 2016-2017.

The notable components of the changes in net position for business-type activities during 2016-2017 are:

Airport net position increased by \$2.8 million or 1.4 percent from \$193.8 million to \$196.6 million. The increase was primarily due to operating expenses and interest expenses exceeding operating and non-operating revenues by \$7.3 million, offset by \$10.1 million in capital contributions.

The Airport had a net operating income of \$18.1 million, an increase of \$5.9 million compared to prior year's operating income of \$12.2 million. Operating revenues increased by \$11.0 million or 7.7 percent, which was mainly due to an increase in general aviation attributable to growth in passenger traffic. A total of approximately 11.5 million passengers travelled through the Airport in FY 2017 compared to approximately 10.2 million in FY 2016, resulting in passenger traffic growth of 12.7 percent.

Operating expenses of \$134.8 million increased by \$5.1 million or 3.9 percent compared to the prior fiscal year due to increases in salaries and fringe benefits, recognition of additional pension expense due to the annual actuarial valuation of the Retirement Plans, partially offset by a decrease in the overhead costs. Nonoperating expenses exceeded nonoperating revenues by \$25.4 million which represented a decrease of \$0.4 million from the previous fiscal year. This decrease was mainly due to a decrease of \$2.6 million in customer facility charges, a decrease of \$1.4 million in other revenue, a decrease of \$3.8 million in interest expenses, and decrease of \$0.9 million in investment income, offset by an increase of \$3.2 million in passenger facility charges, an increase of \$0.7 million in operating grants, and an increase of \$2.5 million in bond issuance costs.

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Wastewater Treatment System net position increased by \$32.9 million or 4.0 percent from \$824.4 million to \$857.4 million. The increase was primarily due to operating revenues exceeding operating expenses by \$31.4 million. The largest portion, \$606.5 million or 70.7 percent, of the net position was its net investment in capital assets (e.g. land, buildings, and infrastructures) less outstanding debt that was used to acquire those assets. Approximately \$241.9 million, or 28.2 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

Operating revenues increased \$13.6 million primarily due to a 5.5 percent sewer rate increase effective July 1, 2016 (\$5.4 million), higher contributions from the Tributary Agencies toward the Water Pollution Control Plant's (the Plant) ongoing maintenance, replacement and debt service costs by \$4.6 million, higher recycled-water revenue due to recycled-water rate increases by \$1.8 million, and the \$1.2 million capacity improvement fees received in current year from the San Jose Water Company to support the South Bay Water Recycling infrastructure.

Total operating expenses increased by \$28.6 million compared to the prior fiscal year. The increase was due to an increase of \$15.0 million in pension expense, an increase of \$3.4 million in personnel costs, an increase of \$1.8 million in direct overhead costs, and an increase of \$4.7 million in master plan document review, sanitary sewer line condition assessment and rehabilitation of existing infrastructures to support ramp up in capital implementation activities to rebuild the aging infrastructures of the wastewater system; an increase of \$2.8 million in newly purchased insurance policies for an Owner Controlled Insurance Program to provide a centralized insurance program for losses associated with onsite construction of Capital Improvement Program at the Plant; an increase of \$1.6 million of equalization payment to the Santa Clara Valley Water District for the Silicon Valley Advanced Water Purification center; and offset by \$1.3 million decrease in net OPEB obligations.

Net non-operating revenues decreased by \$1.4 million primarily due to a decrease in fair value of investments. Capital contributions decreased by \$6.6 million mainly due to a reduction of funding appropriated from the U.S. Bureau of Reclamation for construction of wastewater recycling facilities (\$5.0 million) and a decrease in donated capital assets from developers (\$1.6 million).

Municipal Water System net position increased by \$2.7 million or 3.2 percent from \$85.1 million to \$87.8 million. Operating revenues of \$44.7 million increased by \$7.3 million or 19.6 percent due to increase in both user fee rates and total consumption. Operating expenses of \$42.6 million increased by \$6.4 million or 17.7 percent due to an increase in the cost of wholesale water, for both potable and recycled water, an increase in operations and maintenance related to Edenvale Reservoir rehabilitation and Cadwallader Reservoir Rehabilitation as well as increased costs due to increase staffing and higher salary and benefit costs.

Parking System net position increased by \$20.8 million or 26.4 percent from \$78.9 million to \$99.7 million. Operating revenues increased by \$1.1 million or 6.7 percent primarily due to the increase in usage of smart meters in the downtown area and increased activity at the Convention Center parking facility resulting from a continued economic recovery. Operating expenses increased by \$0.7 million or 4.9 percent reflecting higher general and administrative costs. Nonoperating revenue increased by \$18.2 million or 5,632.8 percent due to gain of \$14.4 million on loan reinstatement from the SARA and an increase of \$4.0 million contributions to be restricted for the acquisition of certain properties to the north of the SAP Center for the use of public parking.

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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, 2017, the City's governmental funds reported combined fund balances of \$1.415 billion, an increase of \$48.0 million or 3.5 percent compared to the balance at June 30, 2016. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- \$0.5 million consists of nonspendable fund balance including prepaid items, advances and deposits, and other assets that are not intended to convert into cash and long-term in nature and do not represent currently available resources.
- \$960.8 million is reported as restricted fund balance that includes restrictions imposed by external parties or enabling legislation. This amount includes unspent bond proceeds, unspent grant revenues, and restricted tax revenues.
- \$155.3 million is reported as committed fund balance that had been limited by formal Council action to specific purposes.
- \$218.7 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.
- \$79.9 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, 2017, the General Fund's unassigned fund balance is \$79.9 million or 25.5 percent of the \$312.8 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, 2017, unassigned fund balance represents 8.9 percent of total General Fund expenditures of \$896.9 million, while total fund balance represents 34.9 percent of total General Fund expenditures. At June 30, 2016, the same measures were 7.6 percent and 37.3 percent, respectively.

For the first time in five years, the revenue sources in 2016-2017 were not sufficient to cover all expenditures. The General Fund ending fund balance decreased by \$6.2 million from \$319.0 million to \$312.8 million at June 30, 2017.

In 2016-2017, General Fund revenues of \$901.1 million were \$29.4 million or 3.4 percent higher than 2015-2016 revenues of \$871.7 million. Taxes and special assessments revenues increased by \$26.4 million or 5.4 percent. The increase was primarily attributed to the following revenue sources: increases of \$13.1 million in property tax due to increased property tax assessments; an increase of \$7.6 million in utility tax due to increase in usage of electricity and gas, water, and one-time telecommunication users tax revenue adjustment; an increase of \$3.3 million in marijuana business tax due to increase in gross receipts; and an increase of \$1.7 million in Transient Occupancy Tax due to increase in hotel occupancy and the opening of two new hotels in the City.

Sales taxes shared revenue increased by \$5.9 million or 2.9 percent due to an improving economy.

License, permits and fines increased by \$5.3 million or 7.6 percent primarily due to increases in building inspection fees, marijuana business regulatory fees, and revenue for wireless project at East Side Union High School District.

2016-2017 General Fund expenditures of \$896.9 million were \$42.3 million or 5.0 percent higher than 2015-2016 expenditures of \$854.6 million as discussed below.

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General government expenditures increased by \$3.8 million primarily due to increases in salary costs.

Public safety expenditures increased by \$22.1 million primarily due to a one-time lump sum non-pensionable retention bonus to all sworn public safety employees and increase in salary costs.

Community services expenditures increased by \$1.3 million mainly due to increase in salary costs.

Capital maintenance expenditures increased by \$26.4 million due to increase spending in capital projects associated with streets and road pavement maintenance activities.

Capital outlay expenditures decreased by \$12.3 million due to the purchase of additional vehicles, radios servers, fire apparatus and Spartan fire engines for police and fire departments in the prior fiscal year.

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, 2017, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first time homebuyers, was \$71.2 million. This balance includes loans to developers for various projects, including Ford and Monterey, Taylor Oaks Apartments, Donner Lofts, Japantown Seniors, The Metropolitan, Northrup, Roundtable, Kings Crossing, Fourth Street Apartments, Peacock Commons, Archer Studios, Canoas Terrace, Curtner Studios, Homesafe, Markham Plaza, Plaza Del Sol, Verandas, Corde Terra Village Senior, Willow Glen Senior Housing, Santa Clara Inn, and Second Street Studios. Additions to the loan receivable balance were offset by an increase in the valuation allowance in the Housing Activities fund based on the City's annual review of the valuations and adjustments reflecting the terms of the loans. Restricted fund balance increased by \$41.3 million to \$127.7 million at June 30, 2017. The increase is primarily due to revenues from intergovernmental (\$11.5 million), and investment and other revenues (\$47.2 million) exceeding expenditures for community services (\$17.3 million). Intergovernmental revenues increased by \$4.6 million or 66.0 percent compared to prior year due to more grant funds received from HOME Investment Partnership Program and The Emergency Shelter Grant. Other revenue increased by \$37.8 million or 592.1 percent compared to prior year due to proceeds from the HUD judgment awarded to the City of \$36.0 million.

Low and Moderate Income Housing Asset Fund: The Low and Moderate Income Housing Asset fund was created pursuant to the Redevelopment Dissolution Law to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the former Agency. At June 30, 2017, the fund's loan receivable balance (net) was \$228.0 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, Terramina Square, Villas on the Park, Second Street Studios, and The Metropolitan (South). Restricted fund balance increased by \$3.9 million to \$352.3 million from \$348.5 million. The increase is primarily due to interest repayment of developer loans.

Special Assessment Districts Fund: The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of eight special assessment and community facilities districts located in different parts of the City. A total of \$136.1 million in special assessment and special tax bonds were outstanding at June 30, 2017. All bonds are secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt, except for the Special Hotel Tax Revenue Bond, Series 2011, which are secured by a first lien on the Convention Center Facilities District No.2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT as defined in the bond documents) that is appropriated by City Council. The City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund for these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

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Restricted fund balance decreased by \$4.6 million from \$44.3 million to \$39.7 million as of June 30, 2017. The decrease was primarily due to total expenditures for 2016-2017 increased by \$3.8 million or 23.2 percent compared to the prior fiscal year primarily due to a significant increase of \$3.9 million in capital maintenance for the Route 101/Blossom Hill Road interchange project and the Convention Center renovation and expansion which was funded by the Convention Center Special Hotel Tax Revenues.

Financing Authority Fund: The City's Financing Authority Debt Service Fund accounts for debt activity related to lease revenue bonds and commercial paper notes, which serves as a mechanism for financing City public improvements and other eligible purposes. Restricted fund balance increased by \$10.7 million from \$17.8 million to \$28.5 million as of June 30, 2017. The increase was primarily due to \$19.6 million transfer from Construction and Conveyance Tax Fund for Commercial Paper redemption related to improvements at San José Convention Center, and offset by \$8.9 million transfer of commercial paper proceeds to the Energy Conservation Project and the Water Utility Meter Project.

Integrated Waste Management Fund: The Integrated Waste Management Fund ("IWM") accounts for activities related to the Integrated Waste Management Program, which includes garbage collection, recycling services and related billing operation. Committed fund balance increased by \$1.1 million from \$28.3 million to \$29.4 million as of June 30, 2017. The increase was primarily due to operating revenues of \$129.2 million exceeding operating expenses of \$127.0 million, which was offset by \$1.1 million in transfer out primarily used to pay down Lease Revenue Refunding Bonds, Series 2013A and 2013B.

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, 2017, the unrestricted net position was \$48.9 million for the Airport, \$241.9 million for the Wastewater Treatment System, \$15.2 million for the Municipal Water System and \$45.1 million for the Parking System. Net position for proprietary funds increased from \$1.182 billion at June 30, 2016 to \$1.242 billion at June 30, 2017, resulting in an increase of \$59.3 million or 5.0 percent.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's Charter requires the City Manager to submit balanced operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1 and ends on the following June 30. Council approved the 2016-2017 budgets in June 2016.

During the fiscal year ended June 30, 2017, there was a \$22.2 million increase in the budgeted revenues between the original and final amended operating budget for the General Fund. The budgeted revenues increase in all revenue categories except for sales taxes shared revenues.

Actual budgetary basis expenditures of \$948.2 million were \$89.0 million less than the amended budget and \$273.6 million less than the original budget due to planned expenditures not occurring in the fiscal year ended June 30, 2017.

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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 \$7.502 billion at June 30, 2017. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible assets, and construction-in-progress. The City's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. At June 30, 2017, net capital assets decreased by \$90.3 million (\$131.4 million decreased in governmental activities and \$41.1 million increased in business-type activities) or 1.2 percent compared to net capital assets at June 30, 2016. The decrease in capital assets of \$131.4 million in governmental activities is primarily due to depreciation expense of \$217.8 million and deletions of capital assets totaling \$6.1 million. These decreases were offset by acquisitions of capital assets of \$85.1 million and transfers of land from the SARA in the amount of \$7.4 million. The increase of \$41.1 million in capital assets in the business-type activities resulted from depreciation expense of \$81.5 million, offset by additions of capital assets of \$122.6 million at the Airport and the Wastewater Treatment Facility.

Total construction-in-progress (CIP) increased by \$82.9 million or 96.4 percent from \$86.0 million at June 30, 2016 to \$168.8 million at June 30, 2017. Construction-in-progress for the governmental activities increased by \$17.6 million or 56.0 percent primarily due to more additions to CIP than CIP projects completed and placed into service. Among the larger capitalized projects included land improvements to Bramhall Park and Lake Cunningham, roadway improvements to Park Avenue; and construction of new traffic signals on Jackson Avenue, which resulted in \$7.4 million increase in CIP. Among the larger infrastructure CIP additions were the installation of Large Trash Capture Devices as part of the Clean Water Act and Trash Free Waters initiative which increased CIP by \$15.5 million. Business-type activities contributed an increase of \$65.3 million or 120.0 percent to the total CIP as additions to the Airport and the Wastewater Treatment System totaling \$79.4 million was offset by \$14.4 million in projects that were completed and placed in service. Airport CIP additions included security upgrades to perimeter fencing, reconstruction of southeast ramp, and construction of Gates 29 and 30 at Terminal B.

The City records infrastructure assets at historical cost in the government-wide financial statements and depreciates assets from acquisition date to the end of the current fiscal year as required by GASB Statement No. 34. For governmental fund financial statements recording purposes, capital asset purchases are recorded as expenditures, rather than capitalizing and recording related depreciation. Capital assets, net of depreciation, for governmental and business-type activities in the government-wide financial statements are presented below to illustrate changes between June 30, 2017 and June 30, 2016 (in thousands):

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 413,533	\$ 406,337	\$ 134,926	\$ 134,926	\$ 548,459	\$ 541,263
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	48,995	31,411	119,839	54,554	168,834	85,965
Buildings	1,037,733	1,077,897	1,071,189	1,103,732	2,108,922	2,181,629
Improvements, other than buildings	214,072	211,921	636,328	628,459	850,400	840,380
Infrastructure	3,688,827	3,808,903	-	-	3,688,827	3,808,903
Furniture and fixtures, vehicles, equipment	36,824	34,928	86,408	85,892	123,232	120,820
Total capital assets	<u>\$5,439,984</u>	<u>\$5,571,397</u>	<u>\$2,061,572</u>	<u>\$2,020,445</u>	<u>\$7,501,556</u>	<u>\$7,591,842</u>

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Commitments outstanding as of June 30, 2017, related to governmental and business-type activities construction in progress totaled approximately \$22.3 million and \$173.7 million, respectively. Additional information about the City's capital assets can be found in the Notes to Basic Financial Statements, Note III.D.

Net General Obligation Bonded Debt Limit

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2016-2017 tax roll was \$166.5 billion, which results in a total debt limit of \$25.0 billion. As of June 30, 2017, the City had \$367.5 million of Net General Obligation bonds outstanding which represents approximately 1.5% of the General Obligation bonds debt limit.

General Obligation Bonds and Other Bond Ratings

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

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

For Norman Y. Mineta San José International Airport, S&P currently has an underlying rating of A- with positive outlook, Moody's currently has an underlying rating of A2 with stable outlook. Fitch currently has an underlying rating on Airport Revenue Bonds at A- with stable outlook.

Sewer revenue bonds issued by the San Jose-Santa Clara Clean Water Financing Authority have current underlying ratings of AAA by S&P and Fitch, and a rating of Aa2 by Moody's. The outlook for all three agencies is stable.

Outstanding Debt

The City's debt service obligations include general obligation bonds, revenue bonds, lease revenue bonds, and special assessment and special tax bonds.

During 2016-2017, the City's outstanding long-term debt decreased by \$81.9 million to \$2.506 billion, comprised of \$1.168 billion of governmental activities and \$1.338 billion of business-type activities. The balances at June 30, 2016 were \$1.225 billion for governmental activities and \$1.363 billion for business-type activities, for a total of \$2.588 billion. The decrease of \$81.9 million is primarily due to the scheduled debt service payments.

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2017

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

	<u>As of</u> <u>June 30, 2017</u>	<u>As of</u> <u>June 30, 2016</u>	<u>Net</u> <u>Change</u>
Governmental Activities:			
General obligation bonds	\$ 367,469	\$ 387,403	\$ (19,934)
HUD Section 108 loan	717	957	(240)
San José Financing Authority			
Lease revenue bonds	561,102	579,325	(18,223)
Lease revenue bonds with reimbursement agreement	78,680	89,730	(11,050)
Revenue bonds with pledge agreement	26,005	27,985	(1,980)
Special assessment bonds with limited governmental commitment	134,467	139,435	(4,968)
Sub-total	<u>1,168,440</u>	<u>1,224,835</u>	<u>(56,395)</u>
Business-Type Activities:			
Revenue bonds	1,331,448	1,352,717	(21,269)
State of CA-Revolving Fund Loan	6,125	10,399	(4,274)
Sub-total	<u>1,337,573</u>	<u>1,363,116</u>	<u>(25,543)</u>
Total:	<u>\$ 2,506,013</u>	<u>\$ 2,587,951</u>	<u>\$ (81,938)</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City completed 2016-2017 with better operating financial results than expected when the 2016-2017 Adopted Budget was developed. Although the economic indicators in this region appear to have stabilized, the City still faces fiscal challenges on a long-term basis to achieve a more desirable level of budget stability while avoiding any reduction in services. In June 2017, the City Council approved a balanced General Fund budget for fiscal year 2017-2018 with a projected shortfall of (\$10.0 million) and has a focus on achieving budget and service level stability, target investments to meet priority needs of the community, and to continue service delivery efficiencies.
- In order to maintain service level stability, the 2017-2018 Adopted Budget includes modest increases to staffing levels resulted in an increase of 91 positions (a total of 48 positions are one-time funded), from 6,159 full-time equivalent positions in the 2016-2017 Adopted Budget to 6,250 positions in the 2017-2018 Adopted Budget. This 1.5% increase still leaves City staffing well below its peak of almost 7,500 positions in 2001-2002.
- 2017-2018 redevelopment property tax revenues are forecast to be sufficient to pay debt service obligations of the SARA. The City does not plan to advance any money to the SARA in 2017-2018 to fund the debt service payments for the Convention Center and the 4th and San Fernando Street Garage.
- As reported in the GASB 67/68 Report as of June 30, 2017 prepared by actuaries for the Police and Fire Department Retirement Plan ("PFDRP"), the net position of the Defined Benefit Pension Plan was 72.6% of the total pension liability. The total pension liability was \$4.534 billion, and the fiduciary net position was \$3.293 billion resulting in a net pension liability of \$1.241 billion.

City of San José
Management’s Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2017

- As reported in the GASB 67/68 Report as of June 30, 2017 prepared by actuaries for the Federated City Employees’ Retirement System (“FCERS”), the net position of the Defined Benefit Pension Plan was 50.3% of the total pension liability. The total pension liability was \$3.923 billion, and the fiduciary net position was \$1.973 billion resulting in a net pension liability of \$1.950 billion.
- For funding purposes, as of June 30, 2016, the most recent actuarial valuation date, PFDRP’s Postemployment Healthcare Plan had a 17.4 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was \$778.9 million and the actuarial value of assets was \$135.2 million resulting in a UAAL of \$643.7 million.
- For funding purposes, as of June 30, 2016, the most recent actuarial valuation date, FCERS’s Postemployment Healthcare Plan had a 29.6 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was \$764.3 million and the actuarial value of postemployment healthcare benefit assets was \$225.8 million, resulting in a UAAL of \$538.5 million.
- For 2017-2018, the City’s contribution rates for pension benefits and postemployment healthcare benefits, as a percentage of payroll are as follows:

Contribution Rates	PFDRP ⁽¹⁾				FCERS ⁽¹⁾				
	Police		Fire		Tier 1	Tier 1B	Tier 1C	Tier 2	Tier 2B
	Tier 1	Tier 2	Tier 1	Tier 2					
Retirement Pension	95.31%	15.17%	96.06%	16.26%	94.04%	94.04%	94.04%	7.72%	7.72%
Postemployment Healthcare Benefits	10.31%	10.31% ⁽²⁾	10.62%	10.62% ⁽²⁾	9.41%	12.66%	12.86%	9.41%	12.66%

- (1) The rates above are the Retirement Board adopted rates based on the June 30, 2016, actuarial valuations and reflect changes subsequent to the latest study in order to incorporate provisions of the Alternative Pension Reform Framework and Measure F.
- (2) Subsequent to the implementation of the revised Tier 2 pension benefits for sworn Police and Fire Tier 2 employees, the City Manager exercised his discretion, pursuant to the Municipal Code, to terminate the defined benefit retiree healthcare plan for these employees. Effective July 30, 2017, Police and Fire Tier 2 employees were no longer eligible for the defined benefit retiree healthcare plan and, as such, will not make contributions to the plan. The City continues to pay its contributions for the Tier 2 police and fire employees. Additional information about the City’s Postemployment Healthcare Benefits appears in the Notes to Basic Financial Statements, Note IV. A.4.

- 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 benefits and postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for the fiscal year ending June 30, 2018 was calculated to be 33actuarially equivalent to the biweekly payments that would otherwise have been the City’s required contributions to the benefit pension plans and the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount of \$174.0 million for PFDRP, and \$168.1 million for FCERS Tier 1 members. The prepayment for PFDRP and for FCERS Tier 1 members was paid by the City in July 2017.

All of these factors were considered in preparing the City’s budget for 2017-2018.

City of San José
Management's Discussion and Analysis (Concluded)
Required Supplementary Information (Unaudited)
June 30, 2017

FORWARD-LOOKING STATEMENTS AND REQUESTS FOR INFORMATION

Forward-Looking Statements

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

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

Requests for Information

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

Questions concerning any of the information 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 the particular document or to the Director of Finance.

Basic Financial Statements

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City of San José
Statement of Net Position
June 30, 2017
(\$000's)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 954,437	612,999	1,567,436
Receivables (net of allowances for uncollectibles)	140,367	28,971	169,338
Due from outside agencies	341	-	341
Inventories	983	697	1,680
Loans receivable (net of allowances for uncollectibles)	305,172	-	305,172
Advances and deposits	510	2,793	3,303
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	93,371	86,446	179,817
Cash and investments held with fiscal agent	111,129	109,417	220,546
Other cash and investments	15,623	2,176	17,799
Receivables (net of allowances for uncollectibles)	-	5,480	5,480
Prepaid bond insurance costs (net of accumulated amortization)	346	2,598	2,944
Long-term receivables from SARA	151,463	20,659	172,122
Other assets	45,935	221	46,156
Capital assets (net of accumulated depreciation):			
Nondepreciable	462,528	267,647	730,175
Depreciable	4,977,456	1,793,925	6,771,381
Total assets	<u>7,259,661</u>	<u>2,934,029</u>	<u>10,193,690</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	905	9,686	10,591
Deferred outflows of resources related to pensions	929,516	120,954	1,050,470
Total deferred outflows of resources	<u>930,421</u>	<u>130,640</u>	<u>1,061,061</u>
LIABILITIES			
Accounts payable	68,934	41,630	110,564
Accrued liabilities	36,536	4,440	40,976
Interest payable	10,104	16,663	26,767
Due to outside agencies	485	-	485
Short-term notes payable	22,302	25,461	47,763
Unearned revenue	17,918	3,045	20,963
Advances, deposits, and reimbursable credits	8,227	4,741	12,968
Long-term payable to SARA	790	-	790
Other liabilities	32,873	200	33,073
Long-term obligations:			
Due within one year	119,138	61,144	180,282
Due in more than one year	1,750,070	1,332,942	3,083,012
Net pension liability	2,678,942	332,035	3,010,977
Total liabilities	<u>4,746,319</u>	<u>1,822,301</u>	<u>6,568,620</u>
DEFERRED INFLOWS OF RESOURCES			
Gain on refundings of debt	-	107	107
Deferred inflows of resources related to pensions	5,982	742	6,724
Total deferred inflows of resources	<u>5,982</u>	<u>849</u>	<u>6,831</u>
NET POSITION			
Net investment in capital assets	4,391,069	814,473	5,205,542
Restricted for:			
Debt service	51,788	18,913	70,701
Capital projects	325,050	57,032	382,082
Community services	600,523	-	600,523
Public safety	4,807	-	4,807
Unrestricted (deficit)	<u>(1,935,456)</u>	<u>351,101</u>	<u>(1,584,355)</u>
Total net position	<u>\$ 3,437,781</u>	<u>1,241,519</u>	<u>4,679,300</u>

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, 2017
(\$000's)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -Type Activities	
Governmental activities:							
General government	\$ 127,090	48,358	440	-	(78,292)	-	(78,292)
Public safety	694,557	23,164	6,869	-	(664,524)	-	(664,524)
Community services	310,470	177,436	49,954	-	(83,080)	-	(83,080)
Sanitation	156,299	143,062	24	-	(13,213)	-	(13,213)
Capital maintenance	444,867	70,842	29,492	63,647	(280,886)	-	(280,886)
Interest and fiscal charges	54,844	-	-	-	(54,844)	-	(54,844)
Total governmental activities	1,788,126	462,862	86,779	63,647	(1,174,838)	-	(1,174,838)
Business -Type activities:							
Norman Y. Mineta San José							
International Airport	204,774	194,057	1,169	10,120	-	572	572
Wastewater Treatment System	192,302	222,654	64	2,446	-	32,862	32,862
Municipal Water System	42,647	44,680	-	692	-	2,725	2,725
Parking System	14,269	17,612	-	-	-	3,343	3,343
Total business-type activities	453,992	479,003	1,233	13,258	-	39,502	39,502
Total	\$ 2,242,118	941,865	88,012	76,905	(1,174,838)	39,502	(1,135,336)
General revenues:							
Taxes and franchise fees:							
Property and other taxes					431,138	-	431,138
Utility					121,046	-	121,046
Franchise					49,642	-	49,642
Transient occupancy					45,511	-	45,511
Business taxes					54,159	-	54,159
Sales taxes shared revenue					207,695	-	207,695
State of California in-lieu					467	-	467
Unrestricted interest and investment income					9,062	3,955	13,017
Other revenue					4,459	19,211	23,670
Transfers					3,387	(3,387)	-
Total general revenues and transfers					926,566	19,779	946,345
Change in net position					(248,272)	59,281	(188,991)
Net position - beginning					3,686,053	1,182,238	4,868,291
Net position - ending					\$ 3,437,781	1,241,519	4,679,300

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2017
(\$000's)

	<u>General Fund</u>	<u>Housing Activities</u>	<u>Low and Moderate Income Housing Asset</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 299,728	30,555	92,753
Receivables (net of allowance for uncollectibles)	69,179	1,464	1,758
Due from outside agencies	341	-	-
Due from other funds	1,823	-	-
Loans receivables (net of allowance for uncollectibles)	1,241	71,180	227,962
Advances and deposits	170	-	-
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	1,289	44,633	-
Cash and investments held with fiscal agent	2,852	-	-
Other cash and investments	-	-	-
Advances to other funds	3,297	-	-
Advances receivable from SARA	28,950	-	15,176
Other assets	-	2,300	24,023
Total assets	<u>\$ 408,870</u>	<u>150,132</u>	<u>361,672</u>
LIABILITIES			
Accounts payable	\$ 14,125	1,954	532
Accrued salaries, wages, and payroll taxes	30,536	66	256
Due to other funds	-	-	-
Due to outside agencies	373	-	-
Short-term notes payable	-	-	-
Unearned revenue	6,302	-	-
Advances, deposits, and reimbursable credits	7	-	-
Advances from other funds	-	-	-
Long-term advances from SARA	-	-	790
Other liabilities	32,553	-	-
Total liabilities	<u>83,896</u>	<u>2,020</u>	<u>1,578</u>
DEFERRED INFLOWS OF RESOURCES	<u>12,142</u>	<u>20,452</u>	<u>7,762</u>
FUND BALANCES			
Nonspendable	170	-	-
Restricted	690	127,660	352,332
Committed	96,026	-	-
Assigned	136,093	-	-
Unassigned	79,853	-	-
Total fund balances	<u>312,832</u>	<u>127,660</u>	<u>352,332</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 408,870</u>	<u>150,132</u>	<u>361,672</u>

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

Special Assessment Districts	San José Financing Authority Debt Service	Integrated Waste Management	Nonmajor Governmental Funds	Total Governmental Funds
-	102	50,151	461,847	935,136
36,619	-	5,697	25,414	140,131
-	-	-	-	341
-	-	-	1,872	3,695
-	-	-	4,789	305,172
5	-	-	335	510
10,218	-	-	37,231	93,371
30,684	49,381	-	28,212	111,129
-	-	-	15,623	15,623
-	-	-	-	3,297
-	4,727	-	-	48,853
1	1	-	-	26,325
<u>77,527</u>	<u>54,211</u>	<u>55,848</u>	<u>575,323</u>	<u>1,683,583</u>
1,557	10	20,941	28,449	67,568
22	-	377	4,103	35,360
-	-	-	3,695	3,695
-	112	-	-	485
-	22,302	-	-	22,302
-	-	-	10,790	17,092
1,578	-	5,098	1,544	8,227
-	3,297	-	-	3,297
-	-	-	-	790
317	-	3	-	32,873
<u>3,474</u>	<u>25,721</u>	<u>26,419</u>	<u>48,581</u>	<u>191,689</u>
34,320	-	-	1,984	76,660
5	-	-	335	510
39,728	28,490	-	411,949	960,849
-	-	29,429	29,890	155,345
-	-	-	82,584	218,677
-	-	-	-	79,853
<u>39,733</u>	<u>28,490</u>	<u>29,429</u>	<u>524,758</u>	<u>1,415,234</u>
<u>77,527</u>	<u>54,211</u>	<u>55,848</u>	<u>575,323</u>	<u>1,683,583</u>

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017
(\$000's)

Total fund balances-governmental funds (Page 25) \$ 1,415,234

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	413,533	
Construction in progress	48,995	
Infrastructure assets	11,479,037	
Other capital assets	2,058,988	
Accumulated depreciation	<u>(8,568,185)</u>	
Total capital assets		5,432,368

Other long-term assets associated with the New Market Tax Credit (NMTC) financing program are not current financial resources, therefore, are not reported in governmental funds. 19,610

Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds. 42,340

Long-term receivables associated with lease, pledge revenue agreements, and reimbursement arrangements from the private-purpose trust fund are not current financial resources and therefore are not reported in the governmental funds. 102,610

Prepaid bond insurance costs are expended in governmental funds when paid, however, such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position. 346

Refunding 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. 905

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. 34,320

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. (10,104)

Internal service funds are used by management to charge the cost of public works support, employee benefits, and stores, vehicle, maintenance and operations to individual funds. The assets and liabilities are included in governmental activities in the statement of net position. 21,297

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	(1,186,303)	
Accrued vacation, sick leave and compensatory time	(74,182)	
Estimated liability for self-insurance	(144,777)	
Net other postemployment benefits obligation	(436,180)	
Other	<u>(24,295)</u>	
Total long-term obligations		(1,865,737)

Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds. These amounts consist of:

Net pension liability	(2,678,942)	
Deferred outflows of resources	929,516	
Deferred inflows of resources	<u>(5,982)</u>	
		<u>(1,755,408)</u>

Net position of governmental activities (Page 22) **\$ 3,437,781**

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, 2017
(\$000's)

	<u>General Fund</u>	<u>Housing Activities</u>	<u>Low and Moderate Income Housing Asset</u>
REVENUES			
Taxes and special assessments	\$ 519,976	-	-
Sales taxes shared revenue	207,695	-	-
Licenses, permits, and fines	75,173	-	-
Intergovernmental	11,132	11,512	-
Charges for current services	46,049	-	-
Rent	-	-	-
Investment income	2,222	3,065	13,622
Other revenue	38,821	44,126	1,694
Total revenues	<u>901,068</u>	<u>58,703</u>	<u>15,316</u>
EXPENDITURES			
Current:			
General government	95,861	-	-
Public safety	536,068	-	-
Community services	133,409	17,349	10,977
Sanitation	2,444	-	-
Capital maintenance	111,737	-	-
Capital outlay	14,535	-	-
Debt service:			
Principal	1,526	-	-
Interest and fiscal charges	1,328	-	-
Total expenditures	<u>896,908</u>	<u>17,349</u>	<u>10,977</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,160</u>	<u>41,354</u>	<u>4,339</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	157	-	-
Transfers in	20,461	-	-
Transfers out	(30,985)	(71)	(467)
Total other financing sources (uses)	<u>(10,367)</u>	<u>(71)</u>	<u>(467)</u>
Net change in fund balances	(6,207)	41,283	3,872
Fund balances - beginning	<u>319,039</u>	<u>86,377</u>	<u>348,460</u>
Fund balances - ending	<u>\$ 312,832</u>	<u>127,660</u>	<u>352,332</u>

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

Special Assessment Districts	San José Financing Authority Debt Service	Integrated Waste Management	Nonmajor Governmental Funds	Total Governmental Funds
19,370	-	-	182,073	721,419
-	-	-	-	207,695
-	-	-	-	75,173
-	-	-	64,978	87,622
-	-	128,470	76,928	251,447
-	-	519	50,319	50,838
221	302	225	2,774	22,431
197	18,830	-	5,796	109,464
<u>19,788</u>	<u>19,132</u>	<u>129,214</u>	<u>382,868</u>	<u>1,526,089</u>
-	-	-	14,992	110,853
-	-	-	1,219	537,287
-	-	-	96,432	258,167
-	-	126,512	22,354	151,310
6,666	-	-	140,796	259,199
-	-	53	53,609	68,197
5,035	29,495	428	19,655	56,139
8,745	29,176	-	17,854	57,103
<u>20,446</u>	<u>58,671</u>	<u>126,993</u>	<u>366,911</u>	<u>1,498,255</u>
<u>(658)</u>	<u>(39,539)</u>	<u>2,221</u>	<u>15,957</u>	<u>27,834</u>
-	-	-	17,445	17,602
16	59,186	-	48,426	128,089
<u>(3,893)</u>	<u>(8,982)</u>	<u>(1,093)</u>	<u>(80,035)</u>	<u>(125,526)</u>
<u>(3,877)</u>	<u>50,204</u>	<u>(1,093)</u>	<u>(14,164)</u>	<u>20,165</u>
(4,535)	10,665	1,128	1,793	47,999
<u>44,268</u>	<u>17,825</u>	<u>28,301</u>	<u>522,965</u>	<u>1,367,235</u>
<u>39,733</u>	<u>28,490</u>	<u>29,429</u>	<u>524,758</u>	<u>1,415,234</u>

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, 2017
(\$000's)

Net change in fund balances--total governmental funds (Page 29)	\$	47,999
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	68,197	
Depreciation expense	<u>(215,223)</u>	
Excess of depreciation expense over capital outlay		(147,026)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)		
Donated assets	13,917	
Transfers from SARA	7,448	
Proceeds from sale of capital assets	<u>(17,602)</u>	
Gain on disposal of assets	<u>11,555</u>	
		15,318
Decrease in long-term receivables associated with lease, pledge revenue, and reimbursement arrangements from the private purpose trust fund are not current financial resources and therefore are not reported in the governmental funds.		
		(13,125)
Prepaid bond insurance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		
		(19)
Amortization of deferred outflows of resources resulting from the deferred loss on refunding of bonds		
		(185)
Repayment of long-term obligation principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The City's long-term obligations were reduced because principal payments were made to bondholders and HUD.		
		54,425
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	474	
Amortization of premiums and discounts on bonds issued	<u>1,970</u>	
Total net interest expense and amortization of discount/premium		2,444
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available revenues" and are reported as deferred inflows of resources in the governmental funds.		
		2,138
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.		
		(2,130)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net increase in net OPEB obligation	(10,864)	
Net increase in vacation, sick leave, and compensatory time	(4,125)	
Net increase in estimated liability for self-insurance	<u>(2,306)</u>	
Net decrease in other liabilities	<u>2,262</u>	
Total expenditures		(15,033)
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.		
		<u>(193,078)</u>
Change in net position of governmental activities (Page 23)	\$	<u><u>(248,272)</u></u>

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, 2017
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
ASSETS						
Current assets:						
Equity in pooled cash and investments held in City Treasury	\$ 134,911	423,938	23,908	30,242	612,999	19,302
Receivables (net of allowance for uncollectibles)	14,402	6,257	8,029	283	28,971	236
Prepaid expenses, advances and deposits	172	-	-	-	172	-
Inventories	-	697	-	-	697	983
Total unrestricted current assets	<u>149,485</u>	<u>430,892</u>	<u>31,937</u>	<u>30,525</u>	<u>642,839</u>	<u>20,521</u>
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	75,860	8,496	-	2,090	86,446	-
Cash and investments held with fiscal agent	109,417	-	-	-	109,417	-
Other cash and investments	-	2,176	-	-	2,176	-
Receivables (net of allowances for uncollectibles)	5,480	-	-	-	5,480	-
Prepaid expenses, advances and deposits	49	-	-	-	49	-
Total restricted assets	<u>190,806</u>	<u>10,672</u>	<u>-</u>	<u>2,090</u>	<u>203,568</u>	<u>-</u>
Total current assets	<u>340,291</u>	<u>441,564</u>	<u>31,937</u>	<u>32,615</u>	<u>846,407</u>	<u>20,521</u>
Noncurrent assets:						
Prepaid bond insurance (net of accumulated amortization)	2,598	-	-	-	2,598	-
Advances and deposits	2,793	-	-	-	2,793	-
Long-term receivable from SARA	-	-	-	20,659	20,659	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	114,764	128,324	5,232	19,327	267,647	-
Depreciable	1,187,894	505,425	67,402	33,204	1,793,925	7,616
Total noncurrent assets	<u>1,308,049</u>	<u>633,749</u>	<u>72,634</u>	<u>73,190</u>	<u>2,087,622</u>	<u>7,616</u>
Total assets	<u>1,648,340</u>	<u>1,075,313</u>	<u>104,571</u>	<u>105,805</u>	<u>2,934,029</u>	<u>28,137</u>
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refundings of debt	9,686	-	-	-	9,686	-
Deferred outflows of resources related to pensions	30,220	80,604	7,386	2,744	120,954	-
Total deferred outflows of resources	<u>\$ 39,906</u>	<u>80,604</u>	<u>7,386</u>	<u>2,744</u>	<u>130,640</u>	<u>-</u>

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

City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2017
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 7,537	25,744	3,146	560	36,987	1,367
Accrued liabilities	1,070	2,978	303	89	4,440	1,176
Interest payable	32	68	-	-	100	-
Short-term notes payable	25,461	-	-	-	25,461	-
Accrued vacation, sick leave and compensatory time	1,586	4,029	126	107	5,848	-
Estimated liability for self-insurance	634	567	128	-	1,329	-
Advances and deposits payable	1,438	-	-	91	1,529	-
Unearned revenue	3,045	-	-	-	3,045	826
Loans payable	-	4,353	-	-	4,353	-
Total current liabilities unrestricted	<u>40,803</u>	<u>37,739</u>	<u>3,703</u>	<u>847</u>	<u>83,092</u>	<u>3,369</u>
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	4,643	-	-	-	4,643	-
Interest payable	16,460	103	-	-	16,563	-
Current portion of bonds payable, net	44,344	5,270	-	-	49,614	-
Other current liabilities	200	-	-	-	200	-
Total current liabilities payable from restricted assets	<u>65,647</u>	<u>5,373</u>	<u>-</u>	<u>-</u>	<u>71,020</u>	<u>-</u>
Total current liabilities	<u>106,450</u>	<u>43,112</u>	<u>3,703</u>	<u>847</u>	<u>154,112</u>	<u>3,369</u>
Noncurrent liabilities:						
Accrued vacation, sick leave and compensatory time	612	665	61	51	1,389	3,471
Estimated liability for self-insurance	2,219	2,794	650	-	5,663	-
Advance contributions from participating agencies	-	1,724	-	-	1,724	-
Advances, deposits and reimbursable credits	-	-	1,488	-	1,488	-
Loans payable	-	1,772	-	-	1,772	-
Bonds payable (net of premium/discount)	1,265,988	15,846	-	-	1,281,834	-
Net pension liability	102,069	206,626	16,280	7,060	332,035	-
Net other postemployment benefits obligation	14,026	25,505	1,905	848	42,284	-
Total noncurrent liabilities	<u>1,384,914</u>	<u>254,932</u>	<u>20,384</u>	<u>7,959</u>	<u>1,668,189</u>	<u>3,471</u>
Total liabilities	<u>1,491,364</u>	<u>298,044</u>	<u>24,087</u>	<u>8,806</u>	<u>1,822,301</u>	<u>6,840</u>
DEFERRED INFLOWS OF RESOURCES						
Gain on refundings of debt	107	-	-	-	107	-
Deferred inflows of resources related to pensions	186	496	43	17	742	-
Total deferred inflows of resources	<u>293</u>	<u>496</u>	<u>43</u>	<u>17</u>	<u>849</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	82,800	606,508	72,634	52,531	814,473	7,616
Restricted for debt service	14,684	2,139	-	2,090	18,913	-
Restricted for capital projects and other agreements	50,224	6,808	-	-	57,032	1,595
Unrestricted	48,881	241,922	15,193	45,105	351,101	12,086
Total net position	<u>\$ 196,589</u>	<u>857,377</u>	<u>87,827</u>	<u>99,726</u>	<u>1,241,519</u>	<u>21,297</u>

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
OPERATING REVENUES						
Charges for services	\$ 60,079	163,069	44,680	17,612	285,440	120,155
Rentals and concessions	20,207	9,795	-	-	30,002	-
Service connection, engineering and inspection	62,901	3,572	-	-	66,473	-
Operating contributions from participating agencies	-	44,058	-	-	44,058	-
Other	9,748	2,160	-	-	11,908	-
Total operating revenues	<u>152,935</u>	<u>222,654</u>	<u>44,680</u>	<u>17,612</u>	<u>437,881</u>	<u>120,155</u>
OPERATING EXPENSES						
Operations and maintenance	65,336	131,997	37,888	4,806	240,027	120,582
General and administrative	23,057	30,604	2,024	5,359	61,044	-
Depreciation	46,449	28,349	2,735	3,940	81,473	2,608
Materials and supplies	-	350	-	164	514	-
Total operating expenses	<u>134,842</u>	<u>191,300</u>	<u>42,647</u>	<u>14,269</u>	<u>383,058</u>	<u>123,190</u>
Operating income (loss)	<u>18,093</u>	<u>31,354</u>	<u>2,033</u>	<u>3,343</u>	<u>54,823</u>	<u>(3,035)</u>
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	23,096	-	-	-	23,096	-
Customer facility charges	18,026	-	-	-	18,026	-
Operating grants	1,169	-	-	-	1,169	-
Investment income	1,591	2,111	127	126	3,955	112
Interest expense	(67,440)	(956)	-	-	(68,396)	-
Bond issuance costs	(2,492)	-	-	-	(2,492)	-
Contributions for maintenance reserves	-	64	-	-	64	-
Loss on disposal of capital assets	-	(46)	-	-	(46)	(89)
Gain on loan reinstatement from SARA	-	-	-	14,374	14,374	-
Other revenues, net	637	172	11	4,017	4,837	58
Net nonoperating revenues (expenses)	<u>(25,413)</u>	<u>1,345</u>	<u>138</u>	<u>18,517</u>	<u>(5,413)</u>	<u>81</u>
Income (loss) before capital contributions and transfers	<u>(7,320)</u>	<u>32,699</u>	<u>2,171</u>	<u>21,860</u>	<u>49,410</u>	<u>(2,954)</u>
Capital contributions	10,120	2,446	692	-	13,258	-
Transfers in	-	-	1,200	31	1,231	1,007
Transfers out	(34)	(2,206)	(1,327)	(1,051)	(4,618)	(183)
Changes in net position	<u>2,766</u>	<u>32,939</u>	<u>2,736</u>	<u>20,840</u>	<u>59,281</u>	<u>(2,130)</u>
Net position - beginning	193,823	824,438	85,091	78,886	1,182,238	23,427
Net position - ending	<u>\$ 196,589</u>	<u>857,377</u>	<u>87,827</u>	<u>99,726</u>	<u>1,241,519</u>	<u>21,297</u>

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, 2017
(\$000's)

Enterprise Funds

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 153,715	194,015	42,928	21,715	412,373	-
Cash received from interfund services provided	-	-	-	-	-	120,217
Payments to suppliers	(56,359)	(52,555)	(29,675)	(7,841)	(146,430)	(96,742)
Payments for employees	(27,190)	(80,325)	(7,717)	(2,306)	(117,538)	(21,780)
Other receipts	699	27,914	-	-	28,613	-
Net cash provided by operating activities	<u>70,865</u>	<u>89,049</u>	<u>5,536</u>	<u>11,568</u>	<u>177,018</u>	<u>1,695</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	-	-	1,200	31	1,231	1,007
Transfer to other funds	(34)	(2,206)	(1,327)	(1,051)	(4,618)	(183)
Operating grants	1,113	-	-	-	1,113	-
Payments from other funds	-	-	53	-	53	-
Net cash provided by (used in) noncapital and related financing activities	<u>1,079</u>	<u>(2,206)</u>	<u>(74)</u>	<u>(1,020)</u>	<u>(2,221)</u>	<u>824</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	22,239	-	-	-	22,239	-
Customer facility charges received	17,919	-	-	-	17,919	-
Proceeds from issuance of bonds	7,324	-	-	-	7,324	-
Prepaid bond insurance	(83)	-	-	-	(83)	-
Capital grants received	7,064	342	-	-	7,406	-
Acquisition and construction of capital assets	(29,830)	(77,837)	(5,074)	(503)	(113,244)	(2,996)
Proceeds from capital assets	-	-	-	-	-	5
Principal payment on commercial paper	(9,211)	-	-	-	(9,211)	-
Principal paid on debt	(24,700)	(10,130)	-	-	(34,830)	-
Bond issuance cost paid	(2,292)	-	-	-	(2,292)	-
Interest paid on debt	(75,158)	(1,122)	-	-	(76,280)	-
Advances and deposits received	174	-	-	-	174	-
Net cash used in capital and related financing activities	<u>(86,554)</u>	<u>(88,747)</u>	<u>(5,074)</u>	<u>(503)</u>	<u>(180,878)</u>	<u>(2,991)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	46,854	-	-	-	46,854	-
Purchase of investments	(77,826)	-	-	-	(77,826)	-
Interest received	1,986	1,362	76	-	3,424	112
Land and building rentals	-	89	-	126	215	-
Net cash provided by (used in) investing activities	<u>(28,986)</u>	<u>1,451</u>	<u>76</u>	<u>126</u>	<u>(27,333)</u>	<u>112</u>
Net change in cash and cash equivalents	<u>(43,596)</u>	<u>(453)</u>	<u>464</u>	<u>10,171</u>	<u>(33,414)</u>	<u>(360)</u>
Cash and cash equivalents - beginning	319,600	435,063	23,444	22,161	800,268	19,662
Cash and cash equivalents - ending	<u>\$ 276,004</u>	<u>434,610</u>	<u>23,908</u>	<u>32,332</u>	<u>766,854</u>	<u>19,302</u>

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

City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	\$ 18,093	31,354	2,033	3,343	54,823	(3,035)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	46,449	28,349	2,735	3,940	81,473	2,608
Other nonoperating revenues	699	12	11	4,017	4,739	58
Decrease (increase) in:						
Accounts receivable	468	(738)	(1,763)	87	(1,946)	3
Inventories	-	(37)	-	-	(37)	12
Prepaid expenses, advances and deposits	(1)	7	-	-	6	-
Increase (decrease) in:						
Accounts payable and accrued liabilities	(125)	13,828	1,408	(420)	14,691	1,067
Accrued salaries, wages, and payroll	-	667	103	28	798	-
Accrued vacation, sick leave and compensatory time	-	248	12	9	269	157
Estimated liability for self-insurance	-	(91)	75	-	(16)	-
Unearned revenue	(562)	-	-	-	(562)	825
Net pension liability, deferred outflows and inflows of pension related resources	5,866	16,014	981	583	23,444	-
Net other postemployment benefit obligation	-	-	(59)	-	(59)	-
Advances and deposits payable	(22)	-	-	(1)	(23)	-
Other liabilities	-	(564)	-	(18)	(582)	-
Net cash provided by operating activities	\$ 70,865	89,049	5,536	11,568	177,018	1,695
Reconciliation of cash and cash equivalents to the statement of net position:						
Equity in pooled cash and investments held in City Treasury						
Unrestricted	\$ 134,911	423,938	23,908	30,242	612,999	19,302
Restricted	75,860	8,496	-	2,090	86,446	-
Cash and investments held with fiscal agent	109,417	-	-	-	109,417	-
Other cash and investments	-	2,176	-	-	2,176	-
Less investments not meeting the definition of cash equivalents	(44,184)	-	-	-	(44,184)	-
Cash and cash equivalents	\$ 276,004	434,610	23,908	32,332	766,854	19,302
Noncash noncapital, capital and related financing, and investing activities:						
Change in operating grants receivable	\$ (56)	-	-	-	(56)	-
Disposal of capital assets	-	46	-	-	46	(94)
Bond refunding	683,505	-	-	-	683,505	-
Capital contributions from developers	-	2,104	692	-	2,796	-
Amortization of bond discount/premium, and prepaid bond insurance costs	(362)	167	-	-	(195)	-
Amortization of deferred outflows/inflows of resources related to bond refundings	154	71	-	-	225	-
Change in capital related payables	(6,606)	-	-	-	(6,606)	-
Change in capital related receivables	(3,056)	-	-	-	(3,056)	-
Change in fair value of investments	(758)	-	-	-	(758)	-
Gain on loan reinstatement from SARA	-	-	-	14,374	14,374	-

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, 2017
(\$000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	\$ -	154	4,557
Cash and investments	-	17,656	-
Investments of retirement plans:			
Investments, excluding securities lending collateral:			
Fixed income	1,014,241	-	-
Collective short-term investments	429,405	-	-
Absolute return	504,135	-	-
Global equity	2,044,145	-	-
Private equity	232,448	-	-
International currency contracts, net	(1,550)	-	-
Global tactical asset	325,119	-	-
Private debt	295,541	-	-
Real assets	768,749	-	-
Total investments of retirement systems	<u>5,612,233</u>	<u>-</u>	<u>-</u>
Receivables:			
Accrued investment income	5,437	-	19
Employee contributions	3,009	-	-
Employer contributions	18,010	-	-
Due from the City of San José	-	57	-
Due from the County of Santa Clara	-	13,130	-
Other	70,946	276	-
Restricted cash and investments held with fiscal agent	-	162,238	-
Total current assets	<u>5,709,635</u>	<u>193,511</u>	<u>4,576</u>
Noncurrent assets:			
Advances to the City of San José	-	790	-
Accrued interest	-	900	-
Loans receivable, net	-	4,693	-
Advances and deposits	-	6	-
Property held for resale	-	32,392	-
Capital assets:			
Nondepreciable	-	60,751	-
Depreciable, net	3,027	59,555	-
Total noncurrent assets	<u>3,027</u>	<u>159,087</u>	<u>-</u>
Total assets	<u>5,712,662</u>	<u>352,598</u>	<u>4,576</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	\$ -	23,654	

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, 2017
(\$000's)

	Pension Trust Funds	Private Purpose Trust Funds	Agency Fund
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	6,540	-
Accrued salaries and benefits	-	243	-
Due to the City of San José	-	174	-
Due to brokers	33,301	-	-
Accrued interest payable	-	33,507	-
Pass through payable to the County of Santa Clara	-	2,624	-
Unearned revenue	-	156	-
Other liabilities	3,260	9	4,576
Total current liabilities	36,561	43,253	4,576
Long-term liabilities:			
Due within one year	-	202,459	-
Due in more than one year	-	1,738,200	-
Total noncurrent liabilities	-	1,940,659	-
Total liabilities	36,561	1,983,912	4,576
NET POSITION			
Held in trust for:			
Employees' pension benefits	5,266,049	-	
Employees' postemployment healthcare benefits	410,052	-	
Redevelopment dissolution and other purposes	-	(1,607,660)	
Total net position (deficit)	\$ 5,676,101	(1,607,660)	

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

City of San José
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017
(\$000's)

	Pension Trust Funds	Private Purpose Trust Funds
ADDITIONS		
Redevelopment property tax revenues	\$ -	284,566
Investment income:		
Interest	24,594	1,012
Dividends	33,939	-
Net rental income	2,418	333
Net change in fair value of plan investments	439,542	-
Investment expenses	(32,255)	-
Total investment income (loss)	<u>468,238</u>	<u>1,345</u>
Contributions:		
Employer	328,012	-
Employees	72,750	-
Total contributions	<u>400,762</u>	<u>-</u>
Charges for current services		660
Development fees	-	244
Gain on sale of revenue participation	-	12,350
Gain on sales of property and other assets	-	1,233
Grant revenue	-	6,476
Other	-	2,852
Total additions	<u>869,000</u>	<u>309,726</u>
DEDUCTIONS		
General and administrative	9,439	2,391
Project expenses	-	1,765
Pass through amounts to the County of Santa Clara	-	38,709
Capital contributions to the City of San José	-	7,448
Parking Fund loan reinstatement	-	13,528
Depreciation	-	2,077
Allowance for loan losses	-	504
Interest on debt	-	90,204
Health insurance premiums	55,806	-
Refunds of contributions	1,627	-
Retirement and other benefits:		
Death benefits	23,483	-
Retirement benefits	354,352	-
Total deductions	<u>444,707</u>	<u>156,626</u>
Change in net position	<u>424,293</u>	<u>153,100</u>
Net position restricted for pension, postemployment healthcare benefits and other purposes:		
Beginning of year	<u>5,251,808</u>	<u>(1,760,760)</u>
End of year	<u>\$ 5,676,101</u>	<u>(1,607,660)</u>

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

City of San José
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June 30, 2017

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Notes to Basic Financial Statements
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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 to, or impose specific financial burdens on the primary government. Based upon the application of these criteria, the following is a brief description of each component unit included within the City’s reporting entity. All such component units have been “blended” (or in the case of the Successor Agency to the Redevelopment Agency of the City of San José reported as a fiduciary fund) as though they are part of the primary government because the component unit’s governing body is substantially the same as the City’s primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it, or the City is entirely or almost entirely responsible for the repayment of the debt of the component unit.

- **Successor Agency to the Redevelopment Agency of the City of San José** – The Successor Agency to the Redevelopment Agency of the City of San José (the “SARA”) was created by State statute, referred to in these notes as the Redevelopment Dissolution Law, to serve as a custodian for the assets and to wind down the affairs of the SARA. The SARA is subject to the direction of a Board consisting of the Mayor and the other members of the City Council. The SARA is also, pursuant to the Redevelopment Dissolution Law, subject to the direction and oversight of an Oversight Board. The Oversight Board is comprised of seven member representatives from local government bodies: two appointed by the Mayor; two appointed by the County of Santa Clara (the “County”); one appointed by the County Superintendent of Education; one appointed by the Chancellor of California Community Colleges; and one appointed by the largest special district taxing entity in the Merged Project Area (currently the Santa Clara Valley Water District).

In general, the SARA’s assets can only be used to pay enforceable obligations in existence at the date of dissolution, February 1, 2012 (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). The SARA is only allocated revenue in the amount that is necessary to meet the enforceable obligations of the former Redevelopment Agency of the City of San José (the “Agency”) each year 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).

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- **San José – Santa Clara Clean Water Financing Authority** – The San José – Santa Clara Clean Water Financing Authority (the “Clean Water Financing Authority”) was created pursuant to a Joint Exercise of Powers Agreement between the City and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San José – Santa Clara Water Pollution Control Plant (the “Plant”). The Clean Water Financing Authority is governed by a five-member Board of Directors; three are members of the San José City Council and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara 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 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.
- **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 2016-17.

Separate financial reports for City departments and component units for the fiscal year 2016-17, containing additional information and more detailed information regarding financial position, changes in financial position, and, where applicable, cash flows, are available from the City’s Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

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

B. Financial Statement Presentation

Government-wide Financial Statements. The government-wide financial statements, i.e. the statement of net position and the statement of activities, display information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary funds or component units that are fiduciary in nature. Eliminations have been made to prevent the double counting of internal activities. For example, the direct expense charges based on actual use are not eliminated, whereas indirect expense allocations made in the funds are eliminated. These statements distinguish between the *governmental* and *business-type*

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

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

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

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

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The ***Integrated Waste Management Fund*** is a special revenue fund that was established to account for activities related to the Integrated Waste Management Program which includes garbage collection, recycling services, and related billing operations.

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 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.

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.

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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, 2017, the City implemented the following Governmental Accounting Standards Board (the "GASB") Statements:

In June 2015, the GASB issued Statement 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*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The application of Statement No. 73 did not have any effect on the City's financial statements.

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In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("OPEB"). This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The City has implemented these changes in the Pension Trust Funds in Note IV.A.4.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The application of Statement No. 77 did not have a significant impact on the City's financial statements.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The application of Statement No. 78 did not have any effect on the City's financial statements.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The application of Statement No. 80 did not have any effect on the City's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statement No. 67, No. 68, and No. 73*. This statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. The application of Statement No. 82 did not have a significant effect on the City's financial statements.

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, for OPEB. This statement addresses accounting and financial reporting for OPEB and establishes standards for recognizing and measuring liabilities, deferred outflows/inflows of resources, and expenses/expenditures. Application of Statement No. 75 is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. An irrevocable split-interest agreement is one type of split-interest agreement used by donors to provide resources to two or more beneficiaries, including governments. Under an irrevocable split-interest agreement, the donor does not reserve, or confer to another person, the right to terminate the agreement at will and have the donated resources returned to the donor or a third party. This statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of Statement No. 81 is effective for the City's fiscal year ending June 30, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, and requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. Application of Statement No. 83 is effective for the City's fiscal year ending June 30, 2019.

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

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Application of Statement No. 85 is effective for the City's fiscal year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial

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statements for debt that is defeased in substance. Application of Statement No. 86 is effective for the City's fiscal year ending June 30, 2018.

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

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

1. Cash and Cash Equivalents

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

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

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

3. Deposits and Investments

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

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted 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 with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

City of San José
Notes to Basic Financial Statements
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- Level 3 - Investments classified as Level 3 have 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 on quoted market information obtained from fiscal agents or other sources. Income from some investments is assigned to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the year ended June 30, 2017, the total investment income from these investments assigned and transferred to the General Fund was approximately \$768,000.

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. The fair value of separate real estate properties is based on annual independent appraisals. Purchases and sales of securities are reflected on the date of trade. Investment income is recognized as earned. Rental income from real estate activity is recognized as earned, net of expenses.

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

4. Inventories

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

5. 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 statements with an offset to restricted fund balance as resources are not available for expenditure. 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 at its net realizable value based on an estimate of uncollectible amounts for loan losses.

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.

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7. Advances and Deposits

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

8. Other Assets

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

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 operating expenses.

In the government-wide, proprietary fund and fiduciary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable 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 and intangible assets that are used in operations and that have initial useful lives in excess of one year. Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide statement of net position, the proprietary funds' 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. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term, when

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the lease does not transfer ownership or include a bargained purchase option or the estimated useful life of the asset and is included in depreciation and amortization.

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

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

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

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 non-current liabilities in the appropriate proprietary funds.

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

Employees in FCERS who retire with at least 15 years of service, or 20 years for police officers and firefighters in PFDRP, may be eligible to receive, upon retirement, sick leave payouts based on percentages of accumulated unused sick leave hours as determined by the respective collective bargaining agreements for represented employees. Similar terms are applicable to eligible unrepresented employees. The tables below summarize the eligibility terms for sick leave payout and the terms governing the amount of the payout.

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

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Bargaining Unit	Hire Date (on or before)	Sick Leave Balance¹ Frozen as of:	Rate of Pay² Frozen as of:
Association of Building, Mechanical, and Electrical Inspectors	ABMEI September 29, 2012	June 22, 2013	June 22, 2013
Association of Engineers and Architects, IFPTE Local 21	AEA September 29, 2012	June 22, 2013	June 22, 2013
Association of Legal Professionals	ALP September 29, 2012	June 22, 2013	June 22, 2013
Association of Maintenance Supervisory Personnel, IFPTE Local 21	AMSP September 29, 2012	June 22, 2013	June 22, 2013
City Association of Management Personnel, IFPTE Local 21	CAMP September 29, 2012	June 22, 2013	June 22, 2013
Confidential Employees' Organization, AFSCME Local 101	CEO September 29, 2012	June 22, 2013	June 22, 2013
International Brotherhood of Electrical Workers, Local No. 332	IBEW September 29, 2012	June 22, 2013	June 22, 2013
International Union of Operating Engineers, Local No. 3	OE#3 September 29, 2012	June 22, 2013	June 22, 2013
Municipal Employees' Federation, AFSCME Local 101	MEF September 29, 2012	June 22, 2013	June 22, 2013
San José Police Officers' Association	SJPOA July 6, 2013	July 6, 2013	July 6, 2013
San José Fire Fighters, IAFF Local 230	IAFF September 13, 2014	June 20, 2015	June 21, 2014
Unrepresented Employees	Unit 99 Unit 81/82 September 29, 2012	June 22, 2013	June 22, 2013

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

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

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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 non-current portion is reported as “advances to/from other funds”. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

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

14. Self-Insurance

The City is self-insured for workers’ compensation, general liability, auto liability, and certain other risks, except as described in Note III.F.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 and unamortized portions of the gain and loss on refunding debt are reported as deferred outflows and deferred inflows of resources, respectively. In addition to this, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

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.

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17. 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 have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2017, the government-wide statement of net position reported restricted net position of \$982,168,000 in governmental activities and \$75,945,000 in business-type activities. Of these amounts \$328,060,000 and \$21,770,000, 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.

18. 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.

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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.

19. 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
Lewy dates	October 1	July 1
Due dates (delinquent after)	50% on November 1 (December 10) 50% on February 1 (April 10)	July 1 (August 31)

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

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

The City’s net assessed valuation for the year ended June 30, 2017, was approximately \$161.4 billion, an increase of approximately 7.0% from the previous year. The City’s tax rate was approximately \$0.177 per \$100 of assessed valuation, which included the 1% basic levy and additional levies for general obligation bonds Measures “O” and “P” (2000) and Measure “O” (2002).

20. 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.

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In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the fiscal year ended June 30, 2017, the City's portion of the capital and operating costs was approximately 81.1% and the City's interest in the net position of the Plant was approximately 77.9%.

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, 2017, the SARA has a deficit of \$1,608,145,000, which will be reduced when future redevelopment property tax revenues are distributed from the Redevelopment Property Tax Trust Fund administered by the County's Auditor-Controller to pay SARA's annual enforceable obligations.

B. Deficit Unrestricted Net Position – Governmental Activities

At June 30, 2017, the City reports a deficit unrestricted net position in its Statement of Net Position – governmental activities in the amount of \$1,935,456,000. This deficit is primarily due to the City's accrual of certain long-term liabilities, such as the net pension liability, compensated absences, and estimated claims, that are recognized as expenses under the accrual basis of accounting as the liabilities are incurred; however, these expenses are not budgeted (funded) until the liabilities are anticipated to come due; and the City's recognition of OPEB obligations for OPEB costs in which the actuarial annual required contributions are greater than the amount paid into the OPEB plans to date (see Note IV.A.4.3)

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III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2017, total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds			Carrying Value
			Pension Trust	Private Purpose Trust	Agency	
Equity in pooled cash and investments	\$ 954,437	\$ 612,999	\$ -	\$ 154	\$ 4,557	\$ 1,572,147
Cash and investments	-	-	-	17,656	-	17,656
Restricted assets:						
Equity in pooled cash and investments	93,371	86,446	-	-	-	179,817
Cash and investments held with fiscal agent	111,129	109,417	-	162,238	-	382,784
Other cash and investments	15,623	2,176	-	-	-	17,799
Investments of retirement systems	-	-	5,612,233	-	-	5,612,233
Total deposits and investments	<u>\$ 1,174,560</u>	<u>\$ 811,038</u>	<u>\$ 5,612,233</u>	<u>\$ 180,048</u>	<u>\$ 4,557</u>	<u>7,782,436</u>
Deposits						12,471
Investments						<u>7,769,965</u>
Total deposits and investments						<u>\$ 7,782,436</u>

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

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

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

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

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

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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, 2017, was approximately 513 days.

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

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

At June 30, 2017, the City's pooled and fiscal agent investments in LAIF was approximately \$263,217,000 and the SARA's investments in LAIF was approximately \$36,437,000. The weighted average maturity of LAIF was 194 days at June 30, 2017. The total amount recorded by all public agencies in LAIF at June 30, 2017 was approximately \$22.8 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The PMIA is not registered with the Securities Exchange Commission ("SEC"), but is required to invest according to California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2017 was approximately \$77.6 billion and of that amount, 60.79% was invested in U.S. Treasuries and agencies, 27.73% in depository securities, 10.60% in commercial paper, 0.83% in loans, and 0.05% in mortgages.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy sets forth the policies regarding concentration of credit risk.

The City Council adopted an investment policy (the "Policy") on April 2, 1985, as amended on June 7, 2016, related to the City's cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged 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.

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The Policy was last reviewed and approved, with no changes, on March 7, 2017. The following table identifies the investment types that are authorized by the Policy as of June 30, 2017:

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

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

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Agriculture Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Investment in Farmer Mac may not exceed 10% of the total portfolio.
- Purchases of Supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated "Aa3, AA or AA" or higher by Moody's, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.
- Purchases of Bankers' Acceptances ("BAs") are limited to issues by domestic U.S. or foreign banks. The outstanding debt of the bank or its holding company must be rated "A3, A-, or A-" or higher by Moody's, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.

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- Deposits up to the Federal Deposit Insurance Corporation (“FDIC”) of \$10,000,000 may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Depositories must have a short-term rating of “P1, A1, or F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. Deposits shall be collateralized in the manner prescribed by State law for depositories.
- Commercial paper eligible for investment must be rated “P1, A1 or F1” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of \$500,000,000 and shall issue debt, other than commercial paper, if any, that is rated “A3, A- or A-” or higher, respectively, by Moody’s, S&P, or Fitch.
- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer short-term rating of “P1, A1, F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.
- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City’s Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of the repurchase agreement’s face value.
- Reverse repurchase agreements under the Policy are limited to the lesser of \$25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.
- Corporate medium term notes eligible for investment must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.
- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is \$65,000,000.
- Investments in money market mutual funds are limited to those funds registered with the SEC and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years of experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of \$500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and must be maintained at no less than \$1.00 per share.

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- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.
- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a provider’s inability to meet its contractual obligations.
- Mortgage backed securities and collateralized mortgage obligations must be issued by a United States government agency and must be AAA rated or better by a nationally recognized rating service.
- Asset backed securities must be AAA rated or better by a nationally recognized rating service. The issuer of any asset backed security must have an “A3, A- or A-” rating or better by Moody’s, S&P, or Fitch, respectively, of its underlying debt.

The 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.

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The following schedule indicates the interest rate risk, credit quality risk and concentration of credit risk of the City's investments, as of June 30, 2017 (dollars in thousands). The credit ratings listed are for Moody's and S&P, respectively.

Type of Investment	Credit Rating	Maturity				Carrying Value
		Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	
Pooled investments in the City Treasury:						
Treasury Notes	AAA / AAA	\$ -	\$ -	\$ -	\$ 35,000	\$ 35,000
Federal Farm Credit Banks	AAA / AA+	15,000	20,010	-	43,068	78,078
Federal Home Loan Banks	AAA / AA+	40,000	29,954	22,107	120,790	212,851
Federal Home Loan Banks - Callable	AAA / AA+	-	-	-	3,492	3,492
Federal Home Loan Mortgage Corporation	AAA / AA+	20,000	9,998	14,963	37,241	82,202
Federal Home Loan Mortgage Corporation - Callable	AAA / AA+	-	9,987	3,999	-	13,986
Federal National Mortgage Association	AA+ / AAA	-	34,985	28,640	39,557	103,182
Federal National Mortgage Association - Callable	AA+ / Aaa	-	-	10,993	-	10,993
Farmer MAC	N/A	-	-	-	74,822	74,822
Farmer MAC -Discount	N/A	10,000	-	-	-	10,000
Muni Bonds	A-1 / A+	-	-	-	148,857	148,857
Supranational	AAA / AAA	25,000	9,996	10,002	167,939	212,937
Corporate Medium Term Notes	A-1 / A	-	30,543	70,429	319,250	420,222
Commercial paper	N/A	9,998	34,868	-	-	44,866
Negotiable certificate of deposit	N/A	110,001	58,165	30,012	-	198,178
Money market mutual funds	N/A	13	-	-	-	13
California local agency investment fund	Not Rated	-	-	108,617	-	108,617
Total pooled investments in the City Treasury		<u>230,012</u>	<u>238,506</u>	<u>299,762</u>	<u>990,016</u>	<u>1,758,296</u>
Investments with fiscal agents:						
Treasury Notes	N/A	-	4,974	2,088	-	7,062
Federal Agricultural Mortgage Corporation	N/A	-	-	-	10,704	10,704
Federal Farm Credit Banks	Aaa / AA+	-	-	-	6,971	6,971
Federal Home Loan Banks	Aaa / AA+	-	-	-	26,505	26,505
Federal Home Loan Banks - Discount	N/A	-	2,273	-	-	2,273
Federated Treasury Obligation	N/A	1,473	-	-	-	1,473
First American Gov't Obligation	N/A	3,058	-	-	-	3,058
First American Treasury Obligation	N/A	153	-	-	-	153
Money market mutual funds	Aaa / AAA	7,073	-	-	-	7,073
California local agency investment fund	Not Rated	-	-	154,600	-	154,600
Total investments with fiscal agents		<u>11,757</u>	<u>7,247</u>	<u>156,688</u>	<u>44,180</u>	<u>219,872</u>
Total Citywide investments (excluding Retirement Systems and the SARA)		<u>\$ 241,769</u>	<u>\$ 245,753</u>	<u>\$ 456,450</u>	<u>\$ 1,034,196</u>	1,978,168
Trust Funds:						
Total investments in Retirement Systems (See page 68)						5,612,233
Total investments in the SARA (See page 162)						179,564
Total investments						<u>\$ 7,769,965</u>

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Fair Value Measurement Categorization. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The State of California Local Agency Investment Fund and Money Market Mutual Fund are valued by net asset value.

The City has the following recurring fair value measurements as of June 30, 2017:

	Fair Value Measurements Using			
	Carrying Value 6/30/2017	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	\$ 35,000	\$ 35,000	\$ -	\$ -
Federal Farm Credit Banks	78,078	-	78,078	-
Federal Home Loan Banks	212,851	39,841	173,010	-
Federal Home Loan Banks - Callable	3,492	-	3,492	-
Federal Home Loan Mortgage Corporation	82,202	44,960	37,242	-
Federal Home Loan Mortgage Corporation - Callable	13,986	-	13,986	-
Federal National Mortgage Association	103,182	54,932	48,250	-
Federal National Mortgage Association - Callable	10,993	-	10,993	-
Farmer MAC	74,822	-	74,822	-
Farmer MAC - Discount	10,000	10,000	-	-
Muni Bonds	148,857	19,946	128,911	-
Supranational	212,937	-	212,937	-
Corporate Medium Term Notes	420,222	161,949	258,273	-
Commercial paper	44,866	-	44,866	-
Negotiable certificate of deposit	198,178	-	198,178	-
Money market mutual funds	13	13	-	-
Total investments by fair value level	<u>1,649,679</u>	<u>366,641</u>	<u>1,283,038</u>	<u>-</u>
Investments not subject to fair value hierarchy:				
California local agency investment fund	108,617			
Total investments not subject to fair value hierarchy	<u>108,617</u>			
Total pooled investments in the City Treasury	<u>1,758,296</u>	<u>366,641</u>	<u>1,283,038</u>	<u>-</u>
Investments with fiscal agents:				
Investments by fair value level:				
Treasury Notes	7,062	7,062	-	-
Federal Agricultural Mortgage Corporation	10,704	-	10,704	-
Federal Farm Credit Banks	6,971	-	6,971	-
Federal Home Loan Banks	26,505	10,119	16,386	-
Federal Home Loan Banks - Discount	2,273	-	2,273	-
Federated Treasury Obligation	1,473	1,473	-	-
First American Govt Obligation	3,058	3,058	-	-
First American Treasury Obligation	153	153	-	-
Money market mutual funds	7,073	7,073	-	-
Total investments by fair value level	<u>65,272</u>	<u>28,938</u>	<u>36,334</u>	<u>-</u>
Investments not subject to fair value hierarchy:				
California local agency investment fund	154,600			
Total investments not subject to fair value hierarchy	<u>154,600</u>			
Total investments with fiscal agents	<u>219,872</u>	<u>28,938</u>	<u>36,334</u>	<u>-</u>
Total Citywide investments (excluding Retirement Systems and the SARA)	<u>1,978,168</u>	<u>\$ 395,579</u>	<u>\$ 1,319,372</u>	<u>\$ -</u>
Trust Funds:				
Total investments in Retirement Systems (See page 68)	5,612,233			
Total investments in the SARA (See page 162)	179,564			
Total investments	<u>\$ 7,769,965</u>			

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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. Muni bonds classified in Level 2 of the fair value hierarchy are valued using JJ Kenny municipal pricing technique. Negotiable certificate 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).

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

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, 2017, 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, 2017, the City's pooled investments in the City Treasury have investments in U.S. Agencies that represents 5% or more of the total pooled investments in the following:

Federal Home Loan Banks	12.30%
International Bank for Reconstruction & Development	9.80%
Federal National Mortgage Association	6.50%
Federal Home Loan Mortgage Corp	5.50%

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In addition, the following major funds hold investments with trustees that represent 5% or more of the funds' investments outside the City Treasury as of June 30, 2017:

Airport:	
Federal Home Loan Banks	12.06%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2017, 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 limitations set forth in the Municipal Code. At June 30, 2017, the Retirement Systems' investment target asset allocations are as follows:

Asset Class	PFDRP - Pension		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	25%	31%	50%
Real assets	12%	17%	25%
Global fixed income	10%	16%	30%
Private debt	5%	11%	15%
Global tactical asset allocation	-	10%	10%
Private equity	3%	8%	13%
Absolute return	2%	6%	12%
Cash	-	1%	10%

Note: The real assets category includes allocations to real estate, commodities, and other inflation-linked assets. The absolute return category includes allocations to relative value and global macro hedge funds.

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

Note: The real assets category includes allocations to commodities, real estate, and other inflation-linked assets. The absolute return/global tactical asset category is currently comprised of three global tactical asset allocation managers who run unconstrained global portfolios.

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The fair value of the separate real estate properties are based on annual independent appraisals. As of June 30, 2017, the PFDRF no longer owned any assets that were separate real estate properties. On June 2, 2017, the PFDRF sold the Progress Point building located in O'Fallon Missouri for \$12,959,000 before closing costs. The sale resulted in a net realized loss of \$10,165,000.

<u>Asset Class</u>	<u>FCERS - Pension</u>		
	<u>Minimum Allocation</u>	<u>Target Asset Allocation</u>	<u>Maximum Allocation</u>
Global equity	20%	28%	36%
Private equity	4%	9%	14%
Global fixed income	9%	19%	29%
Private debt	-	5%	10%
Absolute return	6%	11%	16%
Global tactical asset allocation/ Opportunistic	-	5%	8%
Real assets	15%	23%	30%
Cash	-	-	10%

Note: The absolute return and global tactical asset allocation/opportunistic asset class includes allocations to global macro and relative value hedge fund strategies and managers with unconstrained global mandates. In addition, during times of significant market dislocations, opportunistic mandates would be allocated to this asset class. The real assets asset class includes allocations to real estate, commodities, infrastructure and natural resources.

<u>Asset Class</u>	<u>FCERS - Postemployment Healthcare</u>		
	<u>Minimum Allocation</u>	<u>Target Asset Allocation</u>	<u>Maximum Allocation</u>
Global equity	40%	47%	54%
Fixed income	20%	30%	40%
Real assets	15%	23%	30%

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

At June 30, 2017, the Retirement Systems held the following investments (dollars in thousands):

	<u>PFDRP</u>	<u>FCERS</u>	<u>Total</u>
Securities and other:			
Fixed income:			
Global fixed income	\$ 549,054	\$ 465,187	\$ 1,014,241
Collective short term investments	287,658	141,747	429,405
Total fixed income	<u>836,712</u>	<u>606,934</u>	<u>1,443,646</u>
Absolute return	251,543	252,592	504,135
Global equity	1,124,182	919,963	2,044,145
Global tactical asset allocation	325,119	-	325,119
Private equity	170,786	61,662	232,448
Private debt	219,768	75,773	295,541
Real assets	495,825	272,924	768,749
International currency contracts, net	(916)	(634)	(1,550)
Total investments	<u>\$ 3,423,019</u>	<u>\$ 2,189,214</u>	<u>\$ 5,612,233</u>

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

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Retirement Systems do not have a policy regarding interest rate risk. 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, 2017 (dollars in thousands):

	PFDRP						Total Fair Value	Total Cost
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years		
Global fixed income:								
Commingled Funds	\$ 25,522	\$ -	\$ 69,270	\$ 182,550	\$ 56,392	\$ 150,139	\$ 483,873	\$ 440,730
Mortgage - backed securities	-	-	-	-	1,894	41,477	43,371	43,796
Corporate bonds	-	-	-	84	-	-	84	58
Other debt securities	-	-	-	1,431	8,943	11,352	21,726	21,648
Total global fixed income	<u>25,522</u>	<u>-</u>	<u>69,270</u>	<u>184,065</u>	<u>67,229</u>	<u>202,968</u>	<u>549,054</u>	<u>506,232</u>
Collective short-term investments	287,658	-	-	-	-	-	287,658	287,658
Total fixed income	<u>\$ 313,180</u>	<u>\$ -</u>	<u>\$ 69,270</u>	<u>\$ 184,065</u>	<u>\$ 67,229</u>	<u>\$ 202,968</u>	<u>\$ 836,712</u>	<u>\$ 793,890</u>

	FCERS						Total Fair Value	Total Cost
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years		
Global fixed income:								
Commingled Funds	\$ 38,283	\$ -	\$ -	\$ 125,865	\$ 47,627	\$ 95,988	\$ 307,763	\$ 294,400
Corporate Bonds	-	-	-	1	-	-	1	1
Mortgage-Backed Securities	-	-	-	-	1,813	38,656	40,469	35,906
Other Debt Securities	-	-	-	1,331	8,306	10,655	20,292	20,725
U.S. Treasury Inflation-Protected Securities	-	-	-	76,494	20,168	-	96,662	98,830
Total global fixed income	<u>38,283</u>	<u>-</u>	<u>-</u>	<u>203,691</u>	<u>77,914</u>	<u>145,299</u>	<u>465,187</u>	<u>449,862</u>
Collective short-term investments	141,747	-	-	-	-	-	141,747	141,566
Total fixed income	<u>\$ 180,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,691</u>	<u>\$ 77,914</u>	<u>\$ 145,299</u>	<u>\$ 606,934</u>	<u>\$ 591,428</u>

Custodial Credit Risk – Custodial credit risk is the risk that the Retirement Systems will not be able to recover the value of its 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, 2017, all of the Retirement Systems' investments are held in the Retirement Systems' names, and/or are not exposed to custodial credit risk.

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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.

Please note that the following table reflects only securities held in the Retirement System’ names. The table provides information for the portfolio as of June 30, 2017 concerning credit risk (dollars in thousands) and reflect only securities held in the Retirement Systems’ names.

S&P quality rating	PFDRP		FCERS	
	Fair Value	Fair value as a % of fixed income investments	Fair Value	Fair value as a % of fixed income investments
AAA	\$ 363	0.04%	\$ 332	0.05%
AA+	4,627	0.55%	101,048	16.65%
A+	1,724	0.21%	1,580	0.26%
A	428	0.05%	392	0.06%
BBB+	1,832	0.22%	1,676	0.28%
BBB	6,333	0.76%	5,652	0.93%
BBB-	503	0.06%	503	0.08%
BB+	1,431	0.17%	1,331	0.22%
BB	749	0.09%	749	0.12%
BB-	499	0.06%	499	0.08%
B+	527	0.06%	484	0.08%
B	1,554	0.19%	1,423	0.23%
B-	476	0.06%	436	0.07%
CCC	3,556	0.42%	3,726	0.61%
CC	760	0.09%	720	0.12%
D	6,821	0.82%	6,310	1.04%
Not rated	804,529	96.15%	480,073	79.10%
Total	\$ 836,712	100.00%	\$ 606,934	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, 2017, 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 quote currency prices from national exchanges. The Retirement Systems’ commitments relating to international currency contracts are settled on a net basis.

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The following tables provide information as of June 30, 2017, concerning the fair value of investments that are subject to foreign currency risk (dollars in thousands):

Currency Name	PFDRP				
	Cash	Global Equity	International Currency Contracts, Net	Real Assets	Total Exposure
Australian Dollar	\$ -	\$ 3,679	\$ (59)	\$ -	\$ 3,620
Canadian Dollar	-	5,868	(151)	-	5,717
China Yuan Reminbl	-	-	(94)	-	(94)
Denmark Krone	-	5,266	-	-	5,266
Euro Currency	182	17,956	(545)	15,080	32,673
Hong Kong Dollar	19	1,659	-	-	1,678
Japanese Yen	-	13,317	328	-	13,645
Korean (South) Won	-	7,957	-	-	7,957
Norwegian Krone	-	1,795	-	-	1,795
Singapore Dollar	-	81	-	-	81
Swedish Krona	-	3,022	(16)	-	3,006
Swiss Franc	-	14,310	(104)	-	14,206
United Kingdom Pound	-	30,428	(275)	-	30,153
Total	\$ 201	\$ 105,338	\$ (916)	\$ 15,080	\$ 119,703

Currency Name	FCERS					
	Cash	Global Equity	International Currency Contracts, Net	Private Equity	Real Assets	Total Exposure
Australian Dollar	\$ -	\$ 2,095	\$ (30)	\$ -	\$ 13,709	\$ 15,774
Brazilian Real	-	-	(65)	-	619	554
British Pound	-	21,450	(131)	-	28,083	49,402
Canadian Dollar	-	3,932	(53)	-	31,900	35,779
Chile Peso	-	-	-	-	665	665
China Yuan Renminbi	-	-	(115)	-	-	(115)
Colombian Peso	-	-	-	-	13	13
Danish Krone	-	5,203	-	-	-	5,203
Euro Currency	452	13,005	(244)	2,252	28,677	44,142
Hong Kong Dollar	-	945	-	-	7,465	8,410
Hungarian Forint	-	-	-	-	109	109
Indonesian Rupiah	-	-	-	-	1,044	1,044
Israeli Shekel	-	-	-	-	819	819
Japanese Yen	-	7,963	8	-	3,421	11,392
Korean Won	-	6,808	-	-	442	7,250
Malaysian Ringgit	-	-	-	-	1,846	1,846
Mexican Peso	-	-	-	-	1,003	1,003
New Zealand Dollar	-	-	-	-	569	569
Norwegian Krone	-	1,411	-	-	2,421	3,832
Philippine Peso	-	-	-	-	89	89
Polish Zloty	-	-	-	-	546	546
Singapore Dollar	-	46	-	-	2,555	2,601
South African Rand	-	-	-	-	871	871
Swedish Krona	-	1,725	(4)	-	690	2,411
Swiss Franc	-	10,881	-	-	536	11,417
Taiwanese new dollar	-	-	-	-	327	327
Thailand Baht	-	-	-	-	428	428
Total	\$ 452	\$ 75,464	\$ (634)	\$ 2,252	\$ 128,847	\$ 206,381

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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. The Retirement Systems’ investment policies state that 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 10% 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, the investment management firm can manage no more than 20% of the applicable plan’s assets without approval by the applicable Retirement Board. In addition 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 approval of the applicable Retirement Board. As of June 30, 2017, 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. Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. 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, 2017. 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.

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The fair values and notional amounts for a portion of derivative instruments outstanding as of June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (amounts in thousands):

PFDRP					
Investment Derivative Instruments	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2017		Fair Value at June 30, 2017		Notional Amount/Shares
	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment income	\$ (976)	International currency contracts, net	\$ (916)	\$ 136,293
Futures options bought/written	Investment income	11,732	Fixed income (domestic and foreign)	-	27,005
Rights / Warrants	Investment income	(16)	Global equity	24	73
Total derivative instruments		<u>\$ 10,740</u>		<u>\$ (892)</u>	

FCERS					
Investment Derivative Instruments	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2017		Fair Value at June 30, 2017		Notional Amount/Shares
	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment income	\$ (1,388)	Foreign currency contracts, net	\$ (634)	\$ 60,007
Future options bought/written	Investment income	9,747	Fixed income, collective short-term investments	-	(927)
Rights / Warrants	Investment income	(39)	Global equity	24	90
Total derivative instruments		<u>\$ 8,320</u>		<u>\$ (610)</u>	

Derivative investments are 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, 2017.

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, 2017, PFDRP had total commitments in forward currency contracts to purchase and sell international currencies of \$136,293,000 and \$136,293,000, respectively, with fair values of \$136,393,000 and \$137,308,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2017, FCERS had total commitments in forward currency contracts to purchase and sell international currencies of \$60,007,000 and \$60,007,000, respectively, with fair values of \$60,035,000 and \$60,669,000, respectively, held by counterparties with an S&P rating of at least A and above.

Fair Value Measurements – The Retirement Systems categorize its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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The Retirement Systems have the following recurring fair value measurements as of June 30, 2017:

PFDRP (In Thousands)	Fair Value Measurement Using					Net Asset Value (NAV)
	Total	Level 1	Level 2	Level 3		
Investments by fair value level						
Global equity	\$ 1,124,182	\$ 286,088	\$ -	\$ -	\$ 4,519	\$ 838,094
Private equity	170,786	-	-	-	-	166,267
Global fixed income	549,054	16,380	65,098	-	-	467,576
Collective short term investments	287,658	287,658	-	-	-	-
Private debt	219,768	-	-	17,559	-	202,209
Real assets	495,825	6,982	-	-	-	488,843
International currency contracts, net	(916)	(916)	-	-	-	-
Global tactical asset allocation	325,119	207,125	-	-	-	117,994
Absolute return	251,543	-	-	-	-	251,543
Total investments measured at fair value	\$ 3,423,019	\$ 803,317	\$ 65,098	\$ 22,078	\$ -	\$ 2,532,526

FCERS (In Thousands)	Fair Value Measurement Using					Net Asset Value (NAV)
	Total	Level 1	Level 2	Level 3		
Investments by Fair Value Level						
Global equity	\$ 919,963	\$ 441,932	\$ -	\$ -	\$ 4,519	\$ 478,031
Private equity	61,662	-	-	-	4,519	57,143
Global fixed income	465,187	118,098	60,760	-	-	286,329
Collective short term investments	141,747	141,747	-	-	-	-
Private debt	75,773	-	-	17,559	-	58,214
Real assets	272,924	-	-	-	-	272,924
International currency contracts, net	(634)	(634)	-	-	-	-
Absolute return	252,592	-	-	-	-	252,592
Total investments measured at fair value	\$ 2,189,214	\$ 701,143	\$ 60,760	\$ 22,078	\$ -	\$ 1,405,233

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is 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

Alternative investments include global equity, private equity, global fixed income, private debt, real assets, global tactical asset allocation, and absolute return investments. 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, depending upon the availability of data required

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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.

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, 2017:

PFDRP					
Investments Measured at the NAV as of June 30, 2017 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	
Global equity	\$ 838,094	\$ -	Daily, Monthly, Quarterly	1 - 90 Days	
Private equity	166,267	81,527	Daily, N/A	1 Day, N/A	
Global fixed income	467,576	-	Daily, Monthly, Quarterly	1 - 60 Days	
Private debt	202,209	123,778	N/A	N/A	
Real assets	488,843	115,469	Monthly, Quarterly, N/A (Closed-end funds)	3 - 90 Days, N/A (Closed-end funds)	
Global tactical assets allocation	117,994	-	Monthly	1 - 5 Days	
Absolute return	251,543	-	Weekly, Monthly, Quarterly	14 - 75 Days	
Total investments measured at the NAV	\$ 2,532,526	\$ 320,774			

FCERS					
Investments Measured at the NAV as of June 30, 2017 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	
Global equity	\$ 478,031	\$ -	Daily, Monthly, Quarterly	1 - 90 Days	
Private equity	57,143	14,132	N/A	N/A	
Global fixed income	286,329	-	Daily, Quarterly	1 - 60 Days	
Private debt	58,214	51,755	N/A	N/A	
Real assets	272,924	62,402	Monthly, Quarterly, Annual, N/A (Closed-end funds)	3 - 180 Days, N/A (Closed-end funds)	
Absolute return	252,592	-	Weekly, Monthly, Quarterly	14 - 75 Days	
Total investments measured at the NAV	\$ 1,405,233	\$ 128,289			

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B. Receivables, Net of Allowances

At June 30, 2017, receivables of the City's major individual funds and nonmajor funds taken in aggregate, including the applicable allowance for uncollectible accounts, are as follows (dollars in thousands):

Receivables – Governmental Activities:	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Special Assessment Districts	Intergrated Waste Management	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Taxes	\$ 55,039	\$ -	\$ -	\$ -	\$ -	\$ 9,062	\$ -	\$ 64,101
Accrued interest	1,440	246	1,733	50	82	3,352	75	6,978
Grants	822	1,197	-	-	-	6,379	-	8,398
Special assessments	-	-	-	34,320	-	-	-	34,320
Other	39,782	24	25	2,254	8,203	7,787	171	58,246
Less: allowance for uncollectibles	(27,904)	(3)	-	(5)	(2,588)	(1,166)	(10)	(31,676)
Total receivables, net	<u>\$ 69,179</u>	<u>\$ 1,464</u>	<u>\$ 1,758</u>	<u>\$ 36,619</u>	<u>\$ 5,697</u>	<u>\$ 25,414</u>	<u>\$ 236</u>	<u>\$ 140,367</u>

Receivables – Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	\$ 14,207	\$ 5,168	\$ 9,085	\$ 212	\$ 28,672
Accrued interest	1,010	1,676	108	134	2,928
Grants	5,032	-	-	-	5,032
Less: allowance for uncollectibles	(367)	(587)	(1,164)	(63)	(2,181)
Total receivables, net	<u>\$ 19,882</u>	<u>\$ 6,257</u>	<u>\$ 8,029</u>	<u>\$ 283</u>	<u>\$ 34,451</u>

Special assessment receivables in the amount of \$34,320,000 are not expected to be collected within the subsequent year.

C. Loans Receivable, Net of Allowances

The composition of the City's loans receivable balance for governmental activities, net of the allowance for uncollectible accounts, as of June 30, 2017 is as follows (dollars 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	\$ -	\$ -	\$ 509,444	\$ -	\$ 509,444
Loans funded by federal grants	-	80,450	-	8,110	88,560
Economic development, real estate developer and other loans	1,241	55,119	-	-	56,360
Less: allowance for uncollectibles	-	(64,389)	(281,482)	(3,321)	(349,192)
Total loans, net	<u>\$ 1,241</u>	<u>\$ 71,180</u>	<u>\$ 227,962</u>	<u>\$ 4,789</u>	<u>\$ 305,172</u>

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.

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Typical loans and related terms are summarized as follows:

<u>Loan Type</u>	<u>Interest Rates</u>	<u>Due</u>
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, 2017.

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, 2017. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2017, amounts committed to extend credit under normal lending agreements totaled approximately \$9,387,000.

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D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2017 (dollars in thousands):

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 406,337	\$ 7,448	\$ 252	\$ -	\$ 413,533
Construction in progress	31,411	55,872	5,971	(32,317)	48,995
Total capital assets, not being depreciated	<u>437,748</u>	<u>63,320</u>	<u>6,223</u>	<u>(32,317)</u>	<u>462,528</u>
Capital assets, being depreciated:					
Buildings	1,646,123	938	-	1,680	1,648,741
Improvements, other than buildings	251,398	973	-	8,351	260,722
Infrastructure	11,440,581	16,170	-	22,286	11,479,037
Vehicles and equipment	127,367	11,014	8,738	-	129,643
Furnitures and fixtures	27,354	144	-	-	27,498
Total capital assets, being depreciated	<u>13,492,823</u>	<u>29,239</u>	<u>8,738</u>	<u>32,317</u>	<u>13,545,641</u>
Less accumulated depreciation for:					
Buildings	568,226	42,782	-	-	611,008
Improvements, other than buildings	39,477	7,173	-	-	46,650
Infrastructure	7,631,678	158,532	-	-	7,790,210
Vehicles and equipment	93,005	9,183	8,820	-	93,368
Furnitures and fixtures	26,788	161	-	-	26,949
Total accumulated depreciation	<u>8,359,174</u>	<u>217,831</u>	<u>8,820</u>	<u>-</u>	<u>8,568,185</u>
Total capital assets, being depreciated, net	<u>5,133,649</u>	<u>(188,592)</u>	<u>(82)</u>	<u>32,317</u>	<u>4,977,456</u>
Governmental activities capital assets, net	<u>\$ 5,571,397</u>	<u>\$(125,272)</u>	<u>\$ 6,141</u>	<u>\$ -</u>	<u>\$ 5,439,984</u>
Business-type Activities:					
Capital assets, not being depreciated:					
Land	\$ 134,926	\$ -	\$ -	\$ -	\$ 134,926
Intangible assets	12,882	-	-	-	12,882
Construction in progress	54,554	82,695	-	(17,410)	119,839
Total capital assets, not being depreciated	<u>202,362</u>	<u>82,695</u>	<u>-</u>	<u>(17,410)</u>	<u>267,647</u>
Capital assets, being depreciated:					
Buildings	1,650,404	(27)	27	7,858	1,658,208
Improvements, other than buildings	1,208,060	32,258	-	5,939	1,246,257
Vehicles and equipment	254,186	7,720	1,344	3,613	264,175
Total capital assets, being depreciated	<u>3,112,650</u>	<u>39,951</u>	<u>1,371</u>	<u>17,410</u>	<u>3,168,640</u>
Less accumulated depreciation for:					
Buildings	546,672	40,359	12	-	587,019
Improvements, other than buildings	579,601	30,328	-	-	609,929
Vehicles and equipment	168,294	10,786	1,313	-	177,767
Total accumulated depreciation	<u>1,294,567</u>	<u>81,473</u>	<u>1,325</u>	<u>-</u>	<u>1,374,715</u>
Total capital assets, being depreciated, net	<u>1,818,083</u>	<u>(41,522)</u>	<u>46</u>	<u>17,410</u>	<u>1,793,925</u>
Business-type activities capital assets, net	<u>\$ 2,020,445</u>	<u>\$ 41,173</u>	<u>\$ 46</u>	<u>\$ -</u>	<u>\$ 2,061,572</u>

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2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the fiscal year ended June 30, 2017 is as follows (dollars in thousands):

Governmental activities:	
General government	\$ 9,336
Public safety	7,874
Capital maintenance	164,239
Community services	33,774
Capital assets held by City's internal service funds	2,608
Total depreciation expense - governmental activities	<u>\$ 217,831</u>
Business-type activities:	
Norman Y. Mineta San José International Airport	\$ 46,449
Wastewater Treatment System	28,349
Municipal Water System	2,735
Parking System	3,940
Total depreciation expense - business-type activities	<u>\$ 81,473</u>

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 tax-exempt debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. There was no capitalized interest cost for the fiscal year ended June 30, 2017.

4. Construction Commitments

Commitments outstanding as of June 30, 2017, related to governmental and business-type activities construction in progress totaled approximately \$22,268,000 and \$173,731,000, 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 2022. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund and the Nonmajor Governmental Funds under these operating lease agreements for the fiscal year ended June 30, 2017 amounted to approximately \$1,531,000 and \$333,000, respectively.

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The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2017, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
2018	\$ 1,750	\$ 86	\$ 1,836
2019	1,388	-	1,388
2020	552	-	552
2021	275	-	275
2022	85	-	85
Totals	<u>\$ 4,050</u>	<u>\$ 86</u>	<u>\$ 4,136</u>

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. Rental and maintenance expense for the Airport buses for the fiscal year ended June 30, 2017 was approximately \$1,323,000.

Future Minimum Payments. The future minimum lease and maintenance payments required under the existing agreement for the ten CNG powered buses, as of June 30, 2017, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Operating Leases
2018	\$ 844
2019	774
Total minimum lease payments	<u>\$ 1,618</u>

2. Operating Leases as Lessor

Governmental Activities

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

Business-Type Activities - Airport

Airline-Airport Lease and Operating Agreements. The City has entered into an Airline-Airport Lease and Operating Agreement with the various passenger and cargo airlines serving the Airport. The airline lease agreement, which took effect on December 1, 2007, was originally set to expire on June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017. On May 23, 2017, the City Council authorized the Director of Aviation, or Interim Director of Aviation, as applicable, to extend the term for two years through June 30, 2019, which allows the airlines to continue to conduct operations and occupy leased space through the extended term. Pursuant to the City Council authorization, the Agreement was

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extended for two years until June 30, 2019, with Article 11 amended to remove the Municipally-Funded Air Service Incentive Program, and other provisions were added as required under federal law and regulations. The existing rates and charges structure remained unchanged through the extended term. Negotiations for a new agreement with the airlines are currently underway. The current agreement shall terminate upon execution of a new Airline Lease and Operating Agreement between City and the airlines.

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

For the fiscal year ended June 30, 2017, the Airport's revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by approximately \$34,031,000. The surplus for fiscal year ended June 30, 2017 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2018.

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. The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. Signature paid interim ground rental equal to 50% of the base ground rental until November 2015, when the last certificate of occupancy was received. From November 2015, and continuing throughout the term of the agreement, Signature will pay 100% of the base ground rental based upon the actual square footage of premises occupied. The base ground rental is subject to a consumer price index adjustment annually and by appraisal every five years. The base ground rental rate effective December 12, 2016 is \$2.29 per square foot per year. Rental revenues from the ground lease with Signature were \$2,911,000 for the fiscal year ended June 30, 2017.

The City also enters into leases with concessionaires, airline carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. As of June 30, 2017, the remaining terms of these operating leases range from one month to 21 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount. Rental revenues from the aforementioned operating leases were \$85,961,000 for the fiscal year ended June 30, 2017.

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The future minimum rentals to be received from the Airport operating leases, as of June 30, 2017, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Amount
2018	\$ 82,016
2019	80,184
2020	36,292
2021	10,873
2022	11,005
2023 - 2027	53,272
2028 - 2032	52,716
2033 - 2037	56,296
2038 - 2042	37,782
2043 - 2047	37,279
2048 - 2052	44,225
2053 - 2057	52,465
2058 - 2062	62,241
2063 - 2064	20,903
Total	\$ 637,549

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. As of June 30, 2017, leased assets to tenants had historical costs of \$1,033,403,000 and accumulated depreciation of \$227,789,000.

Pursuant to the terms of individual agreements entered into with the City, every airline, operator, tenant or any other entity or person, which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation, often in the form of irrevocable letter of credit, surety bond, cashier's check or other form acceptable to the Director of Aviation. The Director of Aviation has the authority to revise the amount of security deposit at any time to protect the interests of the City. Each deposit must be maintained in full force and effect during the entire term of the agreement to ensure faithful performance by the other party of all the covenants, terms and conditions of the agreement. Security deposits in the form of cashier's checks are recorded as advances and deposits payable on the accompanying 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, 2017 totaled \$50,218,000.

Potential Claim. The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current Lease and Operating Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as "Rentable Terminal Space" under the terms of the Airline Lease and Operating Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2. If the airlines file a claim, the City will therefore take a position that the City is only liable to the passenger airlines for one year's overpayment of terminal rents in the approximate amount of \$2,500,000.

At this time it is impossible to predict the outcome of this potential unasserted claim, the possible loss or range of loss, or whether the unasserted claim will be made and if made, when it would be resolved.

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F. Long-Term Debt and Other Obligations

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the City as of June 30, 2017 (dollars in thousands, unless otherwise noted):

Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments (\$ millions)	Balance June 30, 2017
Governmental Activities						
City of San Jose						
General Obligation Bonds:						
Series 2001 (Libraries and Parks)	Community Facilities	\$ 71,000	06/06/2001	09/01/2031	5.00-5.13%	2.37 \$ 35,475
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	5.00%	3.87 61,910
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.25-5.00%	3.96 71,230
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	4.00-4.50%	1.55 29,355
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.52 70,300
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-4.75%	3.00 63,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10 24,260
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-5.00%	0.30 6,900
						<u>362,430</u>
HUD Section 108 Note (FMC)	Economic Development	25,810	02/10/2005	08/01/2024	Variable	0.24 <u>717</u>
City of San Jose Financing Authority						
Lease Revenue Bonds:						
Series 2001F (Convention Center)	Refunding	186,150	07/01/2001	09/01/2022	5.00%	11.60-14.73 78,680
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	4.13-4.70%	1.25-1.61 9,940
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.25-5.00%	0.17-17.44 52,850
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.13-4.75%	1.22-2.22 22,890
Series 2008C (Hayes Mansion)	Refunding	10,915	06/26/2008	06/01/2027	Variable	0.11-4.57 10,915
Series 2008D (Taxable) (Hayes Mansion)	Refunding	47,390	06/26/2008	06/01/2023	Variable	3.10-3.90 20,640
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/01/2025	Variable	0.85-1.26 8,310
Series 2008E-2 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/01/2025	Variable	0.85-1.26 8,300
Series 2008F (Taxable) (Land Acquisition)	Refunding	67,195	06/11/2008	06/01/2034	Variable	1.43-3.17 37,050
Series 2011A (Convention Center)	Convention Center	30,985	04/12/2011	05/01/2042	3.50-5.75%	0.62-2.17 29,960
Series 2013A (Civic Center Project)	Refunding	305,535	05/28/2013	06/01/2039	4.00-5.00%	5.30-21.33 293,665
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.80-1.91 28,190
Revenue Bonds:						
Series 2001A (4th & San Fernando Garage)	Parking Facility	48,675	04/10/2001	09/01/2026	4.63-5.25%	2.08-3.21 <u>26,005</u>
						<u>627,395</u>
Special Assessment Bonds						
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.60-5.88%	1.5-2.03 12,125
Special Tax Bonds						
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.63-5.70%	0.23-0.30 1,550
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	5.63-6.00%	0.62-0.87 5,175
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	6.00-6.65%	0.37-0.95 9,775
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	4.88-5.25%	0.70-0.94 5,695
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	1.94-7.71 101,750
						<u>136,070</u>
Total Government Activities - Bonds and Notes Payable						\$ 1,126,612
Business-Type Activities						
Norman Y. Mineta San Jose International Airport						
Revenue Bonds:						
Series 2007A (AMT)	Airport Facilities	\$ 545,755	09/13/2007	03/01/2018	5.50%	7.03 \$ 7,025
Series 2011A-1 (AMT)	Refunding	150,405	07/28/2011	03/01/2034	5.00-6.25%	3.36-21.12 129,305
Series 2011A-2 (Non-AMT)	Refunding	86,380	07/28/2011	03/01/2034	4.00-5.25%	1.91-12.22 74,340
Series 2011B (Taxable)	Refunding	271,820	12/14/2011	03/01/2041	4.22-6.75%	1.54-27.33 261,635
Series 2012A (Non-AMT)	Refunding	49,140	11/08/2012	03/01/2018	1.53%	8.59 8,585
Series 2014A (AMT)	Refunding	57,350	10/07/2014	03/01/2026	2.00-5.00%	0.05-9.18 56,090
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%	4.01-35.15 473,595
Series 2017B (Non-AMT)	Refunding	150,675	04/11/2017	03/01/2047	2.00-5.00%	1.28-11.18 150,675
						<u>1,229,545</u>
Clean Water Financing Authority						
Revenue Bonds:						
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	3.50%	4.97-5.41 20,695
State of California - Revolving Fund Loan	Wastewater Facilities	73,566	06/24/1997	05/01/2019	Variable	1.77-4.35 <u>6,125</u>
						<u>26,820</u>
Total Business-Type Activity - Bonds and Loan Payable						\$ 1,256,365
Grand Total						\$ 2,382,977

City of San José
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2. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions for which non-compliance would adversely affect its ability to pay debt service.

3. Legal Debt Limit and Margin

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2016-2017 tax roll was \$166.5 billion, which results in a total debt limit of \$25.0 billion. As of June 30, 2017, the City had \$367,469,000 of General Obligation bonds outstanding which represents approximately 1.5% of the General Obligation bonds' debt limit.

4. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service ("IRS") at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the City's tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, there was no rebate liability outstanding as of June 30, 2017.

5. Special Assessment and Special Tax Bonds with Limited City Commitment

All obligations of the City under the Special Assessment and Special Tax Bonds are not considered general obligations of the City, but are considered limited obligations, payable solely from the assessments/special taxes and from the certain funds pledged therefore under the Paying Agent Agreement or Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City, or any political subdivision thereof, is pledged to the payment of the bonds. The City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund for these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

As of June 30, 2017, the City has recorded approximately \$34,320,000 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.

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6. Conduit Debt

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with IRS requirements in order to meet the tax-exempt status, the owner is required to set aside a certain percentage of all units built for 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, 2017, the outstanding conduit multi-family housing revenue bonds issued by the City aggregated approximately \$448,788,000.

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.

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

Included in long-term debt is \$85,215,000 of variable-rate bonds, comprised of four series (Series 2008C, Series 2008D, Series 2008E and Series 2008F) issued by the Financing Authority. The Financing Authority issued these bonds to provide variable-rate exposure to the debt portfolio and to provide additional flexibility with respect to restructuring or redeeming the debt issued for certain projects. The source of repayment for each of these series is from lease payments from the City to the Financing Authority for the City's lease of the Dolce Hayes Mansion (Series 2008C and Series 2008D), the Ice Centre (Series 2008E) and real property located at 1125 Coleman Avenue in San José (Series 2008F), also known as the Airport West Property.

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

The principal balances of the Financing Authority's variable-rate bonds as of June 30, 2017 are as follows (dollars in thousands):

	Privately-Placed Bonds				
	Balance June 30, 2017	Purchaser	Agreement Expiration	Fixed Fee/ Spread	Interest Index Rate
City of San José Financing Authority:					
Lease Revenue Bonds:					
Series 2008C (Hayes Mansion)	\$ 10,915	U.S. Bank	12/11/2017	0.390%	SIFMA (Weekly)
Series 2008D (Taxable) (Hayes Mansion)	20,640	U.S. Bank	12/11/2017	0.470%	1-Month LIBOR
Series 2008E (Taxable) (Ice Centre)	16,610	U.S. Bank	12/13/2019	0.530%	1-Month LIBOR
Series 2008F (Taxable) (Land Acquisition)	37,050	Bank of America, N.A.	06/27/2018	0.575%	1-Month LIBOR
Total variable-rate lease revenue bonds	<u>\$ 85,215</u>				

Prior to the execution of the continuing covenant agreements on December 18, 2013 (for the Series 2008C, 2008D, and 2008E bonds) and June 26, 2014 (for the Series 2008F bonds), the variable-rate lease revenue bonds were publicly-marketed "demand" bonds supported by credit facilities and

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payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. Subsequently, the credit facilities were cancelled and the bonds were sold directly to U.S. Bank and BofA and are no longer remarketed on the open market.

The Financing Authority is required to pay a fixed fee, or spread, ranging from 0.390% to 0.575% (as noted above) based on the terms of the applicable governing document. Per the terms of the applicable governing document, the spread is subject to increase in the event that the long-term unenhanced ratings 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, 2017, the private placements of each series expire as set forth in the table above.

In June 2017, the extensions of private placements of these four series to the dates listed in the above table were implemented. The extension dates of the private placements of the Series 2008C/D bonds and the Series 2008F bonds are December 11, 2017 and June 27, 2018, respectively, in anticipation of the sale of the underlying leased assets: the Dolce Hayes Mansion and the Airport West Property. The sale of the Dolce Hayes Mansion, anticipated to close prior to June 30, 2017, was terminated and the City has issued a request for proposals for the sale of the property. The Airport West Property is subject to an option agreement for its purchase with an expiration date of December 31, 2017. The City is unable to predict whether the sale of either of these properties will be consummated.

In connection with the extensions of the private placements for these bonds, minor amendments were made to the transaction documents to clarify some terms and to reflect lower pricing on two series of the bonds. The fixed fee component of the interest associated with the outstanding bonds will decrease from 53 basis points ("bps") (or 0.53%) to 0.39% for the tax-exempt 2008C Bonds and 0.47% for the taxable 2008D Bonds. The fixed fee component of the interest rate payable on the taxable Series 2008E and 2008F bonds will remain at 0.53% and 0.575%, respectively. The variable interest rate on the bonds will continue to be determined by the commonly accepted SIFMA index for the Series 2008C bonds and 1-month LIBOR index rate for the Series 2008D, Series 2008E and Series 2008F.

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

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

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8. Summary of Changes in Long-term Obligations

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2017 are as follows (dollars in thousands):

	July 1, 2016	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2017	Principal Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	\$ 382,085	\$ -	\$ (19,655)	\$ 362,430	\$ 19,660
Issuance premiums/discounts:					
For issuance premiums	5,318	-	(279)	5,039	149
HUD Section 108 loan	957	-	(240)	717	239
San Jose Financing Authority					
Lease revenue bonds	539,175	-	(16,465)	522,710	18,205
Issuance premiums/discounts:					
For issuance premiums	40,735	-	(1,781)	38,954	1,780
For issuance discounts	(584)	-	22	(562)	(23)
Lease revenue bonds with reimbursement agreement agreement (Convention Center)	89,730	-	(11,050)	78,680	11,595
Revenue bonds with pledge agreement (Fourth Street and San Fernando Garage)	27,985	-	(1,980)	26,005	2,075
Special assessment and special tax bonds with limited governmental commitment	141,105	-	(5,035)	136,070	5,305
Issuance premiums/discounts:					
For issuance discounts	(1,671)	-	68	(1,603)	(66)
Total long-term debt payable	<u>1,224,835</u>	<u>-</u>	<u>(56,395)</u>	<u>1,168,440</u>	<u>58,919</u>
Other Long-term obligations:					
Hayes Mansion construction loan	1,200	-	-	1,200	-
Lease-purchase agreements	17,949	-	(1,286)	16,663	667
NMTC Financing Obligation	19,260	-	(428)	18,832	439
Accrued vacation, sick leave and compensatory time	73,372	46,430	(42,149)	77,653	38,322
Accrued landfill postclosure costs	5,580	-	(465)	5,115	465
Estimated liability for self-insurance	142,471	22,833	(20,527)	144,777	20,326
Net other postemployment benefits (OPEB) obligation	425,316	10,864	-	436,180	-
Pollution remediation obligation	431	-	(83)	348	-
Total other long-term obligations	<u>685,579</u>	<u>80,127</u>	<u>(64,938)</u>	<u>700,768</u>	<u>60,219</u>
Governmental activities long-term obligations	<u>\$ 1,910,414</u>	<u>\$ 80,127</u>	<u>\$ (121,333)</u>	<u>\$ 1,869,208</u>	<u>\$ 119,138</u>

General Obligation Bonds are issued pursuant to a two-thirds majority voter authorization. In 2000 and 2002, San José voters approved three ballot measures (Measures O and P in 2000 and Measure O in 2002) that authorized the total issuance of \$598,820,000 of general obligation (“GO”) bonds for library, parks and public safety projects. GO bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount. The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. As of June 30, 2017, the City of San José had issued \$589,590,000 of GO bonds with proceeds split for three purposes: library projects (\$205,885,000), parks and recreation projects (\$228,030,000), and public safety projects (\$155,675,000). Total principal and interest remaining on the bonds as of June 30, 2017 is approximately \$527,363,000, with the final payment due on September 1, 2039.

City of San José
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The City did not issue any GO bonds in fiscal year 2017. A total of \$9,230,000 of the authorization remains un-issued for the library (\$5,905,000) and public safety programs (\$3,325,000). The proceeds of those bonds would be used to fund a portion of the library and public safety projects approved by voters in November 2000 and March 2002, respectively. The timing, size, and purpose of the issuance of this final series will depend upon the expenditure and encumbrance needs of the various projects to be financed.

Lease Revenue/Revenue Bonds are issued by the Financing Authority primarily to finance various capital improvements and, with the exception of the 2001A Bonds, the financed capital improvements are to be leased to the City and are secured by lease revenue from "lessee" departments in the General Fund, Non-major Governmental Funds, and the SARA. The lease revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Total principal and interest remaining on these bonds as of June 30, 2017 are approximately \$935,671,000, with the final payment due on May 1, 2042.

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

- **Convention Center Lease Revenue Bonds with Reimbursement Agreement.** In connection with the issuance of the 2001F Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement, which was assumed by the SARA, under which the SARA is obligated to use redevelopment property tax or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Series 2001F bonds (tax-exempt) mature on September 1, 2022 and have an outstanding balance of \$78,680,000 as of June 30, 2017.
- **4th and San Fernando Parking Facility Project Pledge Agreement.** In March 2001, the Financing Authority issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the Fourth Street and San Fernando Parking Facility Project. The Agency entered into an Agency Pledge Agreement with the Financing Authority, which was assumed by the SARA, whereby the payments are payable from and secured by surplus "Agency Revenues". Under the terms of the Agency Pledge Agreement, SARA's payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the parking facility. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the former Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution, or indenture pursuant to which the outstanding tax allocation bonds were issued; plus (ii) all legally available revenues of SARA.

SARA makes payments on the Financing Authority Series 2001A bonds pursuant to the amortization schedule attached as Exhibit A to the Agency Pledge Agreement. However, the City records debt payments pursuant to the annual debt service schedule, which results in a timing difference in the amount of \$2,075,000 for balances outstanding as of June 30, 2017. At June 30, 2017, the Financing Authority's bonds payable is \$26,005,000, whereas the corresponding receivable from the SARA is \$23,930,000.

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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, 2017 is approximately \$250,740,000, with the final payment due on May 1, 2042.

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

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

The other projects that were 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 was 5.01%, and interest rates ranged from 3.21% for improvements with 5-year useful lives to 6.01% for improvements with 20-year useful lives. Total principal and interest remaining on the Lease as of June 30, 2017 is approximately \$21,589,000, with the final payment due on June 1, 2034.

The future minimum lease payments anticipate under the lease agreement, as of June 30, 2017, are as follows (in thousands):

Fiscal Year Ending June 30,	Principal	Interest
2018	\$ 1,352	819
2019	1,420	750
2020	1,460	678
2021	1,500	605
2022	1,576	529
2023 - 2027	8,242	1357
2028 - 2032	839	171
2033 - 2037	274	17
2038 - 2042	-	-
2043 - 2047	-	-
Total	\$ 16,663	\$ 4,926

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Other Long-Term Obligation payments are primarily made from general revenues recorded in the General Fund, except for payments related to the City's New Market Tax Credit financing obligation, which will be paid from the Integrated Waste Management fund and the Hayes Mansion Construction loan, which will be paid from the nonmajor special revenue fund, Community Facility Revenue.

General Fund and all Special Revenue Funds where employee salaries charged will be used to liquidate the liability for compensated absences and net OPEB obligations.

Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2017 are as follows (dollars in thousands):

	July 1, 2016	Additional Obligations and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2017	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San Jose International Airport:					
Revenue bonds	\$ 1,313,480	\$ 624,270	\$ (708,205)	\$ 1,229,545	\$ 41,900
Issuance premiums/discounts:					
For issuance premiums	21,739	66,558	(947)	87,350	2,518
For issuance discounts	(9,640)	-	3,077	(6,563)	(74)
Clean Water Financing Authority:					
Revenue bonds	26,550	-	(5,855)	20,695	5,145
Issuance premiums/discounts:					
For issuance premiums	588	-	(167)	421	125
State of California - Revolving Fund Loan	10,399	-	(4,274)	6,125	4,353
Accrued vacation, sick leave and compensatory time	7,154	6,753	(6,670)	7,237	5,848
Estimated liability for self-insurance	6,963	1,066	(1,037)	6,992	1,329
Net other postemployment benefits (OPEB) obligation	42,926	-	(642)	42,284	-
Business-type long-term obligations	<u>\$ 1,420,159</u>	<u>\$ 698,647</u>	<u>\$ (724,720)</u>	<u>\$ 1,394,086</u>	<u>\$ 61,144</u>

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Airport's Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Airport's Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and monies derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues.

The net revenues available to pay debt service in fiscal year ended June 30, 2017 totaled \$156,577,000, which is composed of \$78,701,000 of net general airport revenues and \$77,876,000 of other available funds. Other available funds include surplus carryover of \$37,279,000, rolling debt service coverage of \$18,277,000, CFC revenues of \$18,026,000, and unspent Series 2007B bond proceeds of \$4,295,000. The bond debt service paid from the general airport revenues and other available funds amounted to \$70,871,000, which is net of \$24,789,000 of bond debt service paid from the accumulated passenger facility charges ("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

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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 \$2,331,351,000, with the final payment due on March 1, 2047.

As of June 30, 2017, the Reserve Requirement in the General Account of the Bond Reserve Fund is satisfied, in part, by approximately \$4,300,000 surety bond from Ambac Indemnity Corporation (currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., "Ambac") expiring on March 1, 2018. After expiration of the Ambac surety bond, it is expected that the Reserve Requirement will be met as satisfied in the General Account of the Bond Reserve Fund due to a decrease in the maximum annual debt service as a result of the issuance of the Series 2017A and 2017B Bonds unless the General Account is drawn upon to pay principal or interest on the Airport Revenue Bonds secured by the General Account or is made available to pay to any additional bonds in accordance with the terms of the Master Trust Agreement. The Required Reserve in the General Account of the Bond Reserve Fund secures the Series 2011A-1, 2011A-2, 2012A, 2014A, 2014B, 2014C, 2017A, and 2017B Bonds. According to the Master Trust Agreement, in the event that the Ambac surety bond for any reason terminates and the remaining amount on deposit in the General Account is less than the Required Reserve, the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve Facility (as defined in the Master Trust Agreement) under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

Ambac's rating was reduced or withdrawn subsequent to the deposit of the surety bond into the General Account. The Master Trust Agreement does not require that the rating of any surety bond held in the General Account be maintained after the date of deposit.

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 fiscal year ended June 30, 2017 totaled approximately \$65,139,000. Bond debt service, plus debt service on the State Revolving Fund Loans (subordinate to the outstanding Clean Water Financing Authority sewer revenue bonds), payable from net system revenues in the fiscal year totaled approximately \$11,252,000. 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, 2017 is approximately \$22,458,000, with the final payment due on November 15, 2020 and (2) the loans as of June 30, 2017 is approximately \$6,268,000 with the final payment due on May 1, 2019.

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9. Annual Requirements to Maturity

The annual requirements to amortize all bonds and loans outstanding as of June 30, 2017 are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Governmental Activities					
	City of San Jose General Obligation Bonds and HUD [1]		City of San Jose Financing Authority Bonds [1,2,3]		Special Assessment & Tax Bonds with Limited Governmental Commitment	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 19,899	\$ 16,966	\$ 31,875	\$ 27,136	\$ 5,305	\$ 8,204
2019	19,899	16,082	35,610	25,804	5,580	7,918
2020	19,899	15,176	36,180	24,311	5,885	7,613
2021	19,660	14,260	38,025	22,763	6,205	7,287
2022	19,660	13,333	39,795	21,251	6,550	6,936
2023 - 2027	98,290	52,531	145,710	86,069	24,370	29,848
2028 - 2032	98,255	28,526	112,945	60,925	22,205	23,752
2033 - 2037	61,485	7,827	124,900	34,320	25,850	16,180
2038 - 2042	6,100	243	62,355	5,698	34,120	6,932
Total	\$ 363,147	\$ 164,945	\$ 627,395	\$ 308,276	\$ 136,070	\$ 114,670

June 30,	Business-Type Activities			
	Airport Revenue Bonds [3]		Wastewater Treatment System Revenue Bonds and Loans	
	Principal	Interest	Principal	Interest
2018	\$ 41,900	\$ 61,866	\$ 9,498	\$ 847
2019	28,915	63,586	6,737	591
2020	31,040	62,218	5,175	352
2021	33,205	60,702	5,410	116
2022	34,975	59,035	-	-
2023 - 2027	136,885	272,934	-	-
2028 - 2032	206,225	230,893	-	-
2033 - 2037	243,305	164,589	-	-
2038 - 2042	262,500	93,368	-	-
2043 - 2047	210,595	32,616	-	-
Total	\$ 1,229,545	\$ 1,101,806	\$ 26,820	\$ 1,906

[1] Projected interest payments for variable rate debt are based on the following rates in effect on June 30, 2017:

- HUD Loan (1.40178%)

- Financing Authority Lease Revenue Bonds: Series 2008C (1.300%), Series 2008D (1.581%), Series 2008E (1.581%), and Series 2008F (1.6255%)

[2] Includes fixed spread/fee in addition to index rate in effect on June 30, 2017. Does not include projection of future spreads/fees or expenses.

[3] Does not include commercial paper notes.

For governmental and business-type activities, the specific year for payment of estimated liabilities for the Hayes Mansion construction loan, accrued vacation, sick leave and compensatory time, accrued landfill post closure costs, estimated liability for self-insurance, the net OPEB obligation and the pollution remediation obligation are not practicable to determine.

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10. Ambac Surety Bonds Held in Bond Reserve Funds

Ambac issued a reserve fund surety bond that is on deposit in the Airport General Account of the Bond Reserve Fund, securing the Series 2011A-1, Series 2011A-2, Series 2012A, Series 2014A/B/C, and Series 2017A/B Airport Revenue Bonds. See discussion in Note III.F.8.

Ambac also issued a reserve fund surety bond that is on deposit in the reserve fund established for the City of San José Financing Authority Revenue Bonds, Series 2001A (4th and San Fernando Parking Facility) (the "CSJFA Series 2001A Bonds"). According to the Indenture of Trust for the CSJFA Series 2001A Bonds, prior to the expiration of the surety bond, the Financing Authority is to (1) replace the surety bond with a new Qualified Reserve Account Credit Instrument (as defined in the Indenture of Trust) or (2) deposit or cause to be deposited with the trustee an amount of moneys equal to the Reserve Requirement (as defined in the Indenture of Trust), to be derived from Revenues (as defined in the Indenture of Trust). In the event that the Financing Authority fails to do either of the above, then the trustee is to draw on the surety bond before such expiration to provide moneys to fund the reserve in the amount of the Reserve Requirement.

Ambac also has issued reserve fund surety bonds securing the Agency's Senior Tax Allocation Bonds Series 1999, Series 2005B, and Series 2006D. For further information see Note IV.C.3.

On May 1, 2013, Ambac emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code. Starting in March 2010, certain of the policy liabilities of Ambac were allocated to a segregated account which has been subject to a plan of rehabilitation. Policy obligations not allocated to such segregated account, including the obligations in respect of the surety bonds provided by Ambac on deposit in the bond reserve funds described above, are not subject to, and therefore will not be impacted by such rehabilitation proceeding. No assurance can be made regarding the claims paying ability of Ambac on the surety bonds described above.

11. New Debt Issuances and Short-Term Debt Activities

Governmental Activities

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

The City's Commercial Paper ("CP") Program utilizes a lease revenue financing structure. Under this program, the Financing Authority is able to issue commercial paper notes ("CP Notes") at prevailing interest rates for periods of maturity not to exceed 270 days. The CP Notes are secured by a pledge of lease revenues from various City assets and additionally supported by two direct-pay letters of credit ("LOCs") provided by State Street Bank and Trust Company ("State Street") and U.S. Bank National Association ("U.S. Bank") (together, the "Banks"). Letter of Credit and Reimbursement Agreements by and among the Financing Authority, the City and each Bank expire on November 30, 2018 (the "Letter of Credit Expiration Date").

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

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The Financing Authority issues the CP Notes under State law pursuant to an Amended and Restated Trust Agreement between the Financing Authority and Wells Fargo Bank, National Association (as amended and supplemented, the "Trust Agreement") and an Amended and Restated Issuing and Paying Agent Agreement between the Financing Authority and Wells Fargo Bank, National Association. Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The City has leased to the Financing Authority various City-owned facilities pursuant to a Site Lease, as amended (the "Site Lease"). The Financing Authority subleased these same facilities back to the City pursuant to a Sublease, as amended (the "Sublease") in exchange for the rental payments, which support repayment of the CP Notes. The facilities subject to the Site and Sublease (pursuant to the Fifth Amendments to the Site Lease and to the Sublease, both dated as of November 1, 2015, 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 0.52% 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 0.62% 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) are payable at the Term Loan Rate from the date of such Term Loan Conversion Date, payable monthly in arrears on the first day of each calendar month and on the date on which the final installment of the principal of the Term Loan is payable. The principal amount of each Term Loan is amortized over such a three-year period; provided, however, that the unpaid amount of each Term Loan shall be paid by the City in each year only to the extent of the then fair rental value with respect to the Pledged Property subject to the Sublease for such Base Rental Period, and to the extent not so repaid, such Term Loan shall be paid by the City during each subsequent Base Rental Period, to the extent owed, to the extent of the then fair rental value with respect to the Components subject to the Sublease for each such Base Rental Period, and such Term Loan shall continue to be an obligation of the City pursuant to the Sublease to be paid on or before the expiration of the three-year amortization period. Per the terms of the Letter of Credit and Reimbursement Agreements, the Banks have the right to require that the rent payable for any of the Pledged Properties be redetermined in order to increase the amount of the rent payable. Additionally, each of the Letter of Credit and Reimbursement Agreements specifies other terms in order to promote prompt repayment to the Banks.

As of June 30, 2017, \$9,809,000 of tax-exempt commercial paper notes was outstanding at an interest rate of 0.90% and \$12,493,000 of taxable commercial paper notes was outstanding at an interest rate of 1.25%. The changes in commercial paper notes during the fiscal year ended June 30, 2017 are as follows (dollars in thousands):

July 1, 2016	Deletions	June 30, 2017
\$37,517	\$15,215	\$22,302

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2016 Tax and Revenue Anticipation Note

The City issued a short-term note (the “2016 Note”) to facilitate the prefunding of employer retirement contributions in fiscal 2017. The \$100,000,000 note was purchased by Bank of America, N.A. on July 1, 2016 at a variable interest rate. Security for repayment of the 2016 Note was a pledge of the City’s 2016-2017 secured property tax plus all other legally available General Fund revenues available to the City, if required. The City fully repaid the 2016 Note on April 9, 2017.

Business-Type Activities

Airport Revenue Refunding Bonds

On April 11, 2017, the City issued \$624,270,000 of City of San José, California Airport Revenue Refunding Bonds, Series 2017A (AMT) and Series 2017B (non-AMT) to (1) refund outstanding fixed-rate Airport Revenue Bonds Series 2007A (AMT) and Series 2007B (non-AMT) (2) make a deposit into the General Account of the Bond Reserve Fund and (3) pay costs of issuance. The Series 2017A and 2017B Bonds refunded all but one maturity of the Series 2007A and all of the outstanding Series 2007B (collectively, the “Refunded Bonds”). This transaction was a restructuring to eliminate the debt service “spike” that occurred from 2033-2037, creating level debt service from 2035-2037. Even with the restructuring, significant savings were achieved with \$83,232,000 in present value savings (12.17% of the refunded bonds). The City completed the refunding to reduce the total debt service payments over the next 30 years by \$27,524,000 (prior debt service of \$1,266,431,000 and the refunding debt service of \$1,238,907,000). The Series 2017A/B Bonds are limited obligations of the City payable solely from and secured by a pledge of General Airport Revenues generated by the Airport, certain funds and accounts held by the Trustee or made available under the Master Trust Agreement, after the payment of Maintenance and Operation Costs.

The Series 2017A Bonds were issued in a principal amount of \$473,595,000 with fixed coupon interest rates ranging from 4% to 5% and have a final maturity date of March 1, 2047. The Series 2017B Bonds were issued in a principal amount of \$150,675,000 and have fixed coupon rates between 2% and 5%, with a final maturity on March 1, 2047. The Series 2017A Bonds maturity in 2042 were issued with a bond insurance policy from Build America Mutual (the “Insured Bonds”). The bond insurance policy was purchased at a cost of 0.15% of the total principal and interest payments of the insured bonds through the optional redemption date in 2027, equal to \$83,000. If the Insured Bonds are not called for redemption in 2027, a premium of 0.05% of the principal and interest will be payable annually thereafter while the Insured Bonds are outstanding.

Airport Commercial Paper Notes Payable

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

In February 2014, the City entered into a letter of credit (“LOC”) and reimbursement agreement (the Reimbursement Agreement) with Barclays Bank PLC (“Barclays”). Pursuant to the Reimbursement Agreement, Barclays issued a \$65,000,000 LOC supporting the Subordinated Commercial Paper Notes, effective on February 11, 2014. On September 16, 2015, the City reduced the LOC stated amount from \$65,000,000 to approximately \$41,000,000. The LOC provided by Barclays has been extended to February 9, 2018, and can be extended or terminated earlier pursuant to its terms.

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

An event of default under the Reimbursement Agreement would entitle Barclays to demand that no additional Subordinated Commercial Paper Notes be issued, that the City reimburse Barclays immediately for draws under the LOC and that all other amounts owed by the City to Barclays be accelerated and become due immediately. Events of default under the Reimbursement Agreement include, among others: a default under the Master Trust Agreement or the issuing and paying agent agreement for the Subordinated Commercial Paper Notes; non-payment; a breach of a covenant; bankruptcy; and ratings events including a suspension or withdrawal of the long-term, unenhanced debt rating assigned to the Airport Revenue Bonds (other than where the Airport Revenue Bonds shall continue to be rated by any two of Moody's, Fitch, or S&P), or downgrades by any of Moody's, Fitch or S&P of its ratings on the Airport Revenue Bonds below "Baa2," "BBB" and "BBB," respectively for a period of 120 consecutive calendar days. All amounts payable by the City to Barclays under the Reimbursement Agreement are secured by a lien on the Surplus Revenues held in the Subordinated Debt Account of the Surplus Revenue Fund, including the earnings on such Surplus Revenues, which lien is subordinate to the lien of the Airport Revenue Bonds.

In connection with the LOC issued by Barclays, the City entered into a separate fee letter to specify the facility fee rate and other charges payable by the Airport. The facility fee rate under the fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the Reimbursement Agreement. The facility fee rate in effect is 0.425% as of June 30, 2017.

The change in Airport commercial paper notes payable during fiscal year 2017 was as follows (dollars in thousands):

<u>July 1, 2016</u>	<u>Deletions</u>	<u>June 30, 2017</u>	<u>Interest Rate</u>
\$34,672	\$9,211	\$25,461	0.92% - 1.45%

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 \$5,115,000 related to the closed landfills is recorded in the government-wide Statement of Net Position as of June 30, 2017. The City's Environmental Compliance Officer performs an annual evaluation of the aforementioned liability. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City does not own or operate any open landfills at this time.

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13. Estimated Liability for Self-Insurance

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees, unemployment claims, and employee health and dental insurance. During fiscal year 2016, 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, 2016 to October 1, 2017 is provided below:

<u>Coverages</u>	<u>Limit per Occurrence</u>	<u>Deductible Per Occurrence</u>
Property, including Business Interruption	\$1 billion	\$100,000
Flood Zone, Special Flood Hazard Area as defined by the Federal Emergency Management Agency (FEMA)	\$25 million per occurrence and annual aggregate	5% of values at risk (\$1 million minimum deductible)
Flood, Other Locations	\$100 million per occurrence and annual aggregate	\$100,000

For the policy period of October 1, 2016 to October 1, 2017, the City maintained an airport liability policy covering the Airport, including operation of vehicles on premises, 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 sublimit of \$100,000,000 each occurrence and in the annual aggregate for war liability. A separate automobile policy provided coverage for the off-premise operations of scheduled Airport vehicles including shuttle bus fleets with a limit of \$1,000,000 per occurrence, combined single limit for bodily injury and property damage, and no deductible. Physical damage coverage was available for the Airport Shuttle Bus Fleet and is subject to a \$10,000 comprehensive and \$25,000 collision deductible. As part of general support services, the City charges the Airport for the cost of liability and property insurance coverage. Settled claims have not exceeded the City's commercial insurance coverage in any of the past three years.

For the policy period of December 18, 2016 to October 1, 2017, the City purchased government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a \$5,000,000 per occurrence limit for losses resulting from employee theft, forgery or alteration and inside the premises- theft of money and securities, and provides for a \$1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders, and counterfeit money. All claims have a \$100,000 deductible per occurrence.

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

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With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2017. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated.

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

Liability as of June 30, 2015	\$	154,028
Claims and changes in estimates during 2016		15,271
Claims payments		<u>(19,865)</u>
Liability as of June 30, 2016		149,434
Claims and changes in estimates during 2017		23,898
Claims payments and other adjustments		<u>(21,564)</u>
Liability as of June 30, 2017	\$	<u><u>151,768</u></u>

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 Chartis, formerly American International Group ("AIG"), AIU Holdings, Inc. and AIU LLC ("AIU"). The OCIP is a single insurance program that 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.

The City was also required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of \$3,900,000 available in a cash working fund. The full amount of the claims loss reserve had been deposited with the insurance carrier and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. The claims loss reserve funds are available to Chartis 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. Since March 2010, Chartis has returned \$2,627,000 to the Airport. The balance of the North Concourse reserve fund as of June 30, 2017 is \$827,000.

The North Concourse Project has been completed and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project are in process. Chartis will continue to hold the remaining funds in the claims loss reserve fund 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.

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On March 15, 2007, the City obtained additional liability insurance through Chartis 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:

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

The liability under the TAIP OCIP is based upon an estimated payroll of \$92,500,000 for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of \$8,900,000. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8,900,000. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6,500,000 was deposited with Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. Since August 2013, as part of the annual loss reserve analysis by Chartis, a total amount of \$1,636,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2017 is \$1,966,000.

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

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.

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Coverages	RWF Capital Improvement Projects	
	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 payroll of construction valued at \$535,000,000 for the covered capital improvement projects to be enrolled over the next sixty-eight months and for work to be performed up to December 31, 2022.

14. Net Other Postemployment Benefits (OPEB) Obligation

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City did not have a net OPEB obligation at transition, July 1, 2007. The PFDRP and FCERS calculated a net OPEB obligation in accordance with GASB 45 as discussed in Note IV.A.4. At June 30, 2017, the City recorded net OPEB obligations totaling \$478,464,000 in the government-wide financial statements, of which \$436,180,000 is in governmental activities and \$42,284,000 is in business-type activities.

15. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including three active leaking petroleum storage tank sites: Fire Station #5, Las Plumas Warehouse, Family Shelter. 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, 2017, the government-wide statement of net position reported a net pollution remediation obligation in the amount of \$348,000 in governmental activities.

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

In connection with the City's NMTC financing transaction to construct the San José Environmental Innovation Center ("EIC"), the City has a long-term lease obligation for its possession and beneficial use of the EIC facility. This master lease agreement commenced on November 8, 2011 has a 35-year term with a one-time renewal option of 10 years. Rental payment made by the City for the use of the EIC facility for the year ended June 30, 2017 was \$428,000.

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The future minimum lease payments anticipated under the master lease agreement, as of June 30, 2017, are as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2018	\$ 438
2019	449
2020	461
2021	472
2022	484
2023 - 2027	2,609
2028 - 2032	2,955
2033 - 2037	3,345
2038 - 2042	3,785
2043 - 2047	3,835
Total	<u>\$ 18,832</u>

G. Interfund Transactions

The composition of interfund balances as of June 30, 2017, with explanations of transactions, is as follows (dollars in thousands):

1. Due from/Due to other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,823 (1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	1,872 (2)
		<u>\$ 3,695</u>

(1) \$1,389 represents accrual of gas tax transfers and \$434 represents accrual of construction and conveyance tax transfer.

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

2. Advances to/Advances from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	San José Financing Authority Debt Service	\$ 3,297 (1)
		<u>\$ 3,297</u>

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

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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 \$62,200,000 in fiscal year 2009-2010 ("2010 SERAF Obligation") and \$12,800,000 in fiscal year 2010-2011 ("2011 SERAF Obligation"). Payments were made by May 10 of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of \$74,816,000 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 (\$62,000,000) 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 (\$10,000,000) and \$12,000,000 from the Financing Authority's Commercial Paper Program. The source of the SERAF Loan to pay the 2011 SERAF Obligation was \$12,816,000 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 \$10,000,000 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 \$2,940,000 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 Commercial Paper Section below) 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 from the City's special funds in the amount of \$10,000,000 and also approved the repayment schedule for the source of funds used to pay the 2011 SERAF Obligation in the amount of \$12,816,000 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 \$52,000,000 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.

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As of June 30, 2017, this portion of the SERAF Loan has an outstanding principal and accumulated accrued interest balance of \$22,816,000 and \$4,502,000, respectively bears a simple interest rate of 3%.

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, 2017, total long-term receivables from SARA are as follows (dollars in thousands):

Description	
Advances receivable from SARA:	
SERAF Loan	\$ 27,318 (1)
Housing obligations funded by commercial paper proceeds	4,727 (2)
Other long-term receivables from SARA:	
Revenue bonds with pledge agreement	23,930 (3)
Lease revenue bonds with reimbursement agreement	78,680 (4)
Parking Fund Loans	14,335 (5)
Reimbursement advance	23,132 (6) *
Total long-term receivables from SARA	\$ 172,122

(1) The amount includes \$15,176,000 from Low and Moderate Income Housing Asset Fund and \$12,142,000 from the General Fund.

(2) The Financing Authority has a receivable from SARA, which assumed the obligation from the Low and Moderate Income Housing Asset Fund, related to the commercial paper proceeds used for housing activities in the amount of \$4,591,000 and accrued interest from the Financing Authority of \$136,000.

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

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

(5) The Parking Fund Loans were reinstated in FY16-17, see Note IV.C.4.

(6) The long-term receivables relate to advances to SARA under the Reimbursement Agreement are as follows: \$6,324,000 from the Parking System for the 2001A bond debt service payments and accrued interest; \$9,949,000 from the General Fund for the 2001F bond debt service payments and accrued interest; \$1,640,000 and \$5,219,000 from the General Fund for ERAF payments and administrative costs for SARA, respectively.

* The amount includes \$7,087,000 and \$173,000 from the General Fund and the Low and Moderate Income Housing Asset Fund, respectively, for administrative and support service costs. An allowance for collectability was recorded for both amounts.

4. 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 of \$790,000 due from the City as of June 30, 2017.

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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, 2017 with explanations of transactions (dollars in thousands):

Between governmental and business-type activities:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
Housing Activities	Parking System	\$ 31 (1)
San José Financing Authority Debt Service	Municipal Water System	1,200 (2)
Norman Y. Mineta San José International Airport	General Fund	34 (3)
Wastewater Treatment System	General Fund	109 (4)
	Nonmajor Governmental Funds	2,097 (5)
Municipal Water System	General Fund	561 (6)
	San José Financing Authority Debt Service	627 (7)
	Nonmajor Governmental Funds	139 (8)
Parking System	General Fund	848 (9)
	Nonmajor Governmental Funds	198 (10)
	Internal Service Funds	5 (11)
		<u>\$ 5,849</u>

- (1) Transfer for costs associated with availability of public usage facilities in San José downtown.
- (2) Transfer for Water Meter Project.
- (3) Transfer for payroll system upgrade costs.
- (4) Transfer for administrative costs.
- (5) Transfer for City Hall debt service payments.
- (6) Transfer for late fee collections from water utility customers.
- (7) Transfer for repayment for commercial paper.
- (8) Transfer for City Hall debt service payments.
- (9) Transfer of \$140 for coordination and development of the Diridon Station Area Plan, \$210 for San José Downtown Association, \$1 for payroll system upgrade and \$497 for SAP Meters.
- (10) Transfer of \$120 for City Hall debt service payments and \$78 for the Downtown Property and Business Improvement District payments.
- (11) Transfer for operating expenses.

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Between governmental activities:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	San José Financing Authority Debt Service	\$ 1,899 (1)
	Nonmajor Governmental Funds	28,084 (2)
	Internal Service Funds	1,002 (3)
Housing Activities	General Fund	1 (4)
	Nonmajor Governmental Funds	39 (5)
Low & Moderate Income Housing Asset Fund	General Fund	7 (6)
	Nonmajor Governmental Funds	460 (7)
Special Assessment Districts	General Fund	150 (8)
	San José Financing Authority Debt Service	3,743 (9)
San José Financing Authority Debt Service	General Fund	7,766 (10)
	Special Assessment Districts	16 (11)
Integrated Waste Management	General Fund	315 (12)
	Nonmajor Governmental Funds	778 (13)
Nonmajor Governmental Funds	General Fund	10,657 (14)
	Nonmajor Governmental Funds	16,461 (15)
	San José Financing Authority Debt Service	52,917 (16)
Internal Service Funds	General Fund	13 (17)
	Nonmajor Governmental Funds	170 (18)
		<u>\$ 124,478</u>

- (1) Transfer for debt service payment for the 2008F bond series
(2) Transfer of \$19,052 for City Hall debt service, \$9,032 for debt service payments, operations, and subsidies
(3) Transfer to fund vehicle and fleet replacement purchases
(4) Transfer for planning and administrative expenditures
(5) Transfer for production, improvement, or preservation of low- and moderate-income housing
(6) Transfer for planning and administrative expenditures
(7) Transfer for City Hall debt service payment
(8) Transfer for administrative expenses
(9) Transfer for interest, principal and fees for the Series 2011 Convention Center bonds payments
(10) Transfer for Energy Savings and Conservation Program
(11) Transfer for interest, principal, and fees for payments
(12) Transfer of \$300 for uncollected & unrestricted construction deposits and \$15 for payroll system upgrade
(13) Transfer for City Hall debt service payment
(14) Various transfer for operations, interest earnings, and capital projects
(15) Transfer of \$2,327 for City Hall debt service payments and \$14,134 for operations, capital projects, and project savings
(16) Transfer of \$9,284 for fees reimbursement and \$43,633 for debt service payments
(17) Transfer for City Hall debt service payment
(18) Transfer for interest, principal and fees for payments

H. Deferred Inflows of Resources

As of June 30, 2017, total deferred inflows of resources in the governmental funds related to the following unavailable resources (dollars in thousands):

General Fund SERAF loans receivable	\$ 12,142
Housing Activities loans receivable	20,452
Low and Moderate Income Housing Asset loans receivable	7,762
Special Assessments receivables	34,320
Community Development Block Grant (CDBG) loans receivable	1,984
Total deferred inflows of resources	<u>\$ 76,660</u>

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I. Governmental Fund Balances

As of June 30, 2017, total fund balances for the City's major and nonmajor governmental funds are as follows (dollars in thousands):

	General Fund	Housing Activities	Low & Moderate Income Housing Asset Fund	Special Assessment Districts	San José Financing Authority Debt Service	Integrated Waste Management	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:								
Advances & Deposits	\$ 170	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ 335	\$ 510
Subtotal	170	-	-	5	-	-	335	510
Restricted for:								
Affordable Housing	-	127,660	352,332	-	-	-	-	479,992
Animal Shelter Project	51	-	-	-	-	-	-	51
Capital Projects & Improvements	331	-	-	39,728	-	-	235,642	275,701
Employment/ Training Services	-	-	-	-	-	-	1,220	1,220
Drug Abuse Prevention & Control	-	-	-	-	-	-	4,095	4,095
Community Development Services	7	-	-	-	-	-	5,969	5,976
Crime Prevention & Control	301	-	-	-	-	-	-	301
Library Services & Facilities	-	-	-	-	-	-	11,078	11,078
Small Business Loans	-	-	-	-	-	-	7	7
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	-	73,259	73,259
Underground Utility Projects	-	-	-	-	-	-	7,345	7,345
Storm Drainage Projects	-	-	-	-	-	-	39,910	39,910
Supplemental Law Enforcement Services	-	-	-	-	-	-	22	22
Debt Service	-	-	-	-	28,490	-	33,402	61,892
Subtotal	690	127,660	352,332	39,728	28,490	-	411,949	960,849
Committed to:								
Building Development Fee Program	18,095	-	-	-	-	-	-	18,095
Capital Projects and Improvements	8,434	-	-	-	-	-	1,615	10,049
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	-	1,869	1,869
Development Enhancement	-	-	-	-	-	-	298	298
Convention Center, Auditorium, Theaters	-	-	-	-	-	-	15,579	15,579
Employee Compensation Planning	8,691	-	-	-	-	-	-	8,691
Fire Development Fee Program	8,222	-	-	-	-	-	-	8,222
Development Fee Program Technology	1,093	-	-	-	-	-	-	1,093
Residential Program Administration	-	-	-	-	-	-	2,074	2,074
Government Functions/Services	28,513	-	-	-	-	-	-	28,513
Public Safety	3,160	-	-	-	-	-	-	3,160
Community Development Services	8,157	-	-	-	-	-	8,455	16,612
Fee Supported Programs- Public Works	5,234	-	-	-	-	-	-	5,234
Salaries & Benefits	6,070	-	-	-	-	-	-	6,070
Sanitation Projects	357	-	-	-	-	29,429	-	29,786
Subtotal	96,026	-	-	-	-	29,429	29,890	155,345
Assigned to:								
Financing Authority Debt Service	3,297	-	-	-	-	-	-	3,297
SARA Debt Service	28,715	-	-	-	-	-	-	28,715
Development Enhancement	-	-	-	-	-	-	20	20
Community & Culture Projects	-	-	-	-	-	-	3,760	3,760
Hayes Mansion Operations	-	-	-	-	-	-	10,655	10,655
Loans to Other Agencies	1,582	-	-	-	-	-	-	1,582
Capital Projects & Improvements	-	-	-	-	-	-	68,149	68,149
Government Functions/Services	102,499	-	-	-	-	-	-	102,499
Subtotal	136,093	-	-	-	-	-	82,584	218,677
Unassigned								
	79,853	-	-	-	-	-	-	79,853
Total Fund Balance	\$ 312,832	\$ 127,660	\$ 352,332	\$ 39,733	\$ 28,490	\$ 29,429	\$ 524,758	\$ 1,415,234

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

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

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

The section of Council Policy 1-18 addressing contingency funds was amended in June 2013.

The **General Fund Contingency Reserve Fund** was created to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. The policy established a minimum of three percent of the General Fund operating budget as the reserve balance. Any use of the General Fund Contingency Reserve shall require a two-third vote of approval by the City Council. As of June 30, 2017, the contingency amount accounts for \$36,000,000 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 the 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, 2017, the budget stabilization reserve accounts for \$16,300,000 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, 2017, 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, 2017, 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, 2017, the emergency reserve amount accounts for \$1,616,000 of the unassigned fund balance.

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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, 1737 North First Street, Suite 600, San José, California 95112.

Benefits

The Defined Benefit Pension Plans provide general retirement benefits including pension, death, and disability benefits to members. Benefits are based on average final compensation, years of service, and cost-of-living increases as specified by the City's Municipal Code.

The contribution and benefit provisions and all other requirements are established by the City Charter and the City's Municipal Code. Amendments or changes to contribution requirement and benefits terms are approved by the City Council.

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

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with the City's eleven (11) bargaining units. The status of the legal challenges to Measure B and settlement of these legal challenges is discussed in Note IV.B.8.

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 Jose Police Officers' Association (SJPOA) and the San Jose 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; 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.

In Fiscal Year 2016-2017, prior to June 18, 2017, FCERS had Tier 1, Tier 2, Tier 2B, and Tier 2C. Tier 2, Tier 2B and Tier 2C have the same reduced pension benefits as compared to Tier 1. Tier 2 has the same retiree healthcare (medical and dental) benefits as Tier 1. Tier 2B does not have retiree healthcare benefits; however, the City was responsible for the contributions that both the City and the Tier 2B members would have otherwise paid for retiree healthcare had those employees been eligible. Tier 2C has retiree dental benefits but no retiree medical benefits. Prior to June 18, 2017, the PFDRP had Tier 1 and Tier 2 for both police and fire members with reduced pension benefits for the Tier 2 police and fire members as compared to the Tier 1 members, and the same retiree healthcare (medical and dental benefits) as Tier 1.

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 is the first pay period of Fiscal Year 2017-2018. As implementation issues arise, minor modifications to the provisions of PFDRP and FCERS in the Municipal Code have been made to address these issues.

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

Tier	Hire Date	Pension	Retiree Healthcare	
			Defined Benefit Retiree Healthcare (Medical/Dental)	VEBA ⁽²⁾
Tier 1	<ul style="list-style-type: none"> ▪ On or before September 29, 2012 ▪ Former Tier 1 who did not take a return of contributions 	Tier 1	Medical/Dental	Opt-In ⁽³⁾
Tier 1A	<ul style="list-style-type: none"> ▪ Former Tier 1 rehired on or after September 30, 2012, through September 27, 2013⁽¹⁾ ▪ Former Tier 1 rehired after September 28, 2013, but before June 18, 2017 with 15+ years of City service⁽¹⁾ 	Tier 1	Medical/Dental	Opt-In ⁽³⁾
Tier 1B	<ul style="list-style-type: none"> ▪ Former Tier 1 rehired after September 27, 2013, but before June 18, 2017 with less than 5 years of City service⁽¹⁾ 	Tier 1	Not eligible	Opt-In ⁽³⁾
Tier 1 Classic	<ul style="list-style-type: none"> ▪ "Classic" membership with CalPERS/reciprocal agency hired on or after June 18, 2017 	Tier 1	Not eligible	Mandatory ⁽⁴⁾⁽⁵⁾
Tier 1C	<ul style="list-style-type: none"> ▪ Former Tier 1 rehired before June 18, 2017 having between 5 and 15 years of City service⁽¹⁾ 	Tier 1	Dental only	Opt-In ⁽³⁾
Tier 2 (or Tier 2A)	<ul style="list-style-type: none"> ▪ Hired on or after September 30, 2012, through September 26, 2013 	Tier 2	Medical/Dental	Opt-In ⁽³⁾⁽⁵⁾
Tier 2B	<ul style="list-style-type: none"> ▪ Hired on and after September 27, 2013 and have not met City's eligibility for retiree healthcare 	Tier 2	Not eligible	Mandatory ⁽⁴⁾⁽⁵⁾
Notes	<p>⁽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.</p> <p>⁽²⁾ The City is in the process of implementing a defined contribution <u>Voluntary Employees' Beneficiary Association (VEBA)</u> for retiree healthcare, subject to approval by the IRS. Unrepresented employees may be eligible to opt in to the VEBA but will not be eligible to make ongoing contributions to the VEBA.</p> <p>⁽³⁾ Employees in these Tiers will be provided a one-time irrevocable election to remain in the defined benefit retiree healthcare (medical and dental) plan or opt in to the defined contribution VEBA.</p> <p>⁽⁴⁾ Employees in these Tiers will be mandatorily placed into the VEBA once it is implemented.</p> <p>⁽⁵⁾ There may be current Tier 2 employees who have "Classic" membership with CalPERS and these employees may be moved to Tier 1 subject to the identification of these employees and confirmation of "Classic" membership with CalPERS or another reciprocal agency. In addition, these employees may be eligible for the one-time irrevocable election to remain in the defined benefit retiree healthcare (medical and dental) plan or opt in to the defined contribution VEBA depending on whether they were Tier 2(2A) or Tier 2B.</p>			

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

Tier	Hire Date	Pension	Retiree Healthcare	
			Defined Benefit Retiree Healthcare (Medical/Dental)	VEBA ⁽²⁾
Police Tier 1	<ul style="list-style-type: none"> ▪ Before August 4, 2013, or rehired former Tier 1 who did not take a return of contributions⁽¹⁾ ▪ "Classic" membership with CalPERS/reciprocal agency hired on or after June 18, 2017⁽¹⁾ 	Tier 1	Medical/Dental	Opt-In ⁽³⁾
Police Tier 1 Rehire	<ul style="list-style-type: none"> ▪ Rehired former Tier 1 who did not take a return of contribution rehired or reinstated on or after August 4, 2013 and June 18, 2017⁽¹⁾ 	Tier 1	Medical/Dental	Opt-In
Police Tier 1 Classic	<ul style="list-style-type: none"> ▪ "Classic" membership with CalPERS/reciprocal agency hired between August 4, 2013 and June 18, 2017^{(1) (4)} 	Tier 1	Medical/Dental	Mandatory ⁽⁴⁾
Fire Tier 1	<ul style="list-style-type: none"> ▪ Before January 2, 2015 or ▪ Former Tier 1 who did not take a return of contributions⁽¹⁾ ▪ "Classic" membership with CalPERS/reciprocal agency hired on or after June 18, 2017⁽¹⁾ 	Tier 1	Medical/Dental	Opt-In
Fire Tier 1 Rehire	<ul style="list-style-type: none"> ▪ Rehired former Tier 1 who did not take a return of contribution rehired or reinstated on or after August 4, 2013 and June 18, 2017⁽¹⁾ 	Tier 1	Medical/Dental	Opt-In
Fire Tier 1 Classic	<ul style="list-style-type: none"> ▪ "Classic" membership with CalPERS/reciprocal agency hired between January 2, 2015 and June 18, 2017⁽¹⁾ 	Tier 1	Medical/Dental	Mandatory ⁽⁴⁾
Police Tier 2	<ul style="list-style-type: none"> ▪ On or after August 4, 2013 	Tier 2	Medical/Dental	Mandatory ⁽⁴⁾
Fire Tier 2	<ul style="list-style-type: none"> ▪ On or after January 2, 2015 	Tier 2	Medical/Dental	Mandatory ⁽⁴⁾
Notes	<p>⁽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.</p> <p>⁽²⁾ The City is in the process of implementing a defined contribution <u>Voluntary Employees' Beneficiary Association (VEBA)</u> for retiree healthcare, subject to approval by the IRS. Unrepresented employees may be eligible to opt in to the VEBA but will not be eligible to make ongoing contributions to the VEBA.</p> <p>⁽³⁾ Employees in these Tiers will be provided a one-time irrevocable election to remain in the defined benefit retiree healthcare (medical and dental) plan or opt in to the defined contribution VEBA.</p> <p>⁽⁴⁾ Employees in these Tiers will be mandatorily placed into the VEBA once it is implemented.</p>			

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

	PFDRP	
	Police Tier 1	Police Tier 2
<i>Pension</i>		
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)	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	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	N/A
Deferred Vested	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.)	At least 5 years of service with the City in the Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction fact of 7.0% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Allowance	First 20 years of service: 50% of final compensation (2.5% per year) Next 21-30 years service: 4% per year of service X final compensation (90% max) Years of service (year of service = 2080 hours worked)	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 Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.
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 annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose- 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.
Final Compensation	Highest one- year average	Highest three- year average

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		PFDRP
		Fire Tier 2
		Fire Tier 1
<i>Pension</i>		
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)	5 years of service with the City in the Plan (Year of Service = 2080 hours worked in the applicable 12- month period)
Service Retirement		
Age/Years of Service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	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	N/A
Deferred Vested	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	At least 5 years of service with the City in the Plan. (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Allowance	First 20 years of service: 50% of final compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X final compensation (90% max) – All years convert to 3% after 20 years of service. Years of service (year of service = 2080 hours worked)	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 Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.	As of September 30, 1994, the City of San Jose adopted a reciprocal agreement with CALPERS. This may result in improved benefits for members who transfer between CALPERS and this retirement plan.
Cost of Living Adjustments		
Cost of Living Adjustments	Retirees are eligible for a 3% annual cost of living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of- living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose- 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.
Final Compensation	Highest one- year average	Highest three- year average

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	Police Tier 1	Police Tier 2
Disability Retirement (Service Connected)		
Minimum Service	None	None
Allowance	<20 years of service: 50% of final compensation Next 21-30 years of service: 4% per year of service X final compensation (90% max)	An individual who is granted a service connected disability retirement is entitled to a monthly allowance equal to the greater of: 50% of Final compensation A service retirement allowance, if he or she qualified for such or An actuarially reduced factor, as determined by the plan's actuary, for each quarter year that his or her service age is less than 50 years, multiplied by number of years of service subject to the applicable formula, if not qualified for a service retirement.
Disability Retirement (Non- Service Connected)		
Minimum Service	2 years of service	5 years of service
Allowance	<20 years of service: 32% of final compensation plus 1% for each full year in excess of 2. (50% max) >20 years of service: 2.5% x first 20 years of service x final compensation Next 21-30 years of service: 4% per year of service X final compensation (90% max)	An individual who is granted a non service connected disability retirement is entitled to a monthly allowance equal to the greater of: If less than age 50: 1.8% per year of service or if older than age 50: The amount of service pension benefit as calculated based upon the service pension formula.

	Fire Tier 1	Fire Tier 2
Disability Retirement (Service Connected)		
Minimum Service	None	None
Allowance	<20 years service: 50% of final compensation Beginning of 21st year of service: 3% per year of service X final compensation (90% max)	An individual who is granted a service connected disability retirement is entitled to monthly allowance equal to the greater of : 50% of final compensation A service retirement allowance, if he or she qualified for such or An actuarially reduced factor, as determined by the plan's actuary, for each quarter year that his or her service age is less than 50 years, multiplied by the number of years of service subject to the applicable formula, if not qualified for a service retirement
Disability Retirement (Non- Service Connected)		
Minimum Service	2 years of service	5 years of service
Allowance	<20 years of service: 32% of final compensation plus 1% for each full year in excess of 2 (50% max) Beginning of 21st year of service: 3% per year of service X final compensation (90% max)	An individual who is granted a non service connected disability retirement is entitled to a monthly allowance equal to the greater of: If less than age 50: 1.8% per year of service or If older than age 50: the amount of service pension benefit as calculated based upon the service pension formula

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

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

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Police Tier 2

Death Before Retirement

Nonservice- Connected Death - Not Eligible for Retirement and less than two 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

Nonservice- Connected Death - Not Eligible for Retirement and two or more years of service To surviving spouse/domestic partner:
24.0% of final compensation + 0.75% of final compensation for each year in excess of 2 compensation (37.5% maximum)

There is an 80.0% cap on final compensation that can be paid to survivors.

and to surviving children:

If 1 Child: Final compensation x 25.0%

If 2 Children : Final compensation x 37.5%

If 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

Death before retirement, but while eligible for service retirement - Non-service connected death 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:

If 1 Child: Final compensation x 25.0%

If 2 Children: Final Compensation x 37.5%

If 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 To surviving spouse/domestic partner:
37.5% to 42.5% of member's final Compensation depending on years of service

There is an 80.0% cap on final compensation that can be paid to survivors

and the children:

If 1 Child: Final compensation x 25.0%

If 2 Children: Final Compensation x 50.0%

If 3 or more Children: Final compensation x 75.0%

If no surviving spouse/domestic partner nor surviving children, to the estate: Return contributions, plus interest, or \$1,000 whichever is greater

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Police Tier 2

Death After Retirement

Service Retirees To surviving spouse/domestic partner:
Survivorship allowance equal to 50.0% joint and survivor annuity as determined by the plan's actuaries.

Optional Settlements

Optional Settlements Retiree may choose an optional settlement at retirement that reduces their allowance to provide a higher survivorship allowance to their spouse/domestic partner.

Post-Retirement Marriage

Post-Retirement Marriage If a retiree marries after retirement, the retiree can elect to take a reduction on his pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Fire Tier 1

Death Before Retirement

Service- Connected Death To surviving spouse/domestic partner 37.5% to 45.0% of member's final compensation depending on years of service regardless of years of service

and to surviving children:
1 Child: Final compensation x 25.0%
2 Children: Final compensation x 50.0%
3 Children: Final compensation x 75.0%
If no surviving spouse/domestic partner nor surviving children:
Return of contributions, plus interest, to estate or \$1,000 whichever is greater

Nonservice- Connected Death Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or \$1,000, whichever is greater with less than 2 years of service

Nonservice- Connected Death To surviving spouse/domestic partner: 24.0% + 0.75% for each year in excess of 2 years x final compensation (45.0% maximum) with more than 2 years of service, but not eligible for a service retirement

and to surviving children:
1 Child: Final compensation x 25.0%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50.0%
If no surviving spouse/domestic partner nor surviving children:
Return of contributions, plus interest, to estate or \$1,000 whichever is greater

Death before retirement, but while eligible for service retirement nonservice-connected death To surviving spouse/domestic partner 37.5% to 45.0% of member's final compensation depending on years of service

For example:
Member's benefit = 81.0% Survivorship benefit = 40.5% of final compensation
Member's benefit = 84.0% Survivorship benefit = 42.0% of final compensation
Member's benefit = 87.0% Survivorship benefit = 43.5% of final compensation
Member's benefit = 90.0% Survivorship benefit = 45.0% of final compensation

and to surviving children:
1 Child: Final compensation x 25.0%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50.0%
If no surviving spouse/domestic partner nor surviving children:
Return of contributions, plus interest, to estate or \$1,000 whichever is greater

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Fire Tier 1

Death After Retirement

Service Retirees Service-
Connected Death To surviving spouse/domestic partner:
37.5% to 45.0% of member's final compensation depending on years of service

and to surviving children:

1 Child: Final compensation x 25.0%

2 Children: Final compensation x 37.5%

3 Children: Final compensation x 50.0%

If no surviving spouse/domestic partner nor surviving children:

\$1,000 death benefit to estate

Nonservice- Connected
Death To surviving spouse/domestic partner:
Final compensation x 24.0% + 0.75% for each year in excess of 2 years (37.5% maximum)

and to surviving children:

1 Child: Final compensation x 25.0%

2 Children: Final compensation x 37.5%

3 Children: Final compensation x 50.0%

If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate

Optional Settlements

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.

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Fire Tier 2

Death Before Retirement

Service Connected Death To surviving spouse/domestic partner:
regardless of years of service 37.5% to 45.0% of member's final compensation depending on the years of service

and to surviving children:

If 1 Child: Final compensation x 25.0%

If 2 Children: Final compensation x 50.0%

If 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.

Nonservice- Connected Death
Not Eligible for Retirement and
less than two 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

Nonservice- Connected Death
Not Eligible for Retirement and
two or more years of service

To surviving spouse/domestic partner:
24.0% + 0.75% for each year in excess of 2 years x final compensation

and the surviving children:

If 1 Child: Final compensation x 25.0%

If 2 Children: Final compensation x 37.5%

If 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

Nonservice- Connected Death
Eligible for 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:

If 1 Child: Final compensation x 25.0%

If 2 Children: Final compensation x 37.5%

If 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 PFDRP'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 PFDRP'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.

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		FCERS				
		Tier 1 & 1A	Tier 1B	Tier 1C⁽²⁾	Tier 2⁽³⁾	Tier 2B⁽¹⁾
<i>Pension</i>						
Service Required to Leave	5 years				5 years Federated City Service	
Contributions in System					Years of 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 5.0% per year for each year between age fifty five (55) and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
Deferred Vested	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 5.0% per year for each year between age fifty five and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
Allowance	2.5% x Years of Service x Final Compensation (75.0% max) If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months				2.0% x Years of Federated City Service x Final Compensation (70.0% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service Excludes premium pay or any other forms of additional compensation	
Final Compensation	Highest one- year average				Highest three- year average	
Disability Retirement (Service Connected)						
Minimum Service	None				None	
Allowance	40.0% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75.0% of Final Compensation)				2.0% x Years of Federated City Service x Final Compensation. (Minimum of 40.0% and maximum of 70.0% of Final Compensation)	

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		FCERS				
		Tier 1 & 1A	Tier 1B	Tier 1C ⁽²⁾	Tier 2 ⁽³⁾	Tier 2B ⁽¹⁾
Disability Retirement (Non- Service Connected)						
Minimum Service	5 years					5 Years Federated City Service
Allowance	40.0% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75.0% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55.					2.0% x Years of Federated City Service x Final Compensation. (Minimum of 20.0% and maximum of 70.0% of Final Compensation)
	For those entering the System 9/1/98 or later, the calculation is as follows: 20.0% of Final Compensation for up to 6 years of service. Add 2.0% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service. (Maximum 75.0% 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. Please call the Retirement Department or CalPERS for more information.

Cost of Living Adjustments

Cost of Living Adjustments	Retirees are eligible for a 3.0% annual cost of living adjustment (COLA). Regular COLA's 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 Jose- 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:
		<ul style="list-style-type: none"> 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⁾ Employees hired on and after September 27, 2013. Members who have not met the City's eligibility for either retiree healthcare prior to September 27, 2013, will NOT be eligible for retiree healthcare benefits. Spouses, domestic partners and dependents will also be ineligible for retiree healthcare benefits. Employees in this Tier will be mandatorily placed into the VEBA once it is implemented.
- ⁽²⁾ Employees rehired before June 18, 2017 having between 5 and 15 years of City service. Employees in this Tier will be provided a one-time irrevocable election to remain in the defined benefit retiree healthcare (medical and dental) plan or opt-in to the defined contribution VEBA. At age 65, members of the FCERS who remain in the defined benefit plan will be required to enroll in Medicare Parts A & B. If a member does not meet this requirement within 6 months of the date member turns 65, health care benefits will cease until such requirements are met.
- ⁽³⁾ Employees hired on or after September 30, 2012, through September 26, 2013. Employees in this Tier will be provided a one-time irrevocable election to remain in the defined benefit retiree healthcare (medical and dental) plan or opt-in to the defined contribution VEBA. At age 65, members of the FCERS who remain in the defined benefit retiree healthcare plan will be required to enroll in Medicare Parts A & B. If a member does not meet this requirement within 6 months of the date member turns 65, health care benefits will cease until such requirements are met.

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

Federated Tier 1, 1A, 1B, and 1C

Death Before Retirement

Nonservice- 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	<p>To surviving spouse/domestic partner: Years of Service x 2.5% x Final Compensation (40.0% minimum, 75.0% maximum, except that "deferred vested" members not eligible for 40.0% minimum)</p> <p>If no surviving spouse/domestic partner, to surviving children: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50.0% of the salary earned in year prior to death.)</p>

Death After Retirement

Standard allowance to surviving spouse/domestic partner or children (Minimum 5 years of service)	<p>To surviving spouse/domestic partner: 50.0% of Retiree's Allowance</p> <p>If no surviving spouse/domestic partner, to surviving children: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance</p> <p>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.</p>
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. For members who were at least 55 and had at least 20 years of service at the time of death, or 30 years of service regardless of age, the survivorship allowance to surviving spouse/domestic partner lasts until death.

Note: 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.

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Federated Tier 2 and 2B

Death Before Retirement

Nonservice- Connected Death Not Eligible for Retirement	Return of employee contributions, plus interest.
Eligible for Retirement	<p>To surviving spouse/domestic partner: $2.0\% \times \text{Years of Federated Service} \times \text{Final Compensation}$ (70.0% max)</p> <p>If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: $\frac{1}{12}$ of compensation in year prior to death \times years of service (benefit may not exceed 50.0% of the salary earned in year prior to death.)</p> <p>Employees killed in the line of duty – To surviving spouse/domestic partner: Monthly benefit equivalent to 50.0% of Final Compensation.</p>

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)	<p>To surviving spouse/domestic partner: 50.0% of Retiree's Allowance</p> <p>If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25.0% of spousal/domestic partnership allowance 2 Children: 50.0% of spousal/domestic partnership allowance 3 Children: 75.0% of spousal/domestic partnership allowance</p> <p>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.</p>
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 65 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.

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Employees Covered - The current membership in the Defined Benefit Pension Plans as of June 30, 2017, is as follows:

FCERS	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 2B</u>	<u>Tier 2C</u>	<u>Totals</u>
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits ⁽¹⁾	4,114	-	1	-	4,115
Terminated vested members not yet receiving benefits	1,037	65	250	-	1,352
Active members	1,991	164	1,255	-	3,410
Total	<u>7,142</u>	<u>229</u>	<u>1,506</u>	<u>-</u>	<u>8,877</u>
	<u>Police</u>		<u>Fire</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>Totals</u>
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits ⁽¹⁾	1,336	-	856	-	2,192
Terminated vested members not yet receiving benefits	239	49	39	6	333
Active members	747	150	586	61	1,544
Total	<u>2,322</u>	<u>199</u>	<u>1,481</u>	<u>67</u>	<u>4,069</u>

⁽¹⁾ The number of combined domestic relation order recipients is not included in the count above as their benefit payment is included in the retiree member count.

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. Prior to GASB Statement No. 68, the contributions to the Defined Benefit Pension Plans were known as the annual required contribution ("ARC").

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 the discount rate to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the Tier 1 members to be paid by the City at the beginning of the fiscal year ended June 30, 2017.

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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 unfunded actuarial accrued liability (UAAL). 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 UAAL is generally not shared with the Tier 1 employees.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the fiscal year ended June 30, 2017 were based on the actuarial valuations performed as of June 30, 2015, except for the period of June 18 through June 30, 2017, which were based on the June 30, 2016 valuation. Both valuations were performed before the implementation of the Measure F and the Frameworks. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2017 are as follows (dollars in thousands):

Defined Benefit Pension Plan	PFDRP							
	City ⁽¹⁾				Participants			
	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Actuarial Rate:								
06/18/17-06/30/17	95.31%	15.17%	96.06%	16.26%	10.88%	15.17%	11.38%	16.26%
07/01/16-06/17/17	80.40%	10.97%	81.61%	10.61%	10.59%	10.97%	11.07%	10.61%

Defined Benefit Pension Plan	FCERS			
	City ⁽¹⁾		Participants	
	Tier 1 ⁽¹⁾	Tier 2	Tier 1	Tier 2
Actuarial Rate:				
06/18/17-06/30/17	94.04%	7.72%	6.60%	7.72%
07/01/16-06/17/17	78.06%	6.04%	6.47%	6.04%

(1) For Tier 1 members, the actual contribution rates paid by the City for PFDRP and FCERS for fiscal year ended June 30, 2017 differed due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

Defined Benefit Pension Plan	Annual Pension Contribution		
	City	Participants	Total
PFDRP	\$ 136,957	\$ 20,580	\$ 157,537
FCERS	\$ 138,483	\$ 17,227	\$ 155,710

In fiscal year 2010-2011, the Retirement Systems' Boards approved the establishment of a "floor funding method", commencing with fiscal year 2011-2012, 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.

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In January and February 2016, the Retirement Systems' Boards approved a "split unfunded actuarially accrued liability (UAAL)/normal cost" methodology to calculate the payment of actuarially determined contribution ("ADC") for FCERS and PFDRP Tier 1 pension benefits. This methodology includes the UAAL portion of the City's contribution to be a dollar amount as recommended by the Retirement Systems' actuary in the applicable annual valuation report and approved by the Boards (adjusted for interest based on time of contribution) and the Normal Cost (including administrative expense) portion to be the greater of: the dollar amount recommended by the Retirement Systems' actuary in the applicable annual valuation report and approved by the Boards (adjusted for time of contribution); or, the Normal Cost contribution rates from the applicable actuarial valuation multiplied by the actual payroll during the given fiscal year. The resolutions of the Boards setting the pension contribution rates for the fiscal year ended June 30, 2017 provide that the employer's contribution rates are calculated as described above.

The "split UAAL/normal cost methodology" does not apply to Tier 2 members of PFDRP and FCERS.

The City's ADC for PFDRP determined in the June 30, 2015 valuation for the fiscal year ended June 30, 2017 was the greater of \$132,202,000 (if paid at the beginning of the fiscal year) or 80.40% for Police Tier 1 members and 81.61% for Fire Tier 1 of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$171,199,000 was greater than the actuarial payroll of \$167,327,000, (\$94,977,000 for Police Tier 1 and \$72,350,000 for Fire Tier 1), resulting in an annual contribution of \$135,088,000, for the fiscal year ending June 30, 2017, including current and prior year contribution accruals and the additional amount based on the split UAAL/normal cost methodology.

On May 5, 2016, the PFDRP Board approved a funding policy for Police Tier 2 and Fire Tier 2 setting the Police Tier 2 annual determined contribution (ADC) to be 10.97% of actual payroll and Fire Tier 2 annual determined contribution to be 10.61% of actual payroll for the fiscal year ended June 30, 2017. The actual payroll for Police Tier 2 for the fiscal year of \$11,873,000 resulted in an annual contribution of \$1,326,000, including year end accruals, contributions receivable and other adjustments. The actual payroll for Fire Tier 2 for the fiscal year of \$5,014,000 resulted in an annual contribution of \$543,000, including year end accruals, contributions receivable and prior year contribution adjustments.

The City's ADC for FCERS Tier 1 determined in the June 30, 2015 valuation for fiscal year ended June 30, 2017 was the greater of \$130,175,000 (if paid at the beginning of the fiscal year) or 78.06% of actual Tier 1 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$177,171,000 was greater than the actuarial payroll of \$170,792,000, resulting in an additional contribution of \$2,573,000 as of June 30, 2016, which includes current and prior year contribution accruals as well as the additional amount based on the split UAAL/normal cost methodology.

The FCERS Board approved ADC for FCERS Tiers 2 for fiscal year ending June 30, 2017 was 6.04% of actual payroll, as determined in the June 30, 2015 valuation. The actual payroll for Tier 2 for the fiscal year ended June 30, 2017 was \$93,890,000, resulting in a contribution of \$5,671,000, excluding year end contributions receivable and prior year contribution adjustments. Actual employer contributions for the fiscal year ended June 30, 2017 were \$5,735,000.

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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, 2016. The City's net pension liability as of June 30, 2017 of each of the Defined Pension Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 and rolled forward to June 30, 2016 using standard update procedures by the actuary for the respective plans. In summary, the City's net pension liability at June 30, 2017 is as follows (dollars in thousands):

PFDRP	\$	1,176,447
FCERS		1,833,268
CalPERS		1,262
Total net pension liability	<u>\$</u>	<u>3,010,977</u>

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, 2016, were as follows¹ (dollars in thousands):

	Increase (Decrease)		
	Total	Plan	Net Pension
	Pension Liability (a)	Fiduciary Net Position (b)	Liability (a-b)
PFDRP			
Balance at 6/30/2015	\$ 3,976,512	\$ 3,110,065	\$ 866,447
Changes for the Year:			
Service costs	74,531	-	74,531
Interest	274,488	-	274,488
Contributions-employer	-	132,480	(132,480)
Contributions-employees	-	21,508	(21,508)
Expected return on assets	-	216,424	(216,424)
Difference between expected and actual experience	(8,673)	-	(8,673)
Net difference between projected and actual investment earnings	-	(245,631)	245,631
Changes of assumptions	90,179	-	90,179
Benefit payments, including refunds of member contributions	(186,939)	(186,939)	-
Administrative expenses	-	(4,256)	4,256
Net changes	<u>243,586</u>	<u>(66,414)</u>	<u>310,000</u>
Balance at 6/30/2016	<u>\$ 4,220,098</u>	<u>\$ 3,043,651</u>	<u>\$ 1,176,447</u>

¹ The schedules of changes in the net pension liability as of June 30, 2017 are presented in the Required Supplementary Information.

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	Increase (Decrease)		
	Total	Plan	Net Pension
	Pension	Fiduciary Net	
Liability	Position	Liability	
FCERS	(a)	(b)	(a-b)
Balance at 6/30/2015	\$ 3,341,250	\$ 1,930,507	\$ 1,410,743
Changes for the Year:			
Service costs	49,011	-	49,011
Interest	229,610	-	229,610
Contributions-employer	-	124,723	(124,723)
Contributions-employees	-	15,920	(15,920)
Expected return on assets	-	133,876	(133,876)
Difference between expected and actual experience	39,720	-	39,720
Net difference between projected and actual investment earnings	-	(168,887)	168,887
Changes of assumptions	205,875	-	205,875
Benefit payments, including refunds of member contributions	(173,318)	(173,318)	-
Administrative expenses	-	(3,941)	3,941
Net changes	350,898	(71,627)	422,525
Balance at 6/30/2016	<u>\$ 3,692,148</u>	<u>\$ 1,858,880</u>	<u>\$ 1,833,268</u>

Sensitivity of the Net Pension Liabilities to Changes in Discount Rates - The discount rates used to measure the total pension liabilities were 7.00%, for both the PFDRP and FCERS plans for the valuations dated June 30, 2015. It is assumed that PFDRP and FCERS members' contributions and City's contributions will be made based on the actuarially determined rates based on the funding policy of each board. Based on those assumptions, the PFDRP's and FCERS's fiduciary net positions are expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities.

The following presents the net pension liabilities, calculated using the discount rates of 7.00% 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 (6.00%) or one percentage point higher (8.00%) than the rates used, for the PFDRP and FCERS plans, respectively (dollars in thousands):

	1% Decrease (6.00%)	Measurement Date Rate (7.00%)	1% Increase (8.00%)
PFDRP - Sensitivity Analysis			
Total pension liability	\$ 4,848,735	\$ 4,220,098	\$ 3,713,368
PFDRP fiduciary net position	3,043,651	3,043,651	3,043,651
Net pension liability	<u>\$ 1,805,084</u>	<u>\$ 1,176,447</u>	<u>\$ 669,717</u>

PFDRP fiduciary net position as a percentage of the total pension liability	62.8%	72.1%	82.0%
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FCERS - Sensitivity Analysis	1% Decrease (6.00%)	Measurement Date Rate (7.00%)	1% Increase (8.00%)
Total pension liability	\$ 4,212,657	\$ 3,692,148	\$ 3,268,777
FCERS fiduciary net position	1,858,880	1,858,880	1,858,880
Net pension liability	<u>\$ 2,353,777</u>	<u>\$ 1,833,268</u>	<u>\$ 1,409,897</u>

FCERS fiduciary net position as a percentage of the total pension liability

	44.1%	50.3%	56.9%
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For their respective actuarial valuations as of June 30, 2016, both FCERS and PFDRP utilized a discount rate of 6.875%. For more details on the current discount rate, please refer to the separately issued annual reports of FCERS and PFDRP.

Pension Plans Fiduciary Net Position – Detailed information about the pension plans’ fiduciary net position is available in the separately issued FCERS and PFDRP annual reports.

Pension Expense – For the year ended June 30, 2017, the City recognized pension expenses as follows (dollars in thousands):

	FCERS	PFDRP	Total
Service costs	\$ 49,011	\$ 74,531	\$ 123,542
Interest	229,610	274,488	504,098
Difference between expected and actual experience	16,491	2,123	18,614
Changes of assumptions	95,794	33,807	129,601
Contributions-employee	(15,920)	(21,508)	(37,428)
Expected return on assets	(133,876)	(216,424)	(350,300)
Current year amortization of net difference between projected and actual investment earnings	37,185	57,380	94,565
Administrative expenses	3,941	4,256	8,197
Total pension expense	<u>\$ 282,236</u>	<u>\$ 208,653</u>	<u>\$ 490,889</u>

Deferred outflows/inflows of resources – As of June 30, 2017, the City reported deferred outflows of resources related to pensions from the following sources (dollars in thousands):

Schedule of Deferred Inflows and Outflows of Resources - PFDRP		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 136,957	\$ -
Differences between expected and actual experience	12,875	6,503
Changes in assumptions	101,421	-
Net difference between projected and actual earnings on pension plan investments	262,695	-
Total	<u>\$ 513,948</u>	<u>\$ 6,503</u>

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

Measurement year ended June 30:

2018	\$	93,310
2019		93,310
2020		134,739
2021		49,129
2022		-
Thereafter		-
	\$	370,488

Schedule of Deferred Inflows and Outflows of Resources - FCERS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 138,711	\$ -
Differences between expected and actual experience	32,982	-
Changes in assumptions	191,587	-
Net difference between projected and actual earnings on pension plan investments	172,799	-
Total	\$ 536,079	\$ -

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

Measurement year ended June 30:

2018	\$	149,470
2019		149,470
2020		64,651
2021		33,777
2022		-
Thereafter		-
	\$	397,368

As of June 30, 2017, \$136,957,000 and \$138,711,000 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 ended June 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense shown in the tables above (dollars in thousands).

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 7.0% for the valuations dated June 30, 2015 was selected by estimating the median nominal rates of return based on long-term capital market assumptions provided by the PFDRP's and FCERS's investment consultants, 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.

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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, 2016, are summarized in the following tables:

	PFDRP	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	31%	5.0%
Private equity	8%	6.3%
Global fixed income	16%	1.8%
Private debt	11%	4.8%
Real assets	17%	3.6%
Absolute return	6%	3.3%
Global tactical asset allocation	10%	3.5%
Cash	1%	0.0%
Total	100%	

	FCERS	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	28%	7.5%
Private equity	9%	9.4%
Global fixed income	19%	4.0%
Private debt	5%	6.9%
Real assets	23%	6.5%
Absolute return	11%	6.0%
Global tactical asset allocation/ Opportunistic	5%	5.0%
Cash	0%	2.3%
Total	100%	

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

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4. Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability as of June 30, 2017 are from the actuarial valuation report with a valuation date of June 30, 2015. The assumptions do not take into the consideration of the changes to the Retirement Systems per Measure F and the Frameworks:

<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Measurement date	June 30, 2016	June 30, 2016
Valuation date	June 30, 2015	June 30, 2015
Inflation rate	3.00%	2.50%
Discount rate	7.00% per annum (net of investment expenses)	7.00% per annum
Post-retirement mortality (a) Service:	CalPERS 2009 Healthy Annuitant Mortality Table multiplied by 0.948 for males and 1.048 for females and projected using Scale MP-2015 on a generational basis from base year of 2009.	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table. Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected from 2009 on a generational base using the MP-2015 scale.
(b) Disability:	CalPERS 2009 Industrial Disability Mortality Table for males multiplied by 0.903 and projected using SOA MP-2015 on a generational basis from base year of 2009.	
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2015, actuarial experience analysis	Tables based on current experience
Salary increases Wage Inflation	3.25% for all years	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Merit Increase	Merit component added based on an individual year's of service ranging from 6.75% to 1.00%	For the amortization schedule, payroll is assumed to grow 2.85% per year.
Cost of Living Adjustment	Tier 1 – 3% per year Tier 2 – 1.5% per year	Tier 1 – 3% per year Tier 2 – 1.5% per year

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

Plan Description. The Mayor and members of the City Council are eligible to participate in the Public Employees' Retirement Fund ("Fund") of the State of California's Public Employees' Retirement System ("CalPERS"), a cost-sharing multiple-employer plan. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. 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.

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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 plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>Classic Plan</u>	<u>PEPRA Plan</u>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.377% + \$106,932 for unfunded liability	6.56%

As of June 30, 2017, there were three current San José City Council members enrolled in the Classic Plan and five current members in PEPRA 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, 2017, the amount contributed to the CalPERS plans' were as follows (dollars in thousands):

	<u>Classic Plan</u>	<u>PEPRA</u>	<u>Total</u>
Contributions - employer	\$ 136	\$ 26	\$ 162
Contributions - employee	26	25	51
Total	<u>\$ 162</u>	<u>\$ 51</u>	<u>\$ 213</u>

Pension Liabilities, Pension Expenses 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 miscellaneous risk pool at the measurement date of June 30, 2016 prepared by CalPERS.

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Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuations was determined for the Classic and PEPRAs Plans using the following actuarial 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, 2016 prepared by CalPERS.

	Classic Plan
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Method
Actuarial Assumptions Discount	
Rate	7.65%
Inflation	2.75%
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 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on CalPERS' website.

Change of Assumption – There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes of assumptions presented represents the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of the discount rate for the plan, the amortization and smoothing periods recently adopted by the CalPERS Board were used. For the CalPERS Plans, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the rate plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the CalPERS Plans. The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 the funds' asset classes, expected compound (geometric) returns were

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calculated over the short-term (first 10 years) and the long-term (11-60 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. The expected rate of return was set by calculating the 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(1)	Real Return Years 11+(2)
Global Equity	51%	5.25%	5.71%
Global Debt Securities	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

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

Classic Plan -Sensitivity Analysis	1% Decrease (6.65%)	Measurement Date Discount Rate (7.65%)	1% Increase (8.65%)
Net pension liability	\$ 1,967	\$ 1,262	\$ 680

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

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 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.

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An eligible employee must sign an irrevocable election form on his or her first day of employment with the City electing to participate in 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 74 participants in the 401(a) plan as of June 30, 2017. In 2016-2017, the City and the participating employees contributed \$139,000 to the 401(a) plan. As of June 30, 2017, the balance of the 401(a) plan was \$864,000.

A. 4. Postemployment Healthcare Plans

1. Plan Description

In addition to the Defined Benefit Pension Plans, the City also sponsors and administers two single employer postemployment healthcare plans, the Police and Fire Department Postemployment Healthcare Plans, which includes a Postemployment Healthcare 401(h) Plan, the Police Department Postemployment Healthcare Plan (Section 115 Trust) and the Fire Department Postemployment Healthcare Plan (Section 115 Trust) and the Federated City Employees' Postemployment Healthcare Plan, which includes an Internal Revenue Code (IRC) 401(h) Plan and an IRC 115 Trust. These Postemployment Healthcare Plans cover eligible full-time and certain part-time employees of the City, and are accounted for in the Pension Trust Funds.

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

The Postemployment Healthcare Plans provide medical and dental benefits to eligible retirees and their beneficiaries. Benefits are 100% of the premium cost for the lowest priced medical insurance plan and 100% of the premium cost for a dental insurance plan available to an active City employee.

The current membership in the Postemployment Healthcare Plans as of June 30, 2017, is as follows:

PFDRP	Police		Fire		Totals
	Tier 1	Tier 2	Tier 1	Tier 2	
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits*	1,251	-	810	-	2,061
Terminated vested members not yet receiving benefits	12	-	1	-	13
Active members	747	150	586	61	1,544
Total	2,010	150	1,397	61	3,618

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

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FCERS	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 2B</u>	<u>Tier 2C</u>	<u>Totals</u>
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits**	3,535	-	-	-	3,535
Terminated vested members not yet receiving benefits	158	-	-	-	158
Active members	<u>1,991</u>	<u>164</u>	<u>-</u>	<u>-</u>	<u>2,155</u>
Total	<u><u>5,684</u></u>	<u><u>164</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>5,848</u></u>

** Payees that have health and/or dental coverage.

2. OPEB Funding Policy Under GASB Statement No. 45

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. For Postemployment Healthcare Plans, examples include assumptions about future employment, mortality, and investment return. Experience studies are performed by the Board's actuary to determine appropriate revisions to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. For PFDRP, the last experience study was performed in November 2015, and the next experience study is scheduled to be conducted in calendar year 2017. For FCERS, the last experience study was performed in November 2015, and the next experience study is scheduled to be conducted in calendar year 2019.

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

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. For the FCERS Postemployment Healthcare Plan, the annual contributions for health costs are shared 50/50 and the annual contributions for dental costs are split 8:3 between the City and the employee. For the PFDRP Postemployment Healthcare Plan, the annual contribution for healthcare costs is shared 50/50 and the annual contribution for dental costs are split 3:1 between the City and the employee.

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 the discount rate to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the Tier 1 members to be paid by the City at the beginning of the fiscal year ended June 30, 2017.

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As noted above in Note IV A.1, the City and its bargaining units entered into the Public Safety and Federated Frameworks related to the settlement of litigation concerning Measure B in the fiscal year ended June 30, 2016. Both Frameworks provided, among other provisions, for the closure of the Postemployment Healthcare Plans to new employees and an agreement on a new lowest cost medical plan associated with retiree healthcare.

Funding Policy for FCERS

Effective June 28, 2009, the bargaining units representing the FCERS members entered into agreements (“Retiree Healthcare Agreements”) with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 45 annual required contributions (“ARC”) over a five-year period ending in fiscal year 2012-2013. The Retiree Healthcare Agreements also provide that the five-year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the Retiree Healthcare Agreements further provided that, by the end of the five-year phase-in, the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

Effective June 18, 2013, the bargaining units representing the FCERS members entered into an amendment to the Retiree Healthcare Agreements that extended the incremental increase limitation of not more than 0.75% of pensionable pay for the fiscal year ending June 30, 2014. The 0.75% limitation was initially extended to December 20, 2014, and then to December 2015. In December 2015, the FCERS Board approved extension of the fiscal year 2014-2015 healthcare rates until the implementation of the Federated Framework. Pursuant to subsequent agreements with the Federated bargaining units, the City did not implement the full ARC rates and instead opted to extend the rates in effect for fiscal year 2014-2015 until the implementation of the Federated Framework. The FCERS Board approved the extension of the phase-in rates in March 2016.

On August 27, 2013, San Jose City Council adopted Ordinance No. 29283 to exclude FCERS Tier 2 members hired on and after September 27, 2013, from retiree medical and dental benefits (referred to as Tier 2B members) but the City shall bear and pay an amount equal to the additional costs incurred by the FCERS for that portion of the unfunded liability as determined by the actuary for the FCERS that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for the retiree healthcare defined benefit.

Funding Policy for PFDRP

Both the Police and Fire members of PFDRP have entered into agreements with the City to phase-in the contribution of the full ARC. Effective June 26, 2011, the Fire members entered into an agreement with the City to phase-in to fully contribute the ARC over a five-year period that expired at the conclusion of fiscal year 2015-2016. Effective June 28, 2009, the Police members of the PFDRP entered into an agreement with the City to increase the contribution rates for retiree health and dental in order to phase-in to full funding of the ARC over the five-year period ending at the end of fiscal year 2013-2014.

In both agreements, the City and members of the PFDRP agreed that the member and City cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35%, of pensionable pay in each year for the members and City, respectively.

On February 24, 2015, the City and the Police bargaining unit agreed to roll back the Police employee contributions rates from a total of 10.0% to 9.51% and the employer contribution rates from a total of

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11.0% to 10.31%, effective March 15, 2015, and through fiscal year 2016-2017. These were the rates in effect for the year ended June 30, 2014, which shall remain frozen until implementation of the terms of the Public Safety Framework.

For the Fire members, the contribution rates for the year ended June 30, 2016, the last year of the phase in, will remain frozen until implementation of the terms of the Public Safety Framework.

Rates and Contributions for Fiscal Year 2016-2017

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

The resolutions adopted by the Retirement Systems' Boards setting the contribution rates for fiscal year June 30, 2016 provide that the employer's contribution rates may be adjusted in order to achieve a minimum dollar contribution for that fiscal year. The "floor funding method" does not apply to PFDRP Police Tier 2 and Fire Tier 2 or FCERS Tier 2, Tier 2B, and Tier 2C members.

The contribution amount for the City for Police Tier 1 and Fire Tier 1 members determined in the June 30, 2015 valuation for fiscal year ending June 30, 2017, was the greater of \$17,063,000 (if paid at the beginning of the fiscal year), or 10.31% for Police Tier 1 members and 10.62% for Fire Tier 1 members, of actual payroll for the fiscal year. The total actuarial payroll for Police Tier 1 and Fire Tier 1 members for the fiscal year was \$167,327,000 (\$94,977,000 for Police Tier 1 and \$72,350,000 for Fire Tiers 1 members). The actual payroll for the fiscal year of \$171,199,000 was greater than the actuarial payroll of \$167,327,000, resulting in an annual contribution of \$18,910,000, as of June 30, 2017, including the implicit subsidy, current and prior year contribution accruals but including the additional accrual based on the floor methodology.

The contribution amount for the City for FCERS Tier 1 determined in the June 30, 2015 valuation for fiscal year ending June 30, 2017 was the greater of \$15,692,000 (if paid at the beginning of the fiscal year) or 9.41% of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$177,171,000 was greater than the actuarial payroll of \$170,792,000 resulting in an additional annual contribution of \$4,807,000, which includes current and prior year contribution accruals and adjustments, as well as the additional amount based on the floor methodology.

In May 2015, the PFDRP Board approved a funding policy for Police Tier 2 and Fire Tier 2, setting the Police Tier 2 annual required contribution to be 10.31% based on actual payroll, and Fire Tier 2 annual required contribution to be 10.62% based on actual payroll. The actual payroll for Police Tier 2 for the fiscal year 2016-2017 was \$11,873,000, resulting in an annual contribution of \$1,224,000, including year-end accrual, contributions receivables and prior year contribution adjustments. The actual payroll for Fire Tier 2 for the fiscal year 2016-2017 of \$5,014,000, resulting in an annual contribution of \$533,000, excluding year end accruals, contributions receivables and prior year contribution adjustments.

The actual payroll for FCERS Tier 2 for the fiscal year ending June 30, 2017 was \$93,890,000, allocated to Tiers 2, 2B and 2C in the amount of, \$14,630,000, \$77,525,000, and \$1,735,000, respectively. The contribution rate for Tiers 2, 2B and 2C for fiscal year ending June 30, 2017 was

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9.41%, 12.66%, and 12.86%, respectively, as determined in the June 30, 2015 valuation. Actual employer contributions for the fiscal year ending June 30, 2017 were \$11,406,000, allocated to Tiers 2, 2B and 2C in the amount of \$1,377,000, \$9,806,000 and \$223,000, respectively, excluding year end accruals, contributions receivable and prior year contribution adjustments.

The contribution rates in effect for PFDRP and the FCERS for the fiscal year ended June 30, 2017 are as follows:

PFDRP	City - Board Adopted		Member	
	Police	Fire	Police	Fire
Actuarial Rate:				
Postemployment Healthcare Plan:				
07/01/16 - 06/30/17	10.31%	10.62%	9.51%	9.74%

FCERS	City - Board Adopted*			Member	
	Tier 1* and Tier 2	Tier 2B	Tier 2C	Tier 1 and Tier 2	Tier 2C
Actuarial Rate:					
Postemployment Healthcare Plan:					
07/01/16 - 06/30/17	9.41%	12.66%	12.86%	8.76%	0.39%

* The actual contribution rates paid by the City for fiscal year ended June 30, 2017 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

3. Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The City's annual other postemployment benefit cost and net OPEB obligation for PFDRP and FCERS as of and for the fiscal year ended June 30, 2017, were as follows (dollars in thousands):

	PFDRP	FCERS
Annual required contribution	\$ 33,381	\$ 35,598
Interest on net OPEB obligation	16,322	12,645
Adjustment to annual required contribution	(13,736)	(15,242)
Annual OPEB cost	35,967	33,001
Contributions made	(20,667)	(31,905)
Implicit rate subsidy	(1,597)	(4,577)
Increase in net OPEB obligation	13,703	(3,481)
Net OPEB obligation – beginning of year	276,647	191,595
Net OPEB obligation – end of year	\$ 290,350	\$ 188,114

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The following is three-year trend information for the City's single employer Postemployment Healthcare Plans (dollars in thousands):

	Fiscal Year Ended	Annual OPEB Cost	Total Employer Contributions	Percent Annual OPEB Cost Contributed	Net OPEB Obligation
PFDRP	6/30/15	\$ 35,798	\$ 22,958	64%	\$ 262,462
	6/30/16	35,250	21,065	60%	276,647
	6/30/17	35,967	22,264	62%	290,350
FCERS	6/30/15	\$ 33,306	\$ 31,093	93%	\$ 187,066
	6/30/16	39,424	34,895	89%	191,595
	6/30/17	33,001	36,482	111%	188,114

4. OPEB Funded Status and Funding Progress under GASB Statement No. 45

The specific funding status for each OPEB plan is summarized in the table below, as of June 30, 2016, the most recent actuarial valuation date, PFDRP and FCERS was 17.4% and 29.6% funded, respectively (dollars in thousands).

	Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	UAAL	Funded Ratio	Annual Covered Payroll	Percentage of Covered Payroll
PFDRP	6/30/2016	\$ 135,207	\$ 778,871	\$ 643,664	17.4%	\$ 194,072	332%
FCERS	6/30/2016	225,845	764,261	538,416	29.6%	266,823	202%

As of June 30, 2016, the most recent actuarial valuation of PFDRP's Postemployment Health Plan, which combines the 401(h) and the 115 subtrusts within the valuation, shows the Postemployment Healthcare Plan's Unfunded Actuarial Accrued Liability ("UAAL") increased by \$18,476,000 primarily due the change in discount rate, the change in health assumptions, and the change in demographic experience. The discount rate used for GASB purposes decreased from 6.00% used in the June 30, 2015 valuation to 5.90% used in the June 30, 2016 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.00%) and the expected return on the PFDRP's invested assets (6.875%) resulting in a blended discount rate of 5.90%. Changes in health assumptions refers to the changes in expected current and future healthcare claims and expense costs based on the 2016 and 2017 medical premium experience as well as the change in the pre-Medicare plan offerings. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentage for future retirees. Change in demographic experience refers to the change in actual data and elections from June 30, 2015 to June 30, 2016 as compared to the changes expected in the prior valuation.

As of June 30, 2016, the most recent valuation of FCER's Postemployment Health Plan, the UAAL decreased by \$69,496,000 primarily due to the change in the discount rate, changes in health assumptions and demographic experience. The OPEB discount rate increased from 6.10% used in the June 30, 2015 OPEB valuation to 6.60% used in the June 30, 2016 OPEB valuation. The Plan's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.0%) and the expected return on the Plan's invested assets (6.875%) resulting in a blended discount rate of 6.6%. Change in health assumptions refers to the change in expected current and future healthcare claims and expense costs based on the 2016 and 2017 medical premium experience as well as the change in the pre-Medicare plan offerings. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for

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future retirees. Change in demographic experience refers to the change in actual data and elections from June 30, 2015 to June 30, 2016 as compared to the changes expected in the prior valuations.

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

5. OPEB Actuarial Methods and Assumptions under GASB Statement No. 45

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The contribution rates for fiscal year ended June 30, 2017, were based on the actuarial valuations performed on June 30, 2015.

The significant actuarial methods and assumptions used to compute the actuarially determined PFDRP and FCERS's OPEB annual required contributions and the funded status as of June 30, 2015 are as follows:

<u>Description</u>	<u>PFDRP</u>	<u>FCERS</u>
<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation date	June 30, 2015	June 30, 2015
Actuarial cost method	Entry age normal, level of percent of pay	Entry age normal cost method
Amortization method	30 years, level percent of pay	Level dollar
Remaining amortization period	30 years as of June 30, 2014, open	20-year layered, closed, level percentage of payroll with the 06/30/2009 UAAL amortized over a closed 30-year period.
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor	Market value
Actuarial Assumptions:		
Discount rate*	6.00%	6.10%
Projected total payroll increases:		
Wage inflation:	3.25% for FY 2015 and for all years	2.85%
Merit increase:	Merit component added based on an individual's years of service ranging from 6.75% to 1.00%	The assumption of 2.85% wage inflation plus a rate increase for merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more year of service.
Healthcare cost trend rate:		
Medical	Future medical inflation assumed to be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.00%	Dental inflation is assumed to be 4.00%

* Determined as a blended rate of the expected long term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

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6. PFDRP OPEB: Net OPEB Liability Under GASB Statement No. 74

As the City's Pension Trust Funds implemented GASB Statement No. 74 in fiscal year 2016-2017, the note below is presented for additional disclosures required by GASB Statement No. 74. The Net OPEB liability presented below is not reflected on the City's government-wide financial statements as the City will implement GASB Statement No. 75 in fiscal year 2017-2018.

The total OPEB liability as of June 30, 2017, is based on results of an actuarial valuation date of June 30, 2016, and rolled-forward using generally accepted actuarial procedures. The components of the net OPEB liability of the PFDRP (i.e., the PFDRP's liability determined in accordance with GASB Statement No. 74 less the plan fiduciary net position) as of June 30, 2017, were as follows (dollars in thousands):

Total OPEB liability	\$ 714,517
Less: PFDRP fiduciary net position	149,681
Net OPEB liability	<u>\$ 564,836</u>

PFDRP fiduciary net position as a percentage of the total OPEB liability 20.9%

The assumption for the long-term expected rate of return on OPEB plan investments of 6.875% for the valuation year ending June 30, 2016 was selected by estimating the median nominal rate of return based on long-term capital market assumptions provided by the plan's investment consultant, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return. Best estimates of geometric real rates of return for each major asset class included in the PFDRP's target asset allocation as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	43%	5.3%
Fixed income	15%	1.0%
Real assets	22%	2.8%
GTAA/Opportunistic	20%	2.1%
Cash	-	0.2%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.875% for the measurement year ending June 30, 2017. It is assumed that PFDRP member contributions and City contributions will continue at the current contribution rates and that the City will contribute the implicit subsidy. 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 was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Sensitivity of the net OPEB liability to changes in discount rate. In accordance with GASB No. 74 regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following presents the net OPEB liability of the City, calculated using the discount rate of 6.875%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (5.875%) or 1.00% higher (7.875%) than the current rate:

	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
Total OPEB liability	\$ 824,501	\$ 714,517	\$ 626,078
PFDRP fiduciary net position	149,682	149,682	149,682
Net OPEB liability	<u>\$ 674,819</u>	<u>\$ 564,835</u>	<u>\$ 476,396</u>
PFDRP fiduciary net position as a percentage of the total OPEB liability	18.2%	20.9%	23.9%

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1.0% lower (7.5% decreasing to 3.25%) or 1.0% higher (9.5% decreasing to 5.25%) than the current healthcare cost trend rates (dollar amounts in thousands):

	1% Decrease (7.5% decreasing to 3.25%)	Health Care Cost Trend Rates (8.5% decreasing to 4.25%)	1% Increase (9.5% decreasing to 5.25%)
Total OPEB liability	\$ 615,232	\$ 714,517	\$ 839,004
PFDRP fiduciary net position	149,682	149,682	149,682
Net OPEB liability	<u>\$ 465,550</u>	<u>\$ 564,835</u>	<u>\$ 689,322</u>
Percentage of the total OPEB liability	24.3%	20.9%	17.8%

7. FCERS OPEB: Net OPEB Liability Under GASB Statement No. 74

As the City's Pension Trust Funds implemented GASB Statement No. 74 in fiscal year 2016-2017, the note below is presented for additional disclosures required by GASB Statement No. 74. The Net OPEB liability presented below is not reflected on the City's government-wide financial statements as the City will implement GASB Statement No. 75 in fiscal year 2017-2018.

The total OPEB liability as of June 30, 2017, is based on results of an actuarial valuation date of June 30, 2016, and rolled-forward using generally accepted actuarial procedures. The components of the net OPEB liability of the FCERS (i.e., the FCERS's liability determined in accordance with GASB Statement No. 74 less the plan fiduciary net position) as of June 30, 2017, were as follows (dollars in thousands):

Total OPEB liability	\$ 766,801
Less: FCERS fiduciary net position	260,370
Net OPEB liability	<u>\$ 506,431</u>
FCERS fiduciary net position as a percentage of the total OPEB liability	34.0%

The assumption for the long-term expected rate of return on pension plan investments of 6.875% for the valuation year ending June 30, 2016, 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.

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Best estimates of geometric real rates of return for each major asset class included in FCERS's target asset allocation as of June 30, 2017, (see the discussion of the FCERS's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	46%	5.3%
Fixed income	30%	0.8%
Real assets	23%	3.4%
Cash	-	0.2%

The Discount Rate. The discount rate used to measure the total OPEB liability was 6.875% for the measurement year ending June 30, 2017. It is assumed that FCERS member contributions and City contributions will continue at the current contribution rates and that the City will contribute the implicit subsidy. Based on those assumptions, FCERS's fiduciary net position is expected to be available to make all projected future benefit payments of current FCERS members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in discount rate. In accordance with GASB No. 74 regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following presents the net OPEB liability of the City, calculated using the discount rate of 6.875%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (5.875%) or 1.00% higher (7.875%) than the current rate:

	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)
Total OPEB liability	\$ 877,863	\$ 766,801	\$ 676,758
FCERS fiduciary net position	260,370	260,370	260,370
Net OPEB liability	<u>\$ 617,493</u>	<u>\$ 506,431</u>	<u>\$ 416,388</u>
FCERS fiduciary net position as a percentage of the total OPEB liability	29.7%	34.0%	38.5%

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1.0% lower (7.5% decreasing to 3.25%) or 1.0% higher (9.5% decreasing to 5.25%) than the current healthcare cost trend rates (dollar amounts in thousands):

	1% Decrease (7.5% decreasing to 3.25%)	Healthcare Trend Cost Rates (8.5% decreasing to 4.25%)	1% Increase (9.5% decreasing to 5.25%)
Total OPEB liability	\$ 666,629	\$ 766,801	\$ 891,030
FCERS fiduciary net position	260,370	260,370	260,370
Net OPEB liability	<u>\$ 406,259</u>	<u>\$ 506,431</u>	<u>\$ 630,660</u>
Percentage of the total OPEB liability	39.1%	34.0%	29.2%

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B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments. As of June 30, 2017, the Airport was obligated for purchase commitments of approximately \$20,000,000 primarily for the runway incursion study, perimeter security technology infrastructure, southeast ramp reconstruction, Terminal B gates 29 and 30, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately \$129,000,000 on capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

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

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

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

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Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed 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 fiscal year 2012-2013. The City also proposed to adjust its indirect cost allocation methodology in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations, which were implemented in fiscal year 2015-2016.

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.

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.

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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

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. As of June 30, 2017, \$116,716,000 has been expended or encumbered on the expansion of Phase I of the SBWR. 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 fiscal year 2015-2016, 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.

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"). Over the last year, City staff has worked with program management and financial consultants to develop a long-term funding strategy to provide sustained funding for implementing the CIP program. 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

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City's portion of the funding for the Adopted CIP is programmed into the 2018-2022 sewer rate models with moderate rate increases beginning 2015-2016.

Revenues for the 2018-2022 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.

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 2018-2022 Adopted CIP, contributions from the City of Santa Clara and other agencies are approximately \$313,973,000.

The prior CIP assumed the use of short-term financing (i.e. commercial paper program) and State of California Revolving Fund ("SRF") loans. The City had applied for SRF for the Digester and Thickener Facilities Upgrade Project. However, while working with the SWRCB's finance and legal staff on the Master Resolution for the loan, City staff had identified several terms and conditions that would presented a challenge to the City. One of the requirements would result in the City being unable to access short-term financing. Elimination of short-term financing options would severely constrains the City's financing options for the remaining CIP projects. In addition, there were other terms that the City was unable to meet, which would adversely affect the City's ability to manage a large debt program.

Currently, staff is developing a short-term financing and 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 2018-2022 Adopted CIP assumes the need to issue bonds in 2019-2020.

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 San José Santa Clara Water Pollution Control Plant ("Plant"). The Plant also provides wastewater treatment services to other neighboring agencies through five outside user agreements ("Master Agreements"). On January 22, 2016 and September 7, 2016, San José, as the administering agency, received claims from these outside user agencies (City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District, and CSD 2-3 ("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 Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Plant to date.

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

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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 City cannot predict the outcome or the timeline for resolution of these Claims.

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 fiscal year 2014-2015. 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 District with the first 50% towards the District's costs and the second 50% divided between the two agencies based on their respective capital investment in the recycled water infrastructure. In 2010, the City's estimated investment in SBWR system and SVWTF was \$250,000,000; and the SCVWD's estimated investment in SVWTF is \$70,000,000.

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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 (June 30, 2015 – June 30, 2016) 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 fiscal year ended June 30, 2016. In January 2018 the audit report for the second year of full operations or Fiscal Year Ended June 30, 2017 will be completed and issued as per the terms of the Integration Agreement in January 2018.

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 fiscal year 2016-2017 is \$24,674,000. The City's annual bond surcharge for fiscal year 2016-2017 was estimated to be \$979,000 based the City's actual wholesale water use in fiscal year ended June 30, 2015. 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 fiscal year ended June 30, 2015 water use is included in the fiscal year 2016-2017 bond surcharge. The current best projection on the City's annual surcharge for the future is \$1,050,000.

4. New Market Tax Credit

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

The City caused the formation of an independent nonprofit entity called the EIC QALICB, Inc. to be the recipient of the loan for the construction of the EIC. The City and EIC QALICB, Inc. entered into

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

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

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

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

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

5. Retirement Systems – Unfunded Commitments

As of June 30, 2017, PFDRP had unfunded commitments to contribute capital for private debt investments in the amount of \$123,778,000, private equity investments in the amount of \$81,527,000 and real assets investments in the amount of \$115,469,000. FCERS had unfunded commitments to contribute capital for private market fund investments in the amount of \$128,289,000.

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6. Federal Financial Assistance Programs

The City participates in a number of federally assisted grant programs, primarily with the U.S. Department of Housing and Urban Development (HUD), the Federal Aviation Administration (FAA), the US Department of Transportation, and the US 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 fiscal year ended June 30, 2017, these programs are still subject to financial and compliance audits by Federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

7. Encumbrances

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

As of June 30, 2017, total governmental fund encumbrance balances for the City are as follows (dollars in thousands):

General Fund	\$	48,886
Housing Activities		6,112
Low and Moderate Income Housing Asset		6,965
Special Assessment Districts		16,431
Integrated Waste Management		1,982
Nonmajor governmental funds		78,251
Total governmental funds	\$	158,627

8. Lawsuits and Other Proceedings Related to Measure B

Significant portions of Measure B are currently subject to legal challenges by individual employees, bargaining units representing current employees and retirees that were filed in the Santa Clara County Superior Court and consolidated under the caption of San José Police Officers' Association v. City of San José, Board of Administration for Police and Fire Department (the "SJPOA Caption"). In addition to the cases under the SJPOA caption, there are other cases challenging Measure B that are pending in the Sixth District Court of Appeal and the Santa Clara Superior Court and administrative proceedings related to Measure B pending before the California Public Employment Board ("PERB").

As discussed below, the City and the bargaining units representing current employees reached agreements to resolve the Measure B litigation and the PERB proceedings. The settlement terms included placement of a measure on the November 8, 2016 ballot, designated as Measure F, to amend the City Charter's provisions related to retirement benefits, which the voters approved. Pursuant to the Frameworks and Measure F, the appeal of the Measure B lawsuit under the SJPOA caption and PERB charges filed by the bargaining units will be dismissed or withdrawn. This has not yet been completed due to the settlement negotiations with the San José Retired Employees

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Association. These settlement negotiations have concluded and have resulted in a settlement agreement described below.

Cases Under SJPOA Caption

On April 30, 2014, a consolidated judgment for the cases under the SJPOA Caption was filed ("Consolidated Judgment").

Various parties challenging Measure B under the SJPOA Caption have filed notices of appeal of the Consolidated Judgment and the City Council authorized filing a notice of appeal. The appeal is pending in the Sixth District, California Court of Appeal.

Writ and Quo Warranto Actions

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

On April 15, 2013, the California Attorney General issued an opinion granting the SJPOA's application to bring a Quo Warranto action on behalf the People of the State of California alleging that the City violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the ballot in June 2012. The SJPOA filed its complaint in the Quo Warranto action on April 29, 2013 and the City subsequently filed its answer. The status of this case is discussed below.

PERB Proceedings Related to Measure B

Various bargaining units have filed unfair practice charges against the City with PERB related to the placement of Measure B on the June 2012 ballot.

The administrative law judges' decisions were in the process of being reviewed by the entire PERB Board. The parties stipulated to a stay of the PERB process pending the efforts to resolve all of the Measure B litigation, including these PERB cases.

Measure B - Settlement Frameworks

In August 2015, the City Council formally approved an Alternative Pension Reform Settlement Framework agreement with the SJPOA and Local 230 ("Public Safety Settlement Framework"). Subsequently, in December 2015 and January 2016, the City and the nine bargaining units with members in FCERS agreed to an Alternative Pension Reform Settlement Framework related to Measure B ("Federated Settlement Framework"). All of the bargaining units that were litigants in the lawsuits under the SJPOA Caption as well as the three bargaining units that were not litigants in these lawsuits have agreed to the Federated Settlement Framework.

The Public Safety Settlement Framework includes provisions that would make the following changes, among others, to the PFDRP:

- modifies Tier 2 pension benefits for sworn employees to levels similar to other San Francisco Bay Area agencies to attract and retain sworn employees;

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- allows Tier 1 employees who terminated employment with the City and either subsequently returned or who return in the future to return as members of Tier 1;
- preserves 50/50 risk sharing with employees in Tier 2 through the cost sharing of a 50/50 split in normal costs and any future unfunded liability associated with the Tier 2 benefit subject to a ramp up of 0.33% increments per year for employee contributions towards unfunded liability costs until the costs are shared 50/50;
- closes the retiree healthcare defined benefit plan to new and existing Tier 2 employees, and allows an opt-out for Tier 1 employees into a defined contribution Voluntary Employee Beneficiary Association (“VEBA”) subject to legal and IRS approval;
- implements a new lowest cost healthcare plan in order to reduce retiree healthcare costs;
- continues the elimination of the SRBR, and in lieu of the SRBR, establishes a “Guaranteed Purchasing Power” provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement; and
- reinstates the PFDRP’s previous definition of disability, which is comparable to other agencies and creates an Independent Medical Panel appointed by the Retirement Board, which will determine disability eligibility instead of the Retirement Board.

The Federated Settlement Framework includes provisions that would make the following changes, among others, to the FCERS:

- modifies Tier 2 pension benefits for non-sworn employees to levels similar to other San Francisco Bay Area agencies to attract and retain non-sworn employees;
- provides allows Tier 1 employees who terminated employment with the City and either subsequently returned or who return in the future to return as members of Tier 1;
- preserves 50/50 risk sharing with employees in Tier 2 through the cost sharing of a 50/50 split in normal costs and any future unfunded liability associated with the Tier 2 benefit subject to a ramp up of 0.33% increments per year for employee contributions towards unfunded liability costs until the costs are shared 50/50;
- closes the defined benefit retiree healthcare plan to new and existing Tier 2 employees, and allows an opt-out for Tier 1 employees and Tier 2 employees in the OE#3 and ABMEI bargaining units who are contributing to the defined benefit retiree healthcare plan into a defined contribution VEBA subject to legal and IRS approval;
- new and current Tier 2 employees (except those represented by OE#3 and ABMEI who are making contributions into the defined benefit plan) will be automatically placed into a defined contribution VEBA;
- implements a new lowest cost healthcare plan in order to reduce retiree healthcare costs;
- continues the elimination of the SRBR, and, in lieu of the SRBR, establishes a “Guaranteed Purchasing Power” provision, to apply prospectively, in order to maintain the monthly allowance

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for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;

- reinstates the FCERS's previous definition of disability, which is comparable to other agencies; and creates an Independent Medical Panel to be appointed by the FCERS Retirement Board, which will determine disability eligibility instead of the FCERS Retirement Board.

The provisions of the Federated Settlement Framework apply to unrepresented employees except that unrepresented new and current Tier 2 employees will not be mandated or eligible to make contributions into a VEBA.

Both Frameworks included an agreement to place a Charter amendment on the November 2016 ballot that includes the following: (1) a requirement for voter approval of defined benefit pension enhancements; (2) a requirement for actuarial soundness; (3) prohibiting retroactivity of defined benefit pension enhancements; and (4) other provisions within the Settlement Frameworks that the parties mutually agree to include. Further, under both Settlement Frameworks, the parties agreed to seek stays of the appeal of the case under the SJPOA Caption as well as the PERB proceedings.

Under the Frameworks, the City agreed to pay the litigants attorneys' fees: \$1,500,000 to SJPOA and Local 230 and \$1,257,000 for the non-sworn litigants. The City has made these payments. Further, the City agreed to binding arbitration to resolve any additional claims for attorneys' fees of the SJPOA and Local 230, and OE#3 and the bargaining units represented by IFPTE, Local 21 (AEA, AMSP and CAMP) related to the Measure B litigation and administrative proceedings. The bargaining units represented by AFSCME (MEF and CEO) do not have this right under the Federated Settlement Framework. To date, none of the bargaining units have made additional requests for attorneys' fees. However, one bargaining unit has indicated an interest in pursuing binding arbitration over additional attorney's fees. In the event the City and this bargaining unit proceed to arbitration, the City is unable to predict the outcome of such arbitration proceeding.

San José Retired Employees Association Litigation

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

The City filed a demurrer to the complaint, however, this litigation is currently stayed, by stipulation of the parties, to allow for settlement negotiations. On November 7, 2017, the City Council approved a settlement agreement with the Retirees' Association and the individual plaintiffs. The settlement agreement provides for the dismissal of the respective appeals in the Measure B litigation under the SJPOA caption by the Retirees' Association and the City, the dismissal by the Retirees' Association of its stayed lawsuit with prejudice and the dismissal of the stayed lawsuit by the individual plaintiffs without prejudice. The settlement agreement includes the following terms among others:

- continues the elimination of the SRBR, and, in lieu of the SRBR, establishes a "Guaranteed Purchasing Power" provision, to apply prospectively, in order to maintain the monthly

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allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;

- provides for the implementation of a new lowest cost healthcare plan for retirees who are members of the FCERS or PFDRP defined benefit retiree healthcare plan and additionally provides that the lowest cost plan for current and future retirees will be permanently set such that it is neither higher nor lower than the “Silver” level as specified in the Affordable Care Act (“ACA”) in effect as of July 2015. The settlement agreement further specifies that the healthcare plan must provide at least 70% (the “floor”) but no more than 79% (the “ceiling”) of the current ACA “Silver” definition;
- allows retirees who are members of the FCERS or PFDRP defined benefit retiree healthcare plan to be eligible for in-lieu premium credit of 25% for the monthly premium of the lowest cost healthcare plan and dental plan;
- provides for the City’s payment of partial cost reimbursement, not to exceed \$1.25 million for all reimbursements, for healthcare premium costs for those retirees or their surviving beneficiaries who receive a pension of \$54,000 or less and who were enrolled in a pre-Medicare healthcare plan between January 2013 and December 2016; and
- specifies that the Retirees’ Association will have the right to tender to the City defense of any lawsuit brought by a retiree member against the Retirees’ Association challenging the settlement agreement; and
- provides that the City will pay the attorneys’ fees of the Retirees’ Association related to Measure B in the amount of \$500,000.

Quo Warranto Action Following Approval of Settlement Frameworks

In March 2016, a Santa Clara Superior Court judge signed the stipulated judgment and findings filed by the City and SJPOA in the Quo Warranto action, invalidating the resolution placing Measure B on the ballot and declaring the Measure null and void. A former City councilmember, a taxpayer, and a taxpayer’s association (“the Third Parties”) filed a motion to intervene in the Quo Warranto action, however the Judge had already signed the stipulated judgment and found that the motion was untimely. The Third Parties appealed that denial to the Sixth District Court of Appeal, and sought a stay of the trial court action which has been granted by the appellate court. The Third Parties also sought a reconsideration of the trial court’s granting of the judgment; however the judge found that she no longer had jurisdiction to hear the motion for reconsideration because of the pending appeal and stay.

The appeal is fully briefed and oral argument in the case may be heard in January 2018, although no date has been set. The issues in the case are procedural as the substantive terms of Measure B were superseded by Measure F.

9. Overpayment of Pensions

During fiscal year 2015-2016 FCERS submitted an invoice to the City in amount of \$882,000 with a payment date of July 1, 2016. The invoiced amount represents amounts of monthly benefit payments plus interest calculated at the rate of 7% per annum which were erroneously paid by the Department of Retirement Services (currently the Office of Retirement Services) to certain retired members of FCERS in excess of limits established under Internal Revenue Code Section 415. The Office of Retirement Services corrected the errors going forward as of July 1, 2015. The City disputes any

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obligation for these amounts but had determined, at one time, to pay the overpayment and interest under protest. However, the City has not paid the disputed amounts because before it could do so, the FCERS filed and served a lawsuit against the City seeking payment. The City subsequently filed a cross-complaint against FCERS.

In addition to the lawsuit described in the preceding paragraph, on November 30, 2016, twenty-one individuals who are retired members of FCERS and their spouses, a surviving spouse of a FCERS retiree and an association representing FCERS retired members or to-be-retired FCERS members, their qualified spouses, domestic partners, dependents and beneficiaries (the "Claimants") filed a claim against the City and the FCERS Board and have since filed a lawsuit against the City. The lawsuit arises from the limitations on pension payments payable by tax-qualified retirement plans imposed by Internal Revenue Code Section 415 ("Section 415"). The lawsuit alleges that the City has failed to provide the Claimants with their fully-earned vested retirement pension benefits as a result of the application of Section 415 limitations. The lawsuit further alleges that the City should have established a separate plan as allowed under Section 415 or should have taken other lawful action as appropriate to pay Claimants the amount of the compensation that would exceed the Section 415 limitations. The lawsuit sets forth a number of theories on which Claimants base their claim for relief, including but not limited to, impairment of vested rights, breach of fiduciary duty, equitable and promissory estoppel, fraud, misrepresentation, conspiracy to defraud or misrepresentation and abuse of discretion.

PFDRP's Board has also been discussing on-going benefit adjustments and recoupment of overpayments related to the Fair Labor Standards Act ("FLSA") and other pensionable pay corrections at their monthly meetings since December 1, 2016. These include non-pensionable FLSA pay issues related to the incorrect inclusion of non-pensionable earnings as pensionable for Fire members from 1998 to 2008 due to the City's payroll system programming; and non-FLSA pay issues such as Holiday-in-Lieu corrections, Higher Class Pay being erroneously counted as pensionable pay, disability pays which should have been pensionable, and lump sum retroactive pay not being spread to the correct pay periods.

With regards to the FLSA issues, the PFDRP Board approved correcting the ongoing benefit payments in the February 2017 benefit payment. In June 2017, the PFDRP Board approved the process to collect past over-payments to begin with the August 2017 benefit payments. In September 2017, the PFDRP Board voted to send the City a letter seeking the balance of the monies owed but not recovered from the retirees for overpayments related to the FLSA. In November 2017, the PFDRP Board voted to send a single letter to the City seeking the balance of monies owed but not recovered from the retirees arising from the FLSA issue and the other issues. As reported by the Office of Retirement Services staff to the PFDRP Board, the amount related to the FLSA issue, plus interest, is approximately \$1.2 million and the amount related to the non-FLSA issues, plus interest, is approximately \$1 million. In November 2017, the Office of Retirement Services staff reported to the PFDRP Board that the amount of underpayments to retirees, plus interest, is approximately \$355,000.

With respect to each of the matters described in this Note IV.B.9, the City is unable to predict the final resolution.

10. Consent Decree with San Francisco Baykeeper

San Francisco Baykeeper ("Baykeeper") filed a lawsuit in federal district court against the City in February, 2015, and served its complaint on the City in April, 2015. Baykeeper's complaint alleged violations of the federal Clean Water Act. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements under its Municipal Separate Storm Sewer System

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(MS4) Stormwater Permit (“Stormwater Permit”), and that there were discharge violations of sewage from the City’s Sanitary Sewer System that infiltrated into the MS4.

In order to settle the lawsuit, the City and Baykeeper agreed to a ten year consent decree that was approved by the court in August, 2016 (“Consent Decree”). The Consent Decree’s terms 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 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:
 - Identify and design \$25,000,000 in total projects by September 2024;
 - Award \$25,000,000 in total projects by September 2025;
 - Identify and design an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by September 2025;
 - Award an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by the termination date of the consent decree;
 - Identify and design an additional \$15,000,000 (\$50,000,000 aggregate) in total projects by the termination date of the consent decree.

The Consent Decree also provides for ongoing oversight by Baykeeper and a dispute resolution process. The Consent Decree specifies limits on Baykeeper’s ability to pursue additional litigation against the City during the Consent Decree’s term and litigation fees that can be claimed by Baykeeper for dispute resolution are capped at \$200,000.

In addition to the expenditures outlined above, the City has 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 5 years (a total of \$1,000,000) for supplemental environmental mitigation to be administered by the San José Parks Foundation for trash clean up grants, habitat restoration, or projects that generally improve the water quality in the Guadalupe and Coyote creeks and associated watershed areas.

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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 extends the deadline for one of the City's obligations under the Consent Decree and specifies that the City will make payments of the annual funding of \$200,000 during years two through five for the supplemental mitigation projects directly to two organizations instead of to the San José Parks Foundation.

11. Workers' Compensation Program Audit

In 2016, the City's Workers' Compensation Program underwent two audits by the State's Department of Industrial Relations (DIR): a routine three-tier Profile Audit Review (PAR) of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. Since June 2013, a combination of in-house City staff and a Third Party Administrator (TPA) has administered the City's workers' compensation claims. The City's utilization review process is conducted by the TPA.

The PAR audit, consisting of three tiers, proceeded to a more comprehensive Full Compliance Audit with an additional and expanded selection of files, including denied claims. The City failed each of the three tiers of the Full Compliance Audit, resulting in the State DIR assessing the following amounts, which arise from the City's delay in processing claims: (1) a penalty in the amount of \$142,000; (2) additional disability payments in the amount of \$16,000 and (3) additional medical and medical legal payments owed to providers in the approximate amount of \$16,000, on which interest at the rate of 7% per annum continues to accrue until the date of payment. The City made the payment of the assessed amounts in December 2016. The DIR will be monitoring the City's claim review process through calendar year 2018.

The City is subject to a re-audit in approximately December 2018 and must pass the re-audit or its ability to retain its status as a self-insured employer may be jeopardized. Additionally, failure to pass two consecutive Full Compliance Audits would expose the City to the risk of assessment of a civil penalty, currently a one-time payment in an amount not to exceed \$100,000. In the event that the City were unable to retain its status as a self-insured employer, the City would be required to procure workers' compensation insurance coverage for its employees, including employees assigned to the Airport Department. The City believes that the purchase of workers' compensation insurance coverage will be significantly more expensive than a self-insured program.

The Target Utilization Review audit reviewed files from the first phase of the routine audit, but with a focus on the City's utilization review process and procedure. This audit commenced in late October 2016 and concluded in January 2017. Only the portion of the City's Workers' Compensation Program administered by the in-house City staff was subject to the Full Compliance Audit. Both the in-house staff and the TPA were subject to the Target Utilization Review. The in-house program was assessed penalties of \$3,000 for three (3) failures to respond to requests for medical treatment. The City received the final Audit report on January 5, 2017 and payment was issued by January 31, 2017.

In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing \$120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims. The penalties have been assessed, primarily, for failure to timely provide responsive documents to the company under contract with the State that performs independent medical review. The penalties are assessed at the rate of \$500 per day for each day the response is untimely, up to a maximum of \$5,000 per claim. The City paid the penalties in November 2016.

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The City believes the failures identified in the Full Compliance Audit are largely attributable to the staffing levels in the City's Workers' Compensation Program. While the adjuster caseloads for the TPA are within an industry standard of 150 cases per adjuster, the adjuster caseloads for the in-house staff are above this level, with caseloads that have periodically reached close to or in excess of 500 cases per adjuster. To address the in-house staffing needs and compliance with State law requirements, the following adjustments have been made: all four (4) budgeted Workers Compensation Adjuster positions have been filled with permanent staff rather than temporary employees, which the City believes should improve the recruitment and retention of adjusters; and four (4) temporary adjuster and administrative support positions have been added to address the current workload and backlog issues. In addition, the City filled a management position within the City's Workers' Compensation Program which the City believes will improve day-to-day management of the program. The City believes that these positions within the City's Workers' Compensation Program will reduce the current caseload, enable the City's in-house staff to address and correct the State audit findings, and better manage new claims and ensure compliance with State requirements.

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, 2017 (dollars in thousands):

Cash and investments	\$	17,326
Restricted cash and investments		162,238
Total cash and investments	\$	179,564

A summary of SARA's cash and investments at June 30, 2017 is as follows:

	Moody's Credit Rating	Maturity (in Days)			Balance at June 30
		Under 30	31-180	181-365	
Investments:					
Federal Home Loan Banks - Discount	Aaa	\$ 85,116	\$ -	\$ -	\$ 85,116
State of California Local Agency Investment fund	Not Rated	-	-	36,437	36,437
US Treasury Bill	Aaa	33,030	-	-	33,030
Money Market Mutual Fund	Aaa	-	9,217	-	9,217
First American Treasury Obligation Fund	Aaa	-	5,310	-	5,310
Subtotal investments		\$ 118,146	\$ 14,527	\$ 36,437	169,110
Certificates of Deposit					4,029
Bank Deposits					6,425
Total Cash & Investments					\$ 179,564

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The SARA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The State of California Local Agency Investment Fund and Money Market Mutual Fund are valued by net asset value. The SARA has the following recurring fair value measurements as of June 30, 2017:

	Fair Value Measurements Using			Balance at June 30
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by Fair Value Level:				
Federal Home Loan Banks - Discount	\$ -	\$ 85,116	\$ -	\$ 85,116
First American Treasury	-	5,310	-	5,310
Money Market Mutual Fund	8,393	824	-	9,217
US Treasury Bill	33,030	-	-	33,030
Total Investments by Fair Value Level	\$ 41,423	\$ 91,250	\$ -	132,673
State of California Local Agency Investment Fund				\$ 36,437
Total Investments				\$ 169,110

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

2. Property Held for Resale by SARA

Property held for resale is recorded as an asset at the lower of cost or net realizable value. The SARA recorded certain capital assets originally received from the Agency as property held for resale. On September 8, 2014, the State Department of Finance ("DOF") approved the Long-Range Property Management Plan ("LRPMP"), which specifies the disposition of SARA properties. The SARA properties designated for sale under the LRPMP are to be sold in accordance with the Asset Disposition Schedule and the Disposition Process For Sale of Properties, both of which are subject to the approval of the Oversight Board.

A summary of changes of the property held for resale during the year ended June 30, 2017 is as follows:

Property Description	July 1, 2016	Addition	Disposal	June 30, 2017
N. San Pedro Housing site ⁽¹⁾	\$ 29,473	\$ 6,071	\$ (3,152)	\$ 32,392
Total Property Held for Resale	\$ 29,473	\$ 6,071	\$ (3,152)	\$ 32,392

(1) The valuation is based on the construction cost incurred. The asset is in construction.

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In April 2017, the SARA sold Terraine Street property to San Pedro Life I, LLC for \$5,180,000. The property had the net book value of \$3,152,000 and the SARA recognized a gain of \$2,022,000, after closing costs of \$5,000. Fifty percent of the net sale proceeds in the amount of \$2,587,000 was owed to the County under the 2011 Settlement Agreement, which was applied against the accrued interest.

3. Capital Assets Held by SARA

The following is a summary of capital assets activity for the year ended June 30, 2017 (dollars in thousands):

	<u>July 1, 2016</u>	<u>Addition</u>	<u>Disposal/ Transfer</u>	<u>June 30, 2017</u>
Capital assets, not being depreciated:				
Land	\$ 72,579	\$ -	\$ (12,805)	\$ 59,774
Construction in progress	977	-	-	977
Total capital assets, not being depreciated	<u>73,556</u>	<u>-</u>	<u>(12,805)</u>	<u>60,751</u>
Capital assets, being depreciated:				
Buildings	82,610	-	-	82,610
Building and other improvements	108	-	-	108
Equipment	1,145	-	-	1,145
Total capital assets, being depreciated	<u>83,863</u>	<u>-</u>	<u>-</u>	<u>83,863</u>
Less accumulated depreciation:				
Buildings	21,032	2,070	-	23,102
Building and other improvements	54	7	-	61
Equipment	1,145	-	-	1,145
Total accumulated depreciation	<u>22,231</u>	<u>2,077</u>	<u>-</u>	<u>24,308</u>
Total capital assets, being depreciated, net	<u>61,632</u>	<u>(2,077)</u>	<u>-</u>	<u>59,555</u>
Total capital assets, net	<u>\$ 135,188</u>	<u>\$ (2,077)</u>	<u>\$ (12,805)</u>	<u>\$ 120,306</u>

Various Agency-owned real estate assets with an aggregate book value of \$13,377,000 are used to secure Letters of Credit obtained from JPMorgan Chase Bank ("JPMorgan") supporting the Agency's 1996 and 2003 variable rate revenue bonds. In addition, the Convention Center – South Hall, José Theatre, and Arena Lot 5A were used as collateral to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development.

On August 27, 2015, the SARA Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the LRPMP, and approved the Disposition Process For Sale of Properties, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. Additional amendments to the Asset Disposition Schedule were approved by the SARA Oversight Board on January 14, 2016, April 28, 2016 and October 27, 2016.

On October 10, 2013, the SARA Oversight Board approved the transfer of government purpose assets with the book value of \$9,890,000 at June 30, 2014 to the City. The transfer of these properties was reviewed and approved by the DOF. The SARA transferred seven properties with the book value of \$2,442,000 in July 2015, and the remaining properties with the book value of \$7,448,000 transferred in August 2016.

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In FY 2017, the SARA disposed the following properties:

- In July 2016, the SARA sold one property (92 South Montgomery Street) to Imwalle Annex HBD, LLC for \$613,000. The property had the net book value of \$1,364,000 and the SARA recognized a loss of \$754,000 after transaction costs.
- In August 2016, the SARA sold one property (300 South Almaden Boulevard) to the County of Santa Clara for \$96,000. The property had the net book value of \$1,304,000 and the SARA recognized a loss of \$1,209,000 after transaction costs.
- In August 2016, the SARA sold one property (226 Balbach Street) to the City for \$2,400,000. The property had the net book value of \$2,375,000 and the SARA recognized a net gain of \$23,000 after transaction costs. The net proceeds were \$2,398,000, of which \$1,915,000 was used to pay down the 2003A Revenue Bond, \$480,000 was used to pay the accrued interest owed to the County under the 2011 Settlement Agreement, and the remaining \$3,000 was deposited in the 1996 Special Fund for future debt service payment.
- In December 2016, the SARA sold one property (501 Vine Street) to Bee and Bell, LLC for \$876,000. The property had the book value of \$311,000 and the SARA recognized a gain of \$561,000 after transaction costs. The net proceeds were \$872,000, of which \$697,000 was used to pay down the 2003A Revenue Bond, \$174,000 was used to pay the accrued interest owed to the County under the 2011 Settlement Agreement, and \$1,000 was used to pay the San Jose Water Company.
- In February 2017, the SARA sold one property (Almaden Landscape Strip) for \$508,000. The parcel was a remnant of a parcel purchased by the Agency in 1984. The SARA records did not provide acquisition value of the property. Therefore, the proceeds on the sale of this property were recognized as a gain in the amount of \$505,000 after transaction costs.
- In March 2017, the SARA sold one property (30 Eastwood Street) for \$88,000. The property had the book value of \$4,000 and the SARA recognized a gain of \$83,000 after transaction costs. The net proceeds were \$87,000, of which \$68,000 was used to pay down the 2003A Revenue Bond, \$17,000 was used to pay the accrued interest owed to the County under the 2011 Settlement Agreement, and the remaining \$2,000 was deposited in the 1996 Special Fund for future debt service payment.

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4. Summary of SARA's Long-Term Debt

The following is a summary of long-term debt of the SARA as of June 30, 2017 (dollars in thousands, unless otherwise noted):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2017 Balance
Senior Tax Allocation Bonds:							
1997 Merged	Merged area project	\$106,000	3/27/1997	8/1/2028	5.50 - 5.62%	\$10 - 715	\$ 4,030
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	\$0 - 7,165	12,920
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00 - 5.00%	\$25 - 34,100	124,840
2004 Merged Refunding Series A	Refunding TABs	281,985	5/27/2004	8/1/2019	4.44 - 5.25%	\$15,000 - 31,900	77,440
2005 Merged Refunding Series A	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20 - 5.25%	\$295 - 26,210	109,570
2006 Merged Series A-T	Merged area project	14,300	11/14/2006	8/1/2022	5.65%	\$0 - 6,000	13,300
2006 Merged Series B	Merged area project	67,000	11/14/2006	8/1/2035	4.50 - 5.00%	\$0 - 21,000	67,000
2006 Merged Refunding Series C	Refunding TABs	423,430	12/15/2006	8/1/2032	3.75 - 5.00%	\$0 - 74,280	423,430
2006 Merged Refunding Series D	Refunding TABs	277,755	12/15/2006	8/1/2023	4.00 - 5.00%	\$830 - 67,330	260,325
2007 Merged Series A-T	Merged area project	21,330	11/7/2007	8/1/2017	5.10%	\$2,670	2,670
2007 Merged Series B	Merged area project	191,600	11/7/2007	8/1/2036	4.25 - 5.00%	\$0 - 23,970	191,600
2008 Merged Series A	Merged area project	37,150	11/13/2008	8/1/2018	6.50%	\$4,355 - 4,600	8,955
2008 Merged Series B	Merged area project	80,145	11/13/2008	8/1/2035	6.25 - 7.00%	\$0 - 6,700	80,145
1997 Housing Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75 - 5.85%	\$475 - 3,670	15,100
2003 Housing Series J	Low-moderate income housing	55,265	7/10/2003	8/1/2024	4.70 - 5.25%	\$2,015 - 3,505	22,275
2003 Housing Series K	Low-moderate income housing	13,735	7/10/2003	8/1/2029	4.00 - 4.40%	\$275 - 460	4,670
2005 Housing Series A	Low-moderate income housing	10,445	6/30/2005	8/1/2024	3.75 - 5.00%	\$0 - 2,270	10,445
2005 Housing Series B	Low-moderate income housing	119,275	6/30/2005	8/1/2035	5.10 - 5.46%	\$695 - 8,300	92,885
2010 Housing Series A-1	Low-moderate income housing	54,055	4/15/2010	8/1/2035	5.00 - 5.50%	\$1,235 - 6,305	54,055
2010 Housing Series A-2	Low-moderate income housing	2,655	4/15/2010	8/1/2017	5.00%	\$495	495
Total Senior Tax Allocation Bonds							<u>1,576,150</u>
Subordinate Tax Allocation Bonds (TAB):							
1996 Merged Area Revenue Series A	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	\$1,500 - 2,000	16,900
1996 Merged Area Revenue Series B	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	\$1,500 - 2,000	16,900
2003 Merged Area Revenue Series A	Merged area projects	45,000	8/27/2003	8/1/2028	Variable	\$5 - 2,015	10,835
2003 Merged Area Revenue Series B	Merged area projects	15,000	8/27/2003	8/1/2032	Variable	\$0 - 3,900	15,000
2010 Housing Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	\$2,725 - 5,210	74,885
Total Subordinate Tax Allocation Bonds							<u>134,520</u>
Other Long-Term Debt:							
Pledge Agreement - Revenue Bonds 2001A	4th/San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.63 - 5.25%	\$2,075 - 3,205	23,930
Reimbursement Agreement - Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	5.00%	\$11,595 - 14,730	78,680
HUD Section 108 Loan	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	\$0	-
HUD Section 108 Loan (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	\$775 - 1,135	8,490
HUD Section 108 Loan (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	\$1,025 - 1,570	11,510
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2020	3.00%	\$0 - 15,176	15,176
City of San José (SERAF) Loan	Fund the State's SERAF Payment	10,000	2010-2011	6/30/2020	3.00%	\$0 - 12,142	12,142
City of San José - Commercial Paper Program	Fund the housing projects	14,227	2010-2012	6/30/2018	Variable	\$4,727	4,727
City of San José - Parking Fund Loans	Fund debt service	13,528	2006-2011	6/30/2020	3.00%	\$0 - 13,528	14,335
Other Long-Term Obligation - County Settlement Agreement	Settlement Agreement	25,290	6/30/2011	6/30/2018	Variable	\$9,424	11,120
City of San José - Reimbursement Agreement	Reimbursement Agreement	30,392	2012-2017	6/30/2018	LAIF Rate	\$0 - 30,392	30,392
Total Other Long-Term Debt							<u>210,502</u>
Total Long-Term Debt							<u>\$ 1,921,172</u>

* See Long Term Reimbursement Agreement below for additional disclosures.

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A summary of the changes in long-term debt and other obligations for the year ended June 30, 2017 follows (in thousands):

	June 30, 2016	Additions	Reductions	June 30, 2017	Amount Due One Year
Senior Tax Allocation Bonds:					
1997 Merged	\$ 4,425	\$ -	\$ (395)	\$ 4,030	\$ 415
1999 Merged	12,920	-	-	12,920	-
2003 Merged	125,745	-	(905)	124,840	885
2004 Merged Refunding Series A	106,705	-	(29,265)	77,440	30,540
2005 Merged Refunding Series A	122,705	-	(13,135)	109,570	26,210
2006 Merged Series A-T	13,300	-	-	13,300	-
2006 Merged Series B	67,000	-	-	67,000	-
2006 Merged Refunding Series C	423,430	-	-	423,430	-
2006 Merged Refunding Series D	272,885	-	(12,560)	260,325	830
2007 Merged Series A-T	5,200	-	(2,530)	2,670	2,670
2007 Merged Series B	191,600	-	-	191,600	-
2008 Merged Series A	13,085	-	(4,130)	8,955	4,355
2008 Merged Series B	80,145	-	-	80,145	-
1997 Housing Series E	15,540	-	(440)	15,100	475
2003 Housing Series J	25,030	-	(2,755)	22,275	2,885
2003 Housing Series K	4,935	-	(265)	4,670	275
2005 Housing Series A	10,445	-	-	10,445	-
2005 Housing Series B	96,595	-	(3,710)	92,885	3,885
2010 Housing Series A-1	54,055	-	-	54,055	1,235
2010 Housing Series A-2	2,155	-	(1,660)	495	495
Subtotal Senior Tax Allocation Bonds	<u>1,647,900</u>	<u>-</u>	<u>(71,750)</u>	<u>1,576,150</u>	<u>75,155</u>
Subordinate Tax Allocation Bonds:					
1996 Merged Series A	18,300	-	(1,400)	16,900	1,500
1996 Merged Series B	18,300	-	(1,400)	16,900	1,500
2003 Merged Revenue Series A	24,910	-	(14,075)	10,835	1,595
2003 Merged Revenue Series B	15,000	-	-	15,000	-
2010 Housing Series C	77,945	-	(3,060)	74,885	74,885
Subtotal Subordinate Tax Allocation Bonds	<u>154,455</u>	<u>-</u>	<u>(19,935)</u>	<u>134,520</u>	<u>79,480</u>
Other Long -Term Debt:					
Pledge Agreement - Revenue Bonds 2001A	26,005	-	(2,075)	23,930	2,170
Reimb Agreement - Refunding Rev Bonds 2001F	89,730	-	(11,050)	78,680	11,595
HUD Section 108 Loan	465	-	(465)	-	-
HUD Section 108 Loan (CIM)	9,230	-	(740)	8,490	775
HUD Section 108 Loan (Story & King)	12,480	-	(970)	11,510	1,025
City of San José - SERAF Loans (Principal)	22,816	-	-	22,816	-
City of San José - SERAF Loans (Interest)	430	4,072	-	4,502	-
City of San José - Commercial paper program	9,477	-	(4,750)	4,727	4,727
City of San José - Parking Fund Loans (Principal)	-	13,528	-	13,528	-
City of San José - Parking Fund Loans (Interest)	-	807	-	807	-
Other Long-Term Obligation - County Settlement Agreement (Principal)	18,850	-	(9,426)	9,424	9,424
Other Long-Term Obligation - County Settlement Agreement (Interest)	6,440	919	(5,663)	1,696	1,696
City of San José - Reimbursement agreement (Principal)	28,408	1,571	-	29,979	12,898
City of San José - Reimbursement agreement (Interest)	109	304	-	413	233
Subtotal Other Long-Term Debt	<u>224,440</u>	<u>21,201</u>	<u>(35,139)</u>	<u>210,502</u>	<u>44,543</u>
Subtotal Long-Term Debt before Unamortized Issuance Premium (discount), Net	<u>2,026,795</u>	<u>21,201</u>	<u>(126,824)</u>	<u>1,921,172</u>	<u>199,178</u>
Issuance Premium (discount), Net	22,808	-	(3,321)	19,487	3,281
Total Long-Term Obligations	<u>\$ 2,049,603</u>	<u>\$ 21,201</u>	<u>\$ (130,145)</u>	<u>\$ 1,940,659</u>	<u>\$ 202,459</u>

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Historically, upon receipt of property tax increment, the Agency calculated 80% and 20% amounts of tax increment and would then transfer the 20% portion to the Low and Moderate Income Housing Fund held by the City, as required by the California Health and Safety Code. The previous requirement to bifurcate the tax increment into the 80% and 20% portions was eliminated in the Redevelopment Dissolution Law. However, to maintain compliance with bond indentures secured by both 80% and 20% tax increment, the SARA continues bifurcating tax increment into 80% and 20% portions on an ongoing basis and segregating the funds accordingly until all annual senior debt service obligations have been satisfied.

Total Redevelopment Property Tax Trust Fund (“RPTTF”) revenue distributed by the County in current year was \$180,138,000, which was used to pay debt service and debt related expenses on Senior and Subordinate Merged Area Tax Allocation Bonds, Senior and Subordinate Housing Set-Aside Tax Allocation Bonds, City of San José Financing Authority Series 2001A, and City of San José Financing Authority Series 2001F. During the year ended June 30, 2017, the County withheld \$63,514,000 in RPTTF for payments of its prior year’s pass-through payments.

Senior Merged Area Tax Allocation Bonds (“Senior TABs”) are comprised of Series 1997, Series 1999, Series 2003, Series 2004A, Series 2005A, Series 2006A-T, Series 2006B, Series 2006C, Series 2006D, Series 2007A-T, 2007B, Series 2008A, and 2008B, are all secured primarily by a pledge of redevelopment property tax revenues (i.e., former tax increment), consisting of a portion of all taxes levied upon all taxable properties within each of the tax generating redevelopment project areas constituting the Merged Area Redevelopment Project, and are equally and ratably secured on a parity with each TAB series.

Redevelopment property tax revenues have been pledged until the year 2036, the final maturity date of the Senior TABs. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2017 is \$1,973,540,000.

The 80% redevelopment property tax revenue recognized and received for non-housing senior debt during the year ended June 30, 2017 in the amount of \$132,782,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the Senior TABs amounted to \$131,391,000 for the year ended June 30, 2017.

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

Redevelopment property tax revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Senior Housing Set-Aside Tax Allocation Bonds as of June 30, 2017 is \$298,526,000. The 20% redevelopment property tax revenue recognized and received for the Senior Housing Set-Aside Tax Allocation Bonds during the year ended June 30, 2017 in the amount of \$19,790,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on Senior Housing Set-Aside Tax Allocation Bonds amounted to \$19,604,000 for the year ended June 30, 2017.

Subordinate Tax Allocation Bonds – Variable-Rate

1996 Merged Area Revenue Bonds – In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B, each in the principal amount of \$29,500,000, to provide additional proceeds to finance various redevelopment projects in the Merged

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Project Area. The 1996A and 1996B Bonds (the “1996A/B Bonds”) are subordinate to the debt service payments of the Senior TABs.

The 1996 A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on the 1996 A/B Bonds amounted to \$246,000 for the year ended June 30, 2017. At June 30, 2017, the interest rate was 0.93% for the 1996A Bonds and 0.93% for the 1996B Bonds.

2003 Merged Area Revenue Bonds – In August 2003, the Agency issued Merged Area Revenue Bonds Series A in the principal amount of \$45,000,000 and Series B in the principal amount of \$15,000,000. The proceeds of the bonds were used mainly to finance redevelopment projects within the Merged Area. The 2003A and 2003B Bonds (the “2003A/B Bonds”) are ratably and equally secured by a pledge of the subordinated revenues and are subordinate to the debt service payment of the Senior TABs.

The 2003 A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on 2003 A/B Bonds was \$287,000 for the year ended June 30, 2017. As of June 30, 2017, the interest rate was 1.25% for the taxable 2003A Bonds and 0.93% for the 2003B Bonds.

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

In March 2017, the SARA sold its Revenue Participation Interest in the Marriott Hotel located at 301 Market Street to the County of Santa Clara for an appraised value of \$12,350,000. The net proceeds of \$12,350,000 were disbursed as follows: 1) \$9,880,000 to JPMorgan/US Bank to pay outstanding debt for the 2003A Revenue Bonds, and 2) \$2,470,000 to the County of Santa Clara to pay the accrued interest owed to the County in connection with the 2011 Settlement Agreement.

The credit facilities that support the variable-rate bonds are as follows:

	Balance June 30, 2017 (in thousands)	Credit Facility Description	
		Provider	Expiration Date
Redevelopment Agency Revenue Bonds:			
1996 Merged Series A	\$ 16,900	JPMorgan Chase Bank, N. A.	3/31/2018
1996 Merged Series B	16,900	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series A	10,835	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series B	15,000	JPMorgan Chase Bank, N. A.	3/31/2018
Total Variable Rate Revenue Bonds	<u>\$ 59,635</u>		

In connection with the 1996A/B Bonds and 2003A/B Bonds, on May 6, 2013, JPMorgan and the SARA entered into an Amended and Restated Reimbursement Agreement, which provided JPMorgan letters of credit (“LOCs”) as credit enhancements for each series of bonds. The Amended and Restated Reimbursement Agreement was subsequently amended effective June 1, 2016, by a Second Amendment to the Amended and Restated Reimbursement Agreement (“JPMorgan Second Amendment”). Pursuant to the JPMorgan Second Amendment, JPMorgan delivered amendments to the LOCs for each series of bonds that extended the LOCs’ terms from March 31, 2017 to March 31, 2018. JPMorgan required the interest rate to continue as a flexible rate in callable commercial paper mode.

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In the event the LOCs are not renewed or a substitute LOC cannot be obtained from another financial institution, JPMorgan would be required to acquire the Bonds under the terms of the Amended and Restated Reimbursement Agreement and the applicable Indenture. After JPMorgan acquires the bonds, the full amount of the outstanding 1996A/B Bonds and 2003A/B Bonds and any other amounts due and owing under the Amended and Restated Reimbursement Agreement will become “due and payable” from the Successor Agency to JPMorgan either immediately or in one year from such date if certain conditions are met, with interest owed for such interim one year period at the Bank Rate, which is equal to the Base Rate as defined below for the first ninety (90) days and the Base Rate plus 1% thereafter. If insufficient funds exist to pay the amount due and payable, whether in one year or immediately, the interest rate on the amount owed to JPMorgan under the Amended and Restated Reimbursement Agreement increases to the Default Rate, which is equal to the Base Rate plus 3%. “Base Rate” means on any day the greatest of (a) the Prime Rate plus 1.5%; (b) the Federal Funds Rate for such day plus 2%; and (c) 8.5%.

The SARA is required to pay JPMorgan an annual commitment fee for each credit facility based on the outstanding principal amount of the bonds supported by the credit facility. The JPMorgan Second Amendment lowered the annual commitment fee from 2.55% to 2.10%. JPMorgan also holds a liquidity reserve as an added source of security for the bank. Parcels of the former Agency owned land (“Pledged Properties”) are also used to secure the LOCs.

The JPMorgan Second Amendment reduced the liquidity reserve requirement to \$4,000,000 from \$5,000,000 without provision for adjustment for debt service coverage levels stated in prior agreements. The liquidity reserve balance is \$4,007,000 as of June 30, 2017.

The JPMorgan Second Amendment retains the Pledged Properties requirement and continues to require the SARA to dispose of Pledged Properties as expeditiously as possible and in a manner aimed at maximizing value pursuant to the Long Range Property Management Plan. The JPMorgan Second Amendment provides for the application of 80% of net proceeds from the sale of Pledged Properties towards the redemption of principal of the 1996A/B and 2003A/B Bonds. The JPMorgan Second Amendment also provides for payment of the remaining 20% of net proceeds from the sale of Pledged Properties to the County of Santa Clara to reduce the SARA's obligation under the 2011 Settlement Agreement. Upon payment in full to the County of the SARA's obligations under the 2011 Settlement Agreement, the County's lien on any remaining Pledged Projects would be released and, upon the sale of any of the remaining Pledged Properties, 100% of the net sales proceeds would be used towards the redemption of principal on the 1996 A/B and 2003 A/B Bonds.

2010 Housing Set-Aside Tax Allocation Bonds – On April 29, 2010, the Agency issued \$93,000,000 in Taxable Subordinate Housing Set-Aside Tax Allocation Variable Rate Bonds, Series 2010C (the “2010C Bonds”) through a direct purchase by Wells Fargo Bank, N.A. (“Wells Fargo Bank”). The 2010C Bonds were used to (1) refinance the Agency's term loan with Bank of New York and (2) finance and refinance the City's gap loans made or to be made in connection with certain affordable housing developments. The 2010C Bonds were secured by 20% housing set-aside tax allocation revenues on a basis subordinate to the senior bonds and were issued as multi-modal, variable rate bonds with a taxable interest rate that resets weekly. The 2010C Bonds have a single maturity anticipated to be no later than August 1, 2035, but with a scheduled Mandatory Purchase by the SARA and mandatory sinking fund redemption payments on August 1 of each year.

On April 1, 2017, SARA entered into a Third Amended and Restated Continuing Covenant Agreement with Wells Fargo Bank to extend the Mandatory Purchase Date to April 27, 2018 from April 28, 2017. Pursuant to the Third Supplement to Fiscal Agent Agreement (the “Fiscal Agent Agreement”), the interest rate is equal to the sum of basis points of 1.32% plus an applicable spread of 0.85%. At June 30, 2017, the all-in interest rate was 2.17%.

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Redevelopment property tax revenues have been pledged until the year 2035, the final maturity date of the 2010C Bonds. The total principal and projected interest remaining on the 2010C Bonds as of June 30, 2017 is \$89,575,000. The 20% redevelopment property tax revenue recognized and received for the 2010C Bonds during the year ended June 30, 2017 in the amount of \$4,922,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the 2010C Bonds amounted to \$4,346,000 for the year ended June 30, 2017.

If the Mandatory Purchase Date is not extended, or the SARA does not exercise its option under the Fiscal Agent Agreement to redeem the 2010C Bonds on or prior to the Mandatory Purchase Date, the SARA is required to pay the Purchase Price of the 2010C Bonds on the Mandatory Purchase Date; provided, however, if on the Mandatory Purchase Date the conditions set forth below are satisfied, the SARA shall not be required to pay the Purchase Price for the 2010C Bonds on the Mandatory Purchase Date except to the extent of available proceeds from the remarketing of the 2010C Bonds. In the event that the conditions set forth below are satisfied on the Mandatory Purchase Date, the available proceeds from the remarketing of the 2010C Bonds shall, to the extent available, be applied to pay the Purchase Price for the 2010C Bonds and that portion of 2010C Bonds for which the Purchase Price cannot be paid from such proceeds shall instead be repaid in accordance with the amortization provisions set forth in the Fiscal Agent Agreement, such that the Purchase Price of the 2010C Bonds shall be paid to Wells Fargo Bank in full on the third anniversary of the Mandatory Purchase Date, subject to the earlier remarketing, repayment, acceleration, prepayment or redemption of the 2010C Bonds.

The Purchase Price of the 2010C Bonds is due and payable in full on the Mandatory Purchase Date unless on such date the following conditions are satisfied: (A) no default shall have occurred and be continuing and (B) the SARA shall be deemed to have made on and as of such date each of the representations and warranties of the Agency made in the Continuing Covenant Agreement and in any certificate or document delivered in connection with the Continuing Covenant Agreement and each such representation and warranty shall continue to be accurate and complete in all material respects on and as of such date.

4th and San Fernando Parking Facility Project Pledge Agreement - In March 2001, the City of San José Financing Authority (the "Financing Authority"), issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the Fourth Street and San Fernando Parking Facility Project. The Agency entered into an Agency Pledge Agreement with the Financing Authority, which was assumed by the SARA, whereby the payments are payable from and secured by surplus "Agency Revenues". Under the terms of the Agency Pledge Agreement, SARA's payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the parking facility. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the former Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution, or indenture pursuant to which the outstanding tax allocation bonds were issued; plus (ii) all legally available revenues of the Agency.

As of June 30, 2017, the Series 2001A bonds have an outstanding balance of \$23,930,000.

Convention Center Refunding Reimbursement Agreement - In July 2001, the Financing Authority issued the Convention Center Lease Revenue Refunding Bonds, Series 2001F (tax-exempt) and Series 2001G (taxable) amounting to \$186,150,000 and \$4,580,000, respectively. The bonds were issued to refund the 1993 Revenue Bonds, Series C. The Series 2001G Bonds have been paid off and only the Series 2001F Bonds remain outstanding.

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In connection with the issuance of the 2001 Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement under which the Agency is obligated to use redevelopment property tax revenues or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Second Amended and Restated Reimbursement Agreement was assumed by the SARA.

The Series 2001F bonds mature in 2022 and have an outstanding balance of \$78,680,000 at June 30, 2017.

HUD Section 108 Loans – In 1997, the Agency received loan proceeds of \$5,200,000 under the provisions of the U.S. Department of Housing and Urban Development (“HUD”) Section 108. The proceeds were used to finance the following downtown projects: Security Building, Bassler & Haynes, Beach Buildings (“Eu Bldgs”), and the Masson Building. The loan was paid in full on August 1, 2016.

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

As of June 30, 2017, the outstanding loans due to HUD total \$20,000,000. The notes payable to HUD mature annually through August 2027 and bear interest at 20 basis points above the monthly LIBOR index. The average rate for the fiscal year 2017 was 1.10%. The HUD loans are secured by the City owned Fairmont Hotel Parking Garage, several SARA owned capital assets (Convention Center – South Hall, José Theatre, and Arena Lot 5A) and CDBG grant funds that are awarded to the City. The loans are being repaid by the City through CDBG funds due to insufficiency of redevelopment property tax revenues. During the year ended June 30, 2017, the SARA received \$2,024,000 from the City’s CDBG fund to fund debt service of the HUD 108 loans.

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 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 \$62,200,000 in fiscal year 2009-2010 (“2010 SERAF Obligation”) and \$12,800,000 in fiscal year 2010-2011 (“2011 SERAF Obligation”). Payments were made by May 10 of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of \$74,816,000 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 (\$62,000,000) 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 (\$10,000,000) and \$12,000,000 from the Financial Authority’s Commercial Paper Program. The source of the SERAF Loan to pay the 2011 SERAF Obligation was \$12,816,000 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

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Loans section. As such, the \$10,000,000 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 \$2,940,000 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 Commercial Paper Section below) 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 \$10,000,000 and also approved the repayment schedule for the source of funds used to pay the 2011 SERAF Obligation in the amount of \$12,816,000 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 \$52,000,000 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. As of June 30, 2017, this portion of the SERAF Loan has an outstanding principal and accumulated accrued interest balance of \$22,816,000 and \$4,502,000, respectively bears a simple interest rate of 3%.

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.

Commercial Paper Obligation – As discussed above, the City and the Agency entered into a SERAF Loan, a portion of which was funded by the Financing Authority's issuance of \$12,000,000 of commercial paper notes through the Financing Authority's Commercial Paper Program and deposited the funds in the Low and Moderate Income Housing Asset Fund. The Oversight Board and the SARA Board approved the inclusion of this obligation along with accrued interest and fees totaling \$14,227,000 as an enforceable obligation of the SARA, on May 26, 2016 and June 28, 2016, respectively. A payment of \$4,750,000 was made by the SARA in June 2017. The repayment of the commercial paper proceeds is reported in the ROPS 17-18 in the amount of \$4,727,000 as of June 30, 2017.

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

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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% interest and be paid on a future ROPS after the SARA can show sufficiency for one year. As of June 30, 2017, the Parking Fund Loans have outstanding principal and accumulated accrued interest balance of \$13,528,000 and \$807,000, respectively.

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 (the “County Pass-Through Payment”). On December 16, 1993, the Agency, the County and the City entered into a settlement agreement, which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (the “Amended Agreement”), 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 requires SARA to transfer funds to the County to pay for such projects (the “Delegated Payment”). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the 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.

The Amended Agreement provides that the payments due to the County from the Agency are subordinate to all the SARA’s debt. The County and SARA settled litigation related to the Amended Agreement in August 2017.

At July 1, 2016, the amount due to the County was \$47,006,000. During the year ended June 30, 2017, the County withheld \$63,514,000 in RPTTF for payments of its prior years’ pass-through payments. In addition, during the fiscal year 2016-2017, the SARA accrued pass-through amounts of \$38,683,000 and an interest reduction of \$895,000. Prior to settlement of PERS Levy Lawsuit, the County applied PERS levies settlement amount of \$18,656,000 to pay down the pass-through payable to the County of Santa Clara. The total amount due to the County under the pass-through agreement at June 30, 2017 is \$2,624,000.

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

Pursuant to the 2011 Settlement Agreement, the Agency agreed to pay the County \$21,500,000 of County tax-exempt bond proceeds by March 30, 2011, pay an additional \$5,000,000 of unrestricted funds, and transfer title to certain property to the County, resulting in a remaining amount of

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\$23,560,000 owed to the County. The Agency agreed to make payment in five installments no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

As security for payments due to the County of Santa Clara under the County Settlement Agreement executed in March 2011 ("2011 Settlement Agreement"), the Agency also (i) executed and recorded for the benefit of the County, a subordinated Deed of Trust on various Agency-owned real estate assets, (ii) assigned to the County one-half (1/2) of the Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties.

The SARA had sufficient redevelopment property tax revenues to pay the FY2015 (\$4,712,000) and the FY2016 (\$4,712,000) installments in the fiscal year 2017. As of June 30, 2017, the accrued 2017 and 2018 pass-through settlement payments and accumulated accrued interest owed are \$9,424,000 and \$1,696,000, respectively.

Debt Service Requirements – The debt service requirements for all debt are based upon a fixed rate of interest, except 1996 Merged Area Revenue Bonds Series A and B, 2003 Merged Area Revenue Bonds Series A and B, 2010 Housing Set-Aside Bonds Series C, and HUD Section 108 Loans, which bear interest at variable rates. For purposes of calculating the annual debt service requirements for variable rate debt at June 30, 2017, the following assumed effective rates have been used:

<u>Debt</u>	<u>Effective Interest Rate</u>
1996 Merged Area Revenue, Series A	0.93%
1996 Merged Area Revenue, Series B	0.93%
2003 Merged Area Revenue, Series A	1.25%
2003 Merged Area Revenue, Series B	0.93%
2010 Housing Set-Aside, Series C	2.17%
HUD Section 108 Loan	1.40%

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The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2017, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Merged Tax Allocation		Housing Tax Allocation Bonds ⁽¹⁾		Merged Area Revenue Bonds ⁽²⁾		Pledge and Other Agreements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 65,905	\$ 65,374	\$ 12,510	\$ 11,907	\$ 4,595	\$ 919	\$ 13,765	\$ 4,783
2019	68,205	62,138	13,165	11,369	4,675	1,088	14,450	4,077
2020	71,330	58,668	13,840	10,800	4,765	1,209	15,155	3,340
2021	74,950	54,959	14,560	10,191	5,245	1,241	15,895	2,565
2022	78,715	51,088	15,345	9,547	5,735	1,087	16,680	1,750
2023-2027	418,880	193,479	82,320	37,274	19,620	3,351	26,665	1,598
2028-2032	382,560	92,977	77,915	18,511	11,100	1,619	-	-
2033-2037	215,680	18,632	45,155	3,692	3,900	20	-	-
Total	\$ 1,376,225	\$ 597,315	\$ 274,810	\$ 113,291	\$ 59,635	\$ 10,534	\$ 102,610	\$ 18,113

Year Ending June 30	Obligations with 3rd Parties		Obligations with the City		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 11,224	\$ 2,073	\$ 17,625	\$ 233	\$ 125,624	\$ 85,289
2019	1,890	424	-	-	102,385	79,096
2020	1,990	442	-	-	107,080	74,459
2021	2,100	388	-	-	112,750	69,345
2022	2,205	323	-	-	118,680	63,794
2023-2027	10,015	554	-	-	557,500	236,256
2028-2032	-	-	-	-	471,575	113,108
2033-2037	-	-	53,425	5,489	318,160	27,832
Total	\$ 29,424	\$ 4,204	\$ 71,050	\$ 5,722	\$ 1,913,754	\$ 749,179

(1) Assumes the 2010C Bonds would not be payable upon demand in the event that there is not a further extension of the April 28, 2018 Mandatory Purchase Date. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

(2) Assumes the 1996 A/B and 2003 A/B Bonds would not be payable on demand upon expiration of the LOCs on March 31, 2018. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

Ambac Assurance Surety Bonds Held in Bond Reserve Funds – Ambac Assurance, a subsidiary of Ambac Financial (“Ambac”), is the surety provider for SARA’s Senior Tax Allocation Bonds Series 1999, and Series 2006D. According to the indenture for these bonds, in the event that such surety bond for any reason lapses or expires, and the remaining amount on deposit in the Bond Reserve Fund (as defined in the indenture) is less than the Bond Reserve Requirement (as defined in the indenture), the SARA is to address such shortfall by (i) delivering to the trustee a replacement surety bond, insurance policy or letter of credit or (ii) by making the required deposits to the Bond Reserve Fund.

On May 1, 2013, Ambac Financial emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. Starting in March 2010, certain of the policy liabilities of Ambac were allocated to a segregated account which has been subject to a plan of rehabilitation. Policy obligations not allocated to such segregated account, including the obligations in respect of the surety bonds provided by Ambac on deposit in the bond reserve funds described above, not subject to, and therefore will not be impacted by such rehabilitation proceeding. No

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assurance can be made regarding the claims paying ability of Ambac on surety bonds described above.

National Public Finance Guarantee Surety Bonds – National Public Financial Guarantee (“NPF”) is the surety provider for SARA’s Tax Allocation Bonds 1997, 2003, 2004A, 2005A, and 2006C. According to the indenture for these bonds, in the event that such surety bond for any reason lapses or expires, and the remaining amount on deposit in the Bond Reserve Fund (as defined in the indenture) is less than the Bond Reserve Requirement (as defined in the indenture), SARA is to address such shortfall by (i) delivering to the trustee a replacement surety bond, insurance policy or letter of credit or (ii) by making the required deposits to the Bond Reserve Fund. NPF is also the surety provider for Housing Set-Aside Tax Allocation Bonds 1997E and 2005AB. According to the Fiscal Agent Agreement for these bonds, in the event that such surety bond for any reason lapses, expires or is no longer in effect, and the remaining amount on deposit in the Reserve Account (as defined in the Fiscal Agent Agreement) is less than the Reserve Requirement (as defined in the Fiscal Agent Agreement), the SARA is to address such shortfall by (i) delivering to the trustee a qualified surety bond, or letter of credit or (ii) by making the required cash deposits to the Reserve Account.

On June 26, 2017, Standard & Poor’s Rating Service (“S&P”) downgraded the insurance financial strength rating of NPF to “A” from “AA-”.

Long Term Reimbursement Agreement – When redevelopment property tax revenues are not sufficient to cover the SARA’s enforceable obligations, the City Council has committed other sources of funding to cover costs related to the following obligations: agreements associated with the City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center) and City of San José Financing Authority Revenue Bonds, Series 2001A (4th and San Fernando Parking Facility Project); Education Revenue Augmentation Fund (“ERAF”) payments; and the SARA annual administrative budget and City support service expenses. On September 26, 2013 (as amended on August 27, 2015), the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement in order to establish an obligation for the SARA to repay the City for these advances.

Effective September 22, 2015, with the passage of SB 107, a city may loan funds to a Successor Agency that receives an insufficient distribution from the RPTTF and an enforceable obligation shall be deemed to be created for such loans. The receipt and use of such funds shall be reflected on the ROPS and subject to the approval of the Oversight Board. The interest payable on any such loan shall be calculated on a fixed annual simple basis at a rate not to exceed the most recently published interest rate for funds deposited into the Local Agency Investment Fund during the previous fiscal quarter. The repayment of such loan shall be subordinate to other approved enforceable obligations. Given the relevant provisions of SB 107, a reimbursement agreement is no longer necessary to establish the obligation to repay such loan.

Administrative Advances from the City – During the year ended June 30, 2017, the SARA incurred \$607,000 of direct administrative costs and \$823,000 of indirect general and administrative costs for support services of designated City employees allocated to the SARA administrative activities and \$16,000 for rent of City office space. As of June 30, 2017, the SARA has recorded a payable due to the City for direct administrative services and indirect City supporting services in the amounts of \$5,219,000 and \$5,950,000, respectively. Since administrative costs are subordinated to all SARA enforceable obligations, these costs will likely not be paid to the City until all other enforceable obligations are satisfied.

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5. Commitments and Contingencies Related to SARA

Risk Management

The SARA is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities, workers' compensation, and unemployment claims for which the SARA carries a worker's compensation insurance policy, 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, 2017.

Environmental Land Remediation Obligation

A review of the SARA's property during the year ended June 30, 2017 reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses), except the Miraido property and Convention Center South Hall Site as discussed below. In the unlikely possibility, given dissolution, a land remediation obligation occurs on a property due to a change in the purpose (i.e., convert to housing or retail project), the SARA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

Miraido Property - On December 2, 2010, the Agency received a Notice of Responsibility from the County for soil remediation at the Miraido Village Site located at 520 North 6th Street in San José. The Agency as owner of the underlying land leased the site under a ground lease (the "Ground Lease") to the Japantown Development Limited Partnership ("Miraido"). Miraido constructed an apartment complex on the Ground Lease site. The Agency received a Notice of Responsibility as an additional responsible party. The cleanup process is currently underway with Miraido's consultant working with the Santa Clara County Department of Environmental Health on finalizing the details of the cleanup process. As of June 30, 2017, Miraido's consultant at the direction of Miraido is continuing to mitigate the environmental contamination of the site.

Miraido is responsible for all cleanup activities under its Ground Lease with the Agency. Miraido's consultant has estimated that the cost to achieve case closure is approximately \$450,000 at Miraido's cost, with which the SARA's consultant concurs. Under the Ground Lease, Miraido is required to indemnify the SARA if the SARA incurs any costs as a result of the condition of the property. As of June 30, 2017, the SARA has not incurred any cleanup cost. Miraido's failure to indemnify the SARA as required under the Ground Lease would constitute a default under the Ground Lease.

The Miraido Property was sold in "as-is" condition in July 2017.

Convention Center South Hall Site – The South Hall Site is contaminated with gasoline and diesel products. The San Francisco Regional Water Quality Control Board ("Regional Board") has requested a Site Management Plan be prepared for the site. The Regional Board also requested a residential deed restriction be placed on the South Hall Site. A Phase I and Phase II study of the South Hall Site was prepared for the Agency indicating site contamination. There are no immediate plans to prepare a Site Management Plan. The extent and cost of mitigating the contamination is unknown.

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Arbitrage Obligation

Subsequent to the dissolution of the former Agency, the SARA Board appointed the City Director of Finance as the SARA's Chief Financial Officer. The Chief Financial Officer directed a comprehensive review of compliance with regulatory and tax compliance of the SARA's debt portfolio. As a result of that review, it was determined that arbitrage rebate calculations were required for a number of the outstanding tax-exempt bonds in SARA's debt portfolio. The City on behalf of the SARA has engaged the services of a rebate consultant. Staff of both the SARA and the City are working with the rebate consultant to complete the calculations. The SARA may owe arbitrage rebate to the IRS, but at this point the amount due is undetermined.

Contractual Commitments

At June 30, 2017, the SARA had \$5,576,000 for contracted obligations and commitments. In addition, the SARA has unpaid contractual obligations in the amount of \$5,321,000 due to the insufficiency of revenues.

Litigation Against County Auditor-Controller SARA

The City, on its own behalf, and the SARA filed a lawsuit on June 26, 2012, entitled *City of San Jose as Successor Agency to the San Jose Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.*, Case No. 34-2012-8000190, in the Superior Court for Sacramento County ("PERS Levy Lawsuit"). The suit seeks to compel the County Auditor Controller to disburse funds to the Successor Agency which the Agency previously received as tax increment. In June 2012, the County began withholding a portion of defined tax increment claiming the withheld amounts were special levies, including a contribution to the County's employees' retirement program (the "PERS Levy") and a levy for the benefit of the Santa Clara Valley Water District (the "Water District Levy"). The County asserted that, although it previously disbursed these funds to the Redevelopment Agency as tax increment, the Agency was never entitled to receive funds attributable to these levies. The lawsuit will also determine the priority of the County's pass-through payments under the Amended Agreement.

The Sacramento Superior Court ruled that the County Auditor Controller could not withhold funds attributable to the PERS Levy from the Successor Agency and the Redevelopment Dissolution Law did not require the County to subordinate its pass through payments to any Agency debt other than secured bond debt. The Superior Court did not rule on the Water District Levy.

The City and County both appealed the Superior Court decision to the Third District Court of Appeal, Case No. C074539 ("Court of Appeal"). The Court of Appeal held oral argument on September 26, 2016. On November 3, 2016, the Court of Appeal issued a decision finding that the PERS Levy tax increment was wrongfully withheld by the County prior to September 22, 2015, and the issue of the withholding of that increment after that date to the present is to be the subject of a further trial court hearing. In addition, the appellate court found that the County's pass through agreement was subordinate to bond debt of the Agency, but not other Agency debt based upon the express provisions of the Redevelopment Dissolution Law.

The County subsequently submitted a petition for review to the California Supreme Court and, on February 1, 2017, the California Supreme Court denied the County's petition for review.

In August 2017, the SARA, the City, and the County entered into a Settlement Agreement resolving the PERS Levy Lawsuit ("2017 Settlement Agreement"). At the time the 2017 Settlement Agreement was entered into by the parties, the County was holding \$31,866,000 attributable to the PERS Levy and the Water District Levy. Pursuant to the 2017 Settlement Agreement, the City was reimbursed \$12,898,000 for the debt-related SARA expenses paid FY2012-2015, the Santa Clara Valley Water

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District was paid \$312,000 for the AB1290 portion, and the remaining \$18,656,000 was used to pay down the County Pass-through obligations as of June 30, 2017. As a result, the SARA's financials statements as of June 30, 2017 reflected the reduction of \$18,656,000 to the pass-through payables to the County.

D. Subsequent Events

1. Tax and Revenue Anticipation Note

On July 3, 2017, the City entered into the Note Purchase Agreement with Bank of America, N.A. (the "Bank") under which the Bank agreed to purchase the City's short-term note in the full principal amount of \$150,000,000 (the "2017 Note") in accordance with the terms of the Note Purchase Agreement. The transaction was needed for cash flow borrowing purposes to facilitate the prefunding of the City's retirement contributions. Pursuant to the Note Purchase Agreement, the City issued and the Bank purchased the 2017 Note bearing interest at a variable rate based on a LIBOR rate, plus a margin of 0.350% for Bank fees. Under the Note Purchase Agreement, at the City's option on any interest payment date, the City may prepay the 2017 Note in whole or in part, with partial prepayment of principal not less than \$5,000,000 and in \$1,000,000 increments in excess thereof. Security for repayment of the 2017 Note is a pledge of the City's 2017-2018 secured property tax revenues (excluding property taxes levied for general obligation bonds) and all other legally available General Fund revenues of the City, if required. The 2017 Note has a stated maturity of June 29, 2018.

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

In July 2017, the SARA sold the Miraido Property to AFE Urban, Inc. (the buyer) for \$2,800,000. With a net book value of \$5,350,000, the SARA recognized a net loss of \$2,560,000 after transaction costs. The SARA received net proceeds of \$2,790,000. JPMorgan and the County each waived their respective liens on the Miraido project and the proceeds were used to partially call bonds associated with development of the Miraido project. The bonds involved were the Series 1996AB, 1997, 1999, 2004A, 2005A, and 2006CD. The SARA's interest as landlord under the Ground Lease and its right to receive Participation Rent was transferred to the buyer and the SARA would no longer receive any repayment of the financial improvement assistance in the amount of \$11,659,000.

3. City of San José Financing Authority Subordinate Wastewater Revenue Notes

On October 19, 2017, pursuant to a Credit Agreement dated as of October 1, 2017 by and among the City, the City of San José Financing Authority (the "Authority"), and Wells Fargo Bank, National Association (the "Bank"), the 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 San José-Santa Clara Regional Wastewater Facility (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. Additional periodic advances are anticipated to be made beginning in December 2017. The source of repayment of the notes, including associated fee and interest costs, are installment payments made to the 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 Authority, and City Resolution No. 78382, which provides for the allocation and pledge of net system revenues to secure the payment of wastewater revenue

City of San José
Notes to Basic Financial Statements
June 30, 2017

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 the State Revolving Fund loan) 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%, and the current cost for amounts advanced is (i) 0.35% plus 70% of 1-month LIBOR for tax-exempt notes and (ii) 0.45% plus 100% of 1-month LIBOR for the taxable note.

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City of San José
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2017

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

	Budgeted Amounts		Actual Amounts	Actual	Budgetary	Actual
	Original	Final	Variance with Final Budget Over (Under)	Amounts	to GAAP	Amounts
				Budgetary	Differences	GAAP Basis
REVENUES						
Taxes:						
Property	\$ 271,737	276,537	(149)	276,388	-	276,388
Utility	117,364	118,964	2,081	121,045	-	121,045
Franchise	48,917	49,817	(175)	49,642	-	49,642
Business Tax	48,800	53,550	609	54,159	-	54,159
Other	16,952	18,000	275	18,275	-	18,275
State of California in-lieu	435	460	7	467	-	467
Sales taxes shared revenue	224,696	211,896	(4,201)	207,695	-	207,695
Licenses, permits and fines	66,483	76,183	(1,010)	75,173	-	75,173
Intergovernmental	8,375	12,884	(1,752)	11,132	-	11,132
Charges for current services	42,722	44,797	1,252	46,049	-	46,049
Other revenues	31,219	35,928	2,893	38,821	-	38,821
Investment income	2,391	3,266	525	3,791	(1,569)	2,222 (1)
Total revenues	<u>880,091</u>	<u>902,282</u>	<u>355</u>	<u>902,637</u>	<u>(1,569)</u>	<u>901,068</u>
EXPENDITURES						
Current:						
General government	168,653	133,018	(26,016)	107,002	(11,141)	95,861 (2)
Public safety	575,692	554,096	(14,867)	539,229	(3,161)	536,068 (2)
Community services	154,206	150,664	(9,098)	141,566	(8,157)	133,409 (2)
Sanitation	4,934	4,873	(2,072)	2,801	(357)	2,444 (2)
Capital maintenance	214,807	176,615	(36,431)	140,184	(28,447)	111,737 (2)
Capital outlay	-	14,535	-	14,535	-	14,535
Debt service:						
Principal	101,564	1,526	-	1,526	-	1,526
Interest	1,883	1,863	(535)	1,328	-	1,328
Total expenditures	<u>1,221,739</u>	<u>1,037,190</u>	<u>(89,019)</u>	<u>948,171</u>	<u>(51,263)</u>	<u>896,908</u>
Excess (deficiency) of revenues over expenditures	<u>(341,648)</u>	<u>(134,908)</u>	<u>89,374</u>	<u>(45,534)</u>	<u>49,694</u>	<u>4,160</u>
OTHER FINANCING SOURCES (USES)						
Procees for sale of capital assets	102,500	2,500	(2,344)	156	-	157
Operating transfers in	12,554	12,554	7,907	20,461	-	20,461
Operating transfers-out	(28,796)	(28,854)	(2,130)	(30,984)	-	(30,985)
Total other financing sources (uses)	<u>86,258</u>	<u>(13,800)</u>	<u>3,433</u>	<u>(10,367)</u>	<u>-</u>	<u>(10,367) (1)</u>
Net change in fund balances	(255,390)	(148,708)	92,807	(55,901)	49,694	(6,207)
Fund balance - beginning	258,944	258,944	-	258,944	60,095	319,039
Beginning encumbrance	-	-	-	39,758	(39,758)	-
Fund balance - ending	<u>\$ 3,554</u>	<u>110,236</u>	<u>92,807</u>	<u>242,801</u>	<u>70,031</u>	<u>312,832</u>

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budget are prepared.

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2017

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

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Variance with Final Budget Over (Under)			
Intergovernmental	\$ 4,196	5,781	5,731	11,512	-	11,512
Investment income	110	3,893	(639)	3,254	(189)	3,065 (1)
Other revenues	15,576	53,991	(6,120)	47,871	(3,745)	44,126 (3)
Total revenues	<u>19,883</u>	<u>63,665</u>	<u>(1,028)</u>	<u>62,637</u>	<u>(3,934)</u>	<u>58,703</u>
EXPENDITURES						
Current:						
Community services	24,338	31,649	(8,345)	23,304	(5,955)	17,349 (2), (3)
Total expenditures	<u>24,338</u>	<u>31,649</u>	<u>(8,345)</u>	<u>23,304</u>	<u>(5,955)</u>	<u>17,349</u>
Excess (deficiency) of revenues over expenditures	<u>(4,455)</u>	<u>32,016</u>	<u>7,317</u>	<u>39,333</u>	<u>2,021</u>	<u>41,354</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	(40)	(71)	-	(71)	-	(71)
Total other financing sources (uses)	<u>(40)</u>	<u>(71)</u>	<u>-</u>	<u>(71)</u>	<u>-</u>	<u>(71)</u>
Net change in fund balances	(4,495)	31,945	7,317	39,262	2,021	41,283
Fund balance - beginning	28,951	28,951	-	28,951	57,426	86,377
Add beginning encumbrance balance	-	-	-	8,528	(8,528)	-
Fund balances - ending	<u>\$ 24,456</u>	<u>60,896</u>	<u>7,317</u>	<u>76,741</u>	<u>50,919</u>	<u>127,660</u>

Explanation of differences:

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

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2017

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

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final				
REVENUES						
Investment income	\$ 28,776	28,766	(15,639)	13,127	495	13,622 (1)
Other revenues	15,419	15,400	(10,307)	5,093	(3,399)	1,694 (3)
Total revenues	<u>44,195</u>	<u>44,166</u>	<u>(25,946)</u>	<u>18,220</u>	<u>(2,904)</u>	<u>15,316</u>
EXPENDITURES						
Current:						
Community services	30,042	42,981	(18,969)	24,012	(13,035)	10,977 (2), (3)
Total expenditures	<u>30,042</u>	<u>42,981</u>	<u>(18,969)</u>	<u>24,012</u>	<u>(13,035)</u>	<u>10,977</u>
Excess (deficiency) of revenues over expenditures	<u>14,152</u>	<u>1,185</u>	<u>(6,977)</u>	<u>(5,792)</u>	<u>10,131</u>	<u>4,339</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	(463)	(467)	-	(467)	-	(467)
Total other financing sources (uses)	<u>(463)</u>	<u>(467)</u>	<u>-</u>	<u>(467)</u>	<u>-</u>	<u>(467)</u>
Net change in fund balances	13,689	718	(6,977)	(6,259)	10,131	3,872
Fund balance - beginning	44,217	44,217	-	44,217	304,243	348,460
Add beginning encumbrance balance	-	-	-	2,639	(2,639)	-
Fund balances - ending	<u>\$ 57,906</u>	<u>44,935</u>	<u>(6,977)</u>	<u>40,597</u>	<u>311,735</u>	<u>352,332</u>

Explanation of differences:

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

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Integrated Waste Management
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
(\$000's)

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budgetary to GAAP Differences</u>	<u>Actual Amounts GAAP Basis</u>
	<u>Original</u>	<u>Final</u>				
REVENUES						
Charges for current services	\$ 126,545	126,545	1,925	128,470	-	128,470
Rent	510	510	9	519	-	519
Investment income	232	232	(7)	225	-	225
Total revenues	<u>127,287</u>	<u>127,287</u>	<u>1,927</u>	<u>129,214</u>	<u>-</u>	<u>129,214</u>
EXPENDITURES						
Current:						
Sanitation	129,497	129,497	(1,003)	128,494	(1,982)	126,512 (1)
Capital outlay	53	53	-	53	-	53
Debt service:						
Principal	-	-	428	428	-	428
Total expenditures	<u>129,550</u>	<u>129,550</u>	<u>(575)</u>	<u>128,975</u>	<u>(1,982)</u>	<u>126,993</u>
Excess (deficiency) of revenues over expenditures	<u>(2,263)</u>	<u>(2,263)</u>	<u>2,502</u>	<u>239</u>	<u>1,982</u>	<u>2,221</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	-	-	(1,093)	(1,093)	-	(1,093)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,093)</u>	<u>(1,093)</u>	<u>-</u>	<u>(1,093)</u>
Net change in fund balances	(2,263)	(2,263)	1,409	(854)	1,982	1,128
Fund balance - beginning	28,301	28,301	-	28,301	-	28,301
Add beginning encumbrance balance	-	-	3,067	3,067	(3,067)	-
Fund balances - ending	<u>\$ 26,038</u>	<u>26,038</u>	<u>4,476</u>	<u>30,514</u>	<u>(1,085)</u>	<u>29,429</u>

Explanation of differences:

(1) Encumbrances of funds for which formal budget is prepared.

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedules of Employer Contributions – Defined Benefit Pension Plans

PFDRP Schedule of Employer Contributions

(Dollar Amounts in Thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 136,957	\$ 132,480	\$ 129,279	\$ 123,583	\$ 105,294	\$ 121,008	\$ 77,918	\$ 52,315	\$ 53,103	\$ 56,372
Contributions in relation to the actuarially determined contributions	136,957	132,480	129,279	123,583	105,294	121,008	77,918	52,315	53,103	56,372
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 188,177	\$ 186,874	\$ 180,226	\$ 180,083	\$ 180,333	\$ 184,750	\$ 222,464	\$ 239,570	\$ 243,196	\$ 240,503
Contributions as a percentage of covered-employee payroll	72.78%	70.89%	71.73%	68.63%	58.39%	65.50%	35.02%	21.84%	21.84%	23.44%

**Actuarial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contribution rates for fiscal year 2011, the plan transitioned to annual actuarial valuations.

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09	
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	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	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	7.00%	7.00%	7.125%	7.125%	7.25%	7.50%	7.75%	8.00%	
Salary increases	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.	3.25% plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service.	2.00% for one year 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 2013 and 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 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 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.	0.75% plus merit component based on length of service ranging from 9.75% for new hires to 6.00% for members with 8 or more years of service.	0.75% plus merit component based on length of service ranging from 9.75% for new hires to 6.00% for members with 8 or more years of service.	
Amortization payment growth rate	3.25%	3.25%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	
COLA	3.0% for Tier 1, 15% for Tier 2	3.0% for Tier 1, 15% for Tier 2	3.0% for Tier 1, 15% for Tier 2	3.0% for Police Tier 1 & Fire, 15% for Police Tier 2	3.0% for Police Tier 1 & Fire, 15% for Police Tier 2	3% for Police Tier 1 & Fire	3% for Police Tier 1 & Fire	3% for Police and Fire	
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 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.				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 forward one year.	

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

FCERS Schedule of Employer Contributions

(Dollar Amounts in Thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 138,483	\$ 129,456	\$ 114,751	\$ 102,811	\$ 103,109	\$ 87,082	\$ 59,180	\$ 54,566	\$ 57,020	\$ 54,958
Contributions in relation to the actuarially determined contributions	138,483	124,723	114,751	107,544	103,109	87,082	59,180	54,566	57,020	54,958
Contribution deficiency (excess)	\$ -	\$ 4,733	\$ -	\$ (4,733)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 271,153	\$ 257,771	\$ 240,678	\$ 219,434	\$ 217,375	\$ 223,158	\$ 275,869	\$ 308,684	\$ 320,993	\$ 302,414
Contributions as a percentage of covered-employee payroll	51.07%	48.39%	47.68%	49.01%	47.43%	39.02%	21.45%	17.68%	17.76%	18.17%

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	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	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	7.00%	7.00%	7.25%	7.50%	7.95%	7.95%	7.75%	8.25%
Salary increases	2.85% plus merit component based on years of service	2.85% plus merit component based on employee classification and years of service	2.0% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/ longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/ longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/ longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/ longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service
Amortization payment growth rate	2.85%	2.85%	2.43%	3.25%	3.90%	3.90%	3.83%	4.25%
COLA	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

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

(Dollar amounts in thousands):	PFDRP			
	2017	2016	2015	2014
Total pension liability				
Service cost (middle of year)	\$ 72,760	\$ 74,531	\$ 74,895	\$ 75,030
Interest (includes interest on service cost)	290,961	274,488	262,737	251,701
Changes of benefit terms	5,752	-	-	-
Differences between expected and actual experience	67,557	(8,673)	21,457	-
Changes of assumptions	72,680	90,179	56,311	-
Benefit payments, including refunds of member contributions	(196,032)	(186,939)	(176,253)	(167,397)
Net change in total pension liability	313,678	243,586	239,147	159,334
Total pension liability - beginning	4,220,098	3,976,512	3,737,365	3,578,031
Total pension liability - ending	<u>\$ 4,533,776</u>	<u>\$ 4,220,098</u>	<u>\$ 3,976,512</u>	<u>\$ 3,737,365</u>
Plan fiduciary net position				
Contributions - employer	\$ 136,957	\$ 132,480	\$ 129,279	\$ 123,583
Contributions - member	20,580	21,508	20,747	21,115
Net investment income	292,734	(29,207)	(27,690)	404,978
Benefit payments, including refunds of member contributions	(196,032)	(186,939)	(176,253)	(167,397)
Administrative expense	(4,633)	(4,256)	(4,191)	(3,631)
Net change in plan fiduciary net position	249,606	(66,414)	(58,108)	378,648
Plan fiduciary net position - beginning	3,043,651	3,110,065	3,168,173	2,789,525
Plan fiduciary net position - ending	<u>\$ 3,293,257</u>	<u>\$ 3,043,651</u>	<u>\$ 3,110,065</u>	<u>\$ 3,168,173</u>
Net pension liability - ending	\$ 1,240,519	\$ 1,176,447	\$ 866,447	\$ 569,192
Plan fiduciary net position as a percentage of the total pension liability	72.64%	72.12%	78.21%	84.77%
Covered employee payroll	\$ 188,177	\$ 186,874	\$ 180,226	\$ 180,083
Net pension liability as a percentage of covered employee payroll	659.23%	629.54%	480.76%	316.07%

(Dollar amounts in thousands):	FCERS			
	2017	2016	2015	2014
Total pension liability				
Service cost (middle of year)	\$ 51,887	\$ 49,011	\$ 46,795	\$ 43,334
Interest (includes interest on service cost)	249,387	229,610	221,690	214,487
Changes of benefit terms	12,132	-	-	-
Differences between expected and actual experience	40,853	39,720	13,005	-
Changes of assumptions	60,233	205,875	108,674	-
Benefit payments, including refunds of member contributions	(183,430)	(173,318)	(164,562)	(155,936)
Net change in total pension liability	231,062	350,898	225,602	101,885
Total pension liability - beginning	3,692,148	3,341,250	3,115,648	3,013,763
Total pension liability - ending	<u>\$ 3,923,210</u>	<u>\$ 3,692,148</u>	<u>\$ 3,341,250</u>	<u>\$ 3,115,648</u>
Plan fiduciary net position				
Contributions - employer	\$ 138,483	\$ 124,723	\$ 114,751	\$ 107,544
Contributions - member	17,227	15,920	13,621	13,596
Net investment income	146,010	(35,011)	(16,642)	263,688
Benefit payments, including refunds of member contributions	(183,430)	(173,318)	(164,562)	(155,936)
Administrative expense	(4,378)	(3,941)	(3,898)	(3,201)
Net change in plan fiduciary net position	113,912	(71,627)	(56,730)	225,691
Plan fiduciary net position - beginning	1,858,880	1,930,507	1,987,237	1,761,546
Plan fiduciary net position - ending	<u>\$ 1,972,792</u>	<u>\$ 1,858,880</u>	<u>\$ 1,930,507</u>	<u>\$ 1,987,237</u>
Net pension liability - ending	\$ 1,950,418	\$ 1,833,268	\$ 1,410,743	\$ 1,128,411
Plan fiduciary net position as a percentage of the total pension liability	50.29%	50.35%	57.78%	63.78%
Covered employee payroll	\$ 271,153	\$ 257,771	\$ 240,678	\$ 219,434
Net pension liability as a percentage of covered employee payroll	719.31%	711.20%	586.15%	514.24%

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedule of Investment Returns – Defined Benefit Pension Plans

	PFDRP			
	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	9.68%	(0.85%)	(0.85%)	13.0%

	FCERS			
	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	7.53%	(0.79)%	(1.07)%	7.49%

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

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios – CalPERS

(Dollar amounts in thousands):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement date:	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.03634%	0.03783%	0.01697%
Proportionate share of the net pension liability	\$ 1,262	\$ 1,038	\$ 1,056
Covered employee payroll	\$ 756	\$ 589	\$ 692
Proportionate share of the net pension liability as percentage of covered-employee payroll	166.93%	176.23%	152.60%
Plan's fiduciary net position	3,666	3,671	3,395
Plan's fiduciary net position as a percentage of the total pension liability	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.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedule of Employer Contributions – CalPERS

(Dollar amounts in thousands)	2017	2016	2015
Actuarially determined contribution	\$ 162	\$ 148	\$ 107
Contributions in relation to the actuarially determined contributions	162	156	107
Contribution deficiency (excess)	\$ -	\$ (8)	\$ -
Covered - employee payroll	\$ 776	\$ 756	\$ 589
Contributions as a percentage of covered employee payroll	20.88%	20.63%	17.06%

Notes to Schedule:

Valuation Date	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	Market Value	15 Year Smoothed Market
Actuarial Assumptions:			
Discount Rate	7.5% (net of administrative expenses)		
Termination Liability Discount Rate	2.91%	3.72%	2.98%
Salary Growth	3.20% to 12.20%	3.30% to 14.20%	
	Depending on Age, Service and Type of Employment		
Inflation	2.75%		
Payroll Growth	3.00%		

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015. Additional years will be displayed as they occur.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedules of Employer Contributions – Postemployment Healthcare Plans

Beginning in FYE 2010 for Police members and FYE 2012 for Fire members, actual contributions were intended to phase in to the full ARC as defined in the bargaining agreements and consistent with the parameters of GASB Statement No. 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC has been determined as the minimum amount that was consistent with the parameters of GASB Statement No. 45. No amount has been determined on an actuarial basis to fund the plan, and consequently the schedule of employer contributions is not provided.

Beginning in FYE 2010 for FCERS members, actual contributions were intended to phase in to the full ARC as defined in the bargaining agreements and consistent with the parameters of GASB Statement No. 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC has been determined as the minimum amount that was consistent with the parameters of GASB Statement No. 45. No amount has been determined on an actuarial basis to fund the plan, and consequently, the schedule of employer contributions is not provided.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedule of Changes in the Employer's Net OPEB Liability – Postemployment Healthcare Plans

(Dollar amounts in thousands):	PFDRP
Total OPEB liability	2017
Service cost (middle of year)	\$ 16,112
Interest (includes interest on service cost)	46,774
Benefit payments, including refunds of member contributions	(24,799)
Net change in total OPEB liability	38,087
Total OPEB liability - beginning	676,430
Total OPEB liability - ending	\$ 714,517
Plan fiduciary net position	
Contributions - employer	\$ 20,667
Contributions - member	18,116
Net investment income	12,453
Benefit payments, including refunds of member contributions	(24,799)
Administrative expense	(182)
Net change in plan fiduciary net position	26,255
Plan fiduciary net position - beginning	123,427
Plan fiduciary net position - ending	\$ 149,682
Net pension liability - ending	\$ 564,835
Plan fiduciary net position as a percentage of the total OPEB liability	20.95%
Covered employee payroll	\$ 188,177
Net OPEB liability as a percentage of covered employee payroll	300.16%

(Dollar amounts in thousands):	FCERS
Total OPEB liability	2017
Service cost (middle of year)	\$ 11,109
Interest (includes interest on service cost)	49,977
Benefit payments, including refunds of member contributions	(31,007)
Net change in total OPEB liability	30,079
Total OPEB liability - beginning	736,721
Total OPEB liability - ending	\$ 766,800
Plan fiduciary net position	
Contributions - employer	\$ 31,905
Contributions - member	16,827
Net investment income	17,041
Benefit payments, including refunds of member contributions	(31,007)
Administrative expense	(241)
Net change in plan fiduciary net position	34,525
Plan fiduciary net position - beginning	225,845
Plan fiduciary net position - ending	\$ 260,370
Net pension liability - ending	\$ 506,430
Plan fiduciary net position as a percentage of the total OPEB liability	33.96%
Covered employee payroll	\$ 271,153
Net OPEB liability as a percentage of covered employee payroll	186.77%

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedule of Investment Returns – Postemployment Healthcare Plans

	<u>PFDRP</u>
	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	7.17%
	<u>FCERS</u>
	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	7.20%

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

City of San José
Required Supplementary Information (Unaudited)
June 30, 2017

Schedules of Funding Progress – Postemployment Healthcare Benefit Plans
(\$000's)

Police and Fire Department Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/14	\$ 93,605	\$ 706,709	\$ 613,104	13%	\$ 188,189	326%
6/30/15	114,565	739,753	625,188	15%	184,733	338%
6/30/16	135,207	778,871	643,664	17%	194,072	332%

Federated City Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/14	\$ 199,776	\$ 729,406	\$ 529,630	27%	\$ 234,677	226%
6/30/15	209,761	817,673	607,912	26%	251,430	242%
6/30/16	225,845	764,261	538,416	30%	266,823	202%

City of San José
Notes to Required Supplementary Information (Unaudited)
June 30, 2017

I. Budgetary Information

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

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

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

II. Budgetary Results Reconciled to GAAP

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

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

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

City of San José
Notes to Required Supplementary Information (Unaudited)
June 30, 2017

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial schedules.
- The Community Facility Revenue non-major special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial schedules.
- Certain line of credit transactions are recognized as expenditures in the budgetary basis financial schedules but are recorded as an asset in the GAAP basis financial statements. When the outside agency draws down on the line of credit, the City records an asset, advances to other agencies, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules. When the outside agency pays down the line of credit, the City records a reduction to its assets in the GAAP basis financial statements and revenues on the budgetary basis financial schedules.
- Certain grant revenues received in advance are recognized on the budgetary basis financial schedules, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

III. Budget Revisions

On October 17 2017, the City Council approved certain fiscal year 2017 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedules of revenues, expenditures, and changes in fund balances - budget and actual reflect such budget revisions.

Combining Nonmajor Governmental Funds

Combining Nonmajor Governmental Funds

City of San José
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017
(\$000's)

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Project Funds</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 352,348	-	109,499	461,847
Receivables (net of allowance for uncollectibles)	22,414	201	2,799	25,414
Due from other funds	1,648	-	224	1,872
Loans receivable (net of allowance for uncollectibles)	4,789	-	-	4,789
Advances and deposits	296	-	39	335
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	-	33,201	4,030	37,231
Cash and investments held with fiscal agent	-	-	28,212	28,212
Other cash and investments	15,623	-	-	15,623
Total assets	<u>\$ 397,118</u>	<u>33,402</u>	<u>144,803</u>	<u>575,323</u>
LIABILITIES				
Accounts payable	\$ 25,830	-	2,619	28,449
Accrued salaries, wages, and payroll taxes	3,589	-	514	4,103
Due to other funds	3,471	-	224	3,695
Unearned revenue	10,790	-	-	10,790
Advances and deposits payable	1,531	-	13	1,544
Total liabilities	<u>45,211</u>	<u>-</u>	<u>3,370</u>	<u>48,581</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,984</u>	<u>-</u>	<u>-</u>	<u>1,984</u>
FUND BALANCES				
Nonspendable	296	-	39	335
Restricted	305,235	33,402	73,312	411,949
Committed	29,890	-	-	29,890
Assigned	14,502	-	68,082	82,584
Total fund balances	<u>349,923</u>	<u>33,402</u>	<u>141,433</u>	<u>524,758</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 397,118</u>	<u>33,402</u>	<u>144,803</u>	<u>575,323</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017
(\$000's)

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes and special assessments	\$ 114,543	37,342	30,188	182,073
Intergovernmental	47,124	-	17,854	64,978
Charges for current services	70,995	-	5,933	76,928
Rent	50,319	-	-	50,319
Investment income	1,759	235	780	2,774
Other revenues	3,525	-	2,271	5,796
Total revenues	<u>288,265</u>	<u>37,577</u>	<u>57,026</u>	<u>382,868</u>
EXPENDITURES				
Current:				
General government	14,992	-	-	14,992
Public safety	1,219	-	-	1,219
Community services	96,432	-	-	96,432
Sanitation	22,354	-	-	22,354
Capital maintenance	95,351	-	45,445	140,796
Capital outlay	47,767	-	5,842	53,609
Debt service:				
Principal	-	19,655	-	19,655
Interest and fiscal charges	-	17,854	-	17,854
Total expenditures	<u>278,115</u>	<u>37,509</u>	<u>51,287</u>	<u>366,911</u>
Excess (deficiency) of revenues over (under) expenditures	<u>10,150</u>	<u>68</u>	<u>5,739</u>	<u>15,957</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of capital assets	17,445	-	-	17,445
Transfers in	22,023	25,183	1,220	48,426
Transfers out	<u>(52,265)</u>	<u>(25,141)</u>	<u>(2,629)</u>	<u>(80,035)</u>
Total other financing sources (uses)	<u>(12,797)</u>	<u>42</u>	<u>(1,409)</u>	<u>(14,164)</u>
Net change in fund balances	(2,647)	110	4,330	1,793
Fund balances - beginning	<u>352,570</u>	<u>33,292</u>	<u>137,103</u>	<u>522,965</u>
Fund balances - ending	<u>\$ 349,923</u>	<u>33,402</u>	<u>141,433</u>	<u>524,758</u>

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Nonmajor Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Special Revenue Funds of the City of San José include the following:

Prusch Memorial Park Fund – Established to account for the development, construction, and improvement of the Emma Prusch Memorial Park.

Gift Trust Fund – Established to receive gifts, donations, and bequests.

Workforce Investment Act Funds – Established to account for federal funds for training and placement of dislocated and economically disadvantaged workers.

Special Assessment Maintenance Districts Funds – Established to account for assessments involving Maintenance District activities.

Ng Shing Gung Capital Maintenance Fund – Established to account for capital maintenance needs of the Ng Shing Gung Exhibit and Museum.

Subdivision Park Trust Fund – Established to account for the payment of fees and/or the dedication of land for parks and recreational purposes in residential subdivisions.

Construction and Property Conveyance Tax Funds – Established to account for the collection of taxes from construction and property transfers for capital maintenance of libraries, parks, recreational, public works, and communication facilities.

1943 and 1964 Gas Tax Maintenance and Construction Funds – Established to account for gas taxes collected for capital maintenance of public streets subject to provisions of the Streets and Highway Code of the State of California under Sections 2105, 2106, and 2107.

Storm Drainage Fee Funds – Established to account for fees collected from developers as a result of connections to the storm drainage sewer system which may be used for capital maintenance of storm drainage systems and for land acquisition for such systems.

Supplemental Local Law Enforcement Fund – Established to account for revenues received from the State of California (AB 3229) to be used for front line municipal police service.

Underground Utility Fund – Established to account for fees collected from developers in lieu of the developers placing certain utility facilities underground to be used for minimizing the piecemeal undergrounding of utility facilities throughout the City.

State Drug Forfeiture Fund – Established to account for State drug forfeiture monies received pursuant to California Health and Safety Code Section 11489.

Library Parcel Tax Fund – Established to account for the annual parcel tax used for enhancing the City's library services and facilities.

Federal Drug Forfeiture Fund – Established to account for Federal drug forfeiture monies received pursuant to the drug abuse prevention and control provisions of Title 21, Chapter 13 of the United States Code.

Nonmajor Special Revenue Funds

Residential Construction Tax Contribution Fund – Established to account for the accumulation of residential construction tax monies for eligible street maintenance and improvements.

Arterial and Major Collectors Fund – Established to account for funds repaid by abutting landowners for the City's capital maintenance costs of existing and proposed arterial and major collector streets.

Community Facility Revenue Funds – Established to account for the rental revenues received from the Hayes Mansion and the Ice Centre operations, and to provide for the accumulation and transfer of base rental income to the appropriate debt service funds for repayment of the facilities-related debts.

Building and Structures Construction Tax Fund – Established to account for revenues received from the issuance of building permits and capital maintenance expenditures for existing and proposed City streets.

Development Enhancement Fund – Established to account for loans and loan guarantees to assist small business development.

Community Development Block Grant Fund – Established to account for Federal grant funds received from the U.S. Department of Housing and Urban Development under Title II of the Housing and Community Development Act of 1974.

Economic Development Administration Loans Fund – Established to account for Federal funds received for the Economic Development Administration Loan program for eligible administrative expenses and loans to small businesses.

Storm Drainage Service Use Charge Funds – Established to account for revenues collected from owners of properties benefited by the storm drainage service which may be used for capital maintenance and operation of the storm drainage system.

Transient Occupancy Tax Fund – Established to account for transient occupancy tax revenues and to provide for the funding of fine arts and cultural grant programs, the San José Convention and Visitors Bureau and the conventions and cultural facilities operation.

Lake Cunningham Fund – Established to account for the parking fees and lease payment revenues used for maintenance and operations at Lake Cunningham Park.

Edward Byrne Memorial Justice Funds – Established to account for Federal funding in support of the Edward G. Byrne Memorial Justice Assistance grant.

Municipal Golf Courses Fund – Established in 1969 to manage and operate the public golf courses.

Convention and Cultural Facilities Funds – Established to fund the costs of managing and operating the San José McEnery Convention Center, the Center for the Performing Arts, Civic Auditorium, California Theatre, Montgomery Theater, Parkside Hall, South Hall, and their related facilities and grounds.

Nonmajor Special Revenue Funds



City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017
(\$000's)

	Prusch Memorial Park (Fund 131)	Gift Trust (Fund 139)	Workforce Investment Act (Funds 290-294, 298)
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 342	3,780	-
Receivables (net of allowance for uncollectibles)	2	28	3,048
Due from other funds	-	-	-
Loans receivable (net)	-	-	-
Advances and deposits	-	-	-
Restricted assets:			
Other cash and investments	-	-	-
Total assets	<u>\$ 344</u>	<u>3,808</u>	<u>3,048</u>
LIABILITIES			
Accounts payable	\$ 46	36	579
Accrued salaries, wages and payroll taxes	-	12	116
Due to other funds	-	-	1,133
Unearned revenue	-	-	-
Advances, deposits and reimbursable credits	-	-	-
Total liabilities	<u>46</u>	<u>48</u>	<u>1,828</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	-	1,220
Committed	298	-	-
Assigned	-	3,760	-
Total fund balances	<u>298</u>	<u>3,760</u>	<u>1,220</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 344</u>	<u>3,808</u>	<u>3,048</u>

Special Assessment Maintenance Districts (Funds 302, 310, 344, 345, 351-369, 371-374, 376, 379)	Ng Shing Gung Capital Maintenance (Fund 303)	Subdivision Park Trust (Fund 375)	Construction and Property Conveyance Tax (Funds 377-378, 380-398)	1943 Gas Tax Maintenance and Construction (Fund 409)	1964 Gas Tax Maintenance and Construction (Funds 410-411)
17,929	67	75,736	87,447	-	-
784	-	524	4,826	527	862
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,837	-	-
<u>18,713</u>	<u>67</u>	<u>76,260</u>	<u>94,110</u>	<u>527</u>	<u>862</u>
725	-	2,877	3,503	-	-
49	-	124	351	-	-
-	-	-	434	527	862
121	-	-	1,833	-	-
-	-	-	-	-	-
<u>895</u>	<u>-</u>	<u>3,001</u>	<u>6,121</u>	<u>527</u>	<u>862</u>
-	-	-	-	-	-
-	-	-	-	-	-
17,818	-	73,259	87,989	-	-
-	-	-	-	-	-
-	67	-	-	-	-
<u>17,818</u>	<u>67</u>	<u>73,259</u>	<u>87,989</u>	<u>-</u>	<u>-</u>
<u>18,713</u>	<u>67</u>	<u>76,260</u>	<u>94,110</u>	<u>527</u>	<u>862</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017
(\$000's)

	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 762	2,702	7,002	586
Receivables (net of allowance for uncollectibles)	3	150	350	2
Due from other funds	-	-	-	-
Loans receivable (net)	-	-	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other cash and investments	-	-	-	-
Total assets	<u>\$ 765</u>	<u>2,852</u>	<u>7,352</u>	<u>588</u>
LIABILITIES				
Accounts payable	\$ 12	42	-	54
Accrued salaries, wages and payroll taxes	-	3	7	-
Due to other funds	-	-	-	-
Unearned revenue	-	2,785	-	-
Advances, deposits and reimbursable credits	-	-	-	-
Total liabilities	<u>12</u>	<u>2,830</u>	<u>7</u>	<u>54</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	753	22	7,345	534
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	<u>753</u>	<u>22</u>	<u>7,345</u>	<u>534</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 765</u>	<u>2,852</u>	<u>7,352</u>	<u>588</u>

Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432,438)	Building and Structures Construction Tax (Fund 429)
11,646	3,547	2,065	1,608	13,016	57,036
44	14	9	7	678	1,088
-	-	-	-	-	1,648
-	-	-	-	-	-
-	-	-	-	-	3
-	-	-	-	-	-
<u>11,690</u>	<u>3,561</u>	<u>2,074</u>	<u>1,615</u>	<u>13,694</u>	<u>59,775</u>
150	-	-	-	151	2,859
462	-	-	-	1,357	390
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,531	-
<u>612</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,039</u>	<u>3,249</u>
-	-	-	-	-	-
-	-	-	-	-	3
11,078	3,561	-	-	-	56,523
-	-	2,074	1,615	-	-
-	-	-	-	10,655	-
<u>11,078</u>	<u>3,561</u>	<u>2,074</u>	<u>1,615</u>	<u>10,655</u>	<u>56,526</u>
<u>11,690</u>	<u>3,561</u>	<u>2,074</u>	<u>1,615</u>	<u>13,694</u>	<u>59,775</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017
(\$000's)

	Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ -	-	7	44,946
Receivables (net of allowance for uncollectibles)	-	2,663	-	894
Due from other funds	-	-	-	-
Loans receivable (net)	20	4,769	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other cash and investments	-	1,909	-	-
Total assets	<u>\$ 20</u>	<u>9,341</u>	<u>7</u>	<u>45,840</u>
LIABILITIES				
Accounts payable	\$ -	799	-	6,126
Accrued salaries, wages and payroll taxes	-	74	-	557
Due to other funds	-	515	-	-
Unearned revenue	-	-	-	-
Advances, deposits and reimbursable credits	-	-	-	-
Total liabilities	<u>-</u>	<u>1,388</u>	<u>-</u>	<u>6,683</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>1,984</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	5,969	7	39,157
Committed	-	-	-	-
Assigned	20	-	-	-
Total fund balances	<u>20</u>	<u>5,969</u>	<u>7</u>	<u>39,157</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 20</u>	<u>9,341</u>	<u>7</u>	<u>45,840</u>

Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Byrne Memorial Justice (Funds 474, 477)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Funds 536, 481)	Total
5,351	1,686	124	326	14,637	352,348
3,229	78	1	2	2,601	22,414
-	-	-	-	-	1,648
-	-	-	-	-	4,789
-	-	-	-	293	296
-	-	-	-	11,877	15,623
<u>8,580</u>	<u>1,764</u>	<u>125</u>	<u>328</u>	<u>29,408</u>	<u>397,118</u>
47	102	-	116	7,606	25,830
78	5	-	-	4	3,589
-	-	-	-	-	3,471
-	-	125	-	5,926	10,790
-	-	-	-	-	1,531
<u>125</u>	<u>107</u>	<u>125</u>	<u>116</u>	<u>13,536</u>	<u>45,211</u>
-	-	-	-	-	1,984
-	-	-	-	293	296
-	-	-	-	-	305,235
8,455	1,657	-	212	15,579	29,890
-	-	-	-	-	14,502
<u>8,455</u>	<u>1,657</u>	<u>-</u>	<u>212</u>	<u>15,872</u>	<u>349,923</u>
<u>8,580</u>	<u>1,764</u>	<u>125</u>	<u>328</u>	<u>29,408</u>	<u>397,118</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Prusch Memorial Park (Fund 131)	Gift Trust (Fund 139)	Workforce Investment Act (Funds 290-294, 298)
REVENUES			
Taxes and special assessments	-	-	-
Intergovernmental	-	-	9,607
Charges for current services	-	-	-
Rent	85	-	-
Investment income	2	24	-
Other revenues	-	969	-
Total revenues	<u>87</u>	<u>993</u>	<u>9,607</u>
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	-	-	-
Community services	164	1,222	9,601
Sanitation	-	-	-
Capital maintenance	-	-	-
Capital outlay	-	31	-
Total expenditures	<u>164</u>	<u>1,253</u>	<u>9,601</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(77)</u>	<u>(260)</u>	<u>6</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(77)	(260)	6
Fund balances - beginning	<u>375</u>	<u>4,020</u>	<u>1,214</u>
Fund balances - ending	<u>\$ 298</u>	<u>\$ 3,760</u>	<u>\$ 1,220</u>

Special Assessment Maintenance Districts (Funds 302, 310, 344, 345, 351-369, 371-374, 376, 379)	Ng Shing Gung Capital Maintenance (Fund 303)	Subdivision Park Trust (Fund 375)	Construction and Property Conveyance Tax (Funds 377-378, 380-398)	1943 Gas Tax Maintenance and Construction (Fund 409)	1964 Gas Tax Maintenance and Construction (Funds 410-411)
11,124	-	-	43,301	-	-
-	-	2,445	1,255	7,764	9,573
-	-	14,448	81	-	-
-	-	-	-	-	-
73	1	370	429	-	-
2,124	2	-	102	-	-
<u>13,321</u>	<u>3</u>	<u>17,263</u>	<u>45,168</u>	<u>7,764</u>	<u>9,573</u>
-	20	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
13,893	-	7,785	30,286	7,764	9,573
7	-	9,538	8,597	-	-
<u>13,900</u>	<u>20</u>	<u>17,323</u>	<u>38,883</u>	<u>7,764</u>	<u>9,573</u>
<u>(579)</u>	<u>(17)</u>	<u>(60)</u>	<u>6,285</u>	<u>-</u>	<u>-</u>
-	-	-	17,445	-	-
1,015	3	-	1,690	-	-
-	-	(185)	(25,624)	-	-
<u>1,015</u>	<u>3</u>	<u>(185)</u>	<u>(6,489)</u>	<u>-</u>	<u>-</u>
436	(14)	(245)	(204)	-	-
<u>17,382</u>	<u>81</u>	<u>73,504</u>	<u>88,193</u>	<u>-</u>	<u>-</u>
<u>17,818</u>	<u>67</u>	<u>73,259</u>	<u>87,989</u>	<u>-</u>	<u>-</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)
REVENUES				
Taxes and special assessments	-	-	-	-
Intergovernmental	-	1,039	2,254	-
Charges for current services	214	-	-	-
Rent	-	-	-	-
Investment income	4	12	36	3
Other revenues	-	-	-	45
Total revenues	<u>218</u>	<u>1,051</u>	<u>2,290</u>	<u>48</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	842	-	163
Community services	-	-	-	-
Sanitation	-	-	-	-
Capital maintenance	172	-	308	-
Capital outlay	-	216	-	-
Total expenditures	<u>172</u>	<u>1,058</u>	<u>308</u>	<u>163</u>
Excess (deficiency) of revenues over (under) expenditures	<u>46</u>	<u>(7)</u>	<u>1,982</u>	<u>(115)</u>
OTHER FINANCING SOURCES (USES)				
Capital lease financing proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(3)	-	(15)	-
Total other financing sources (uses)	<u>(3)</u>	<u>-</u>	<u>(15)</u>	<u>-</u>
Net change in fund balances	43	(7)	1,967	(115)
Fund balances - beginning	<u>710</u>	<u>29</u>	<u>5,378</u>	<u>649</u>
Fund balances - ending	<u><u>753</u></u>	<u><u>22</u></u>	<u><u>7,345</u></u>	<u><u>534</u></u>

Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432,438)	Building and Structures Construction Tax (Fund 429)
8,670	-	256	-	-	23,669
-	-	-	-	-	2,279
-	-	-	66	16,926	-
-	-	-	-	1,857	-
58	48	10	8	91	295
-	129	-	-	-	4
<u>8,728</u>	<u>177</u>	<u>266</u>	<u>74</u>	<u>18,874</u>	<u>26,247</u>
-	-	-	-	14,972	-
-	156	-	-	-	-
7,161	-	-	-	-	-
-	-	-	-	-	-
2,178	-	22	-	336	12,382
-	-	-	-	-	8,360
<u>9,339</u>	<u>156</u>	<u>22</u>	<u>-</u>	<u>15,308</u>	<u>20,742</u>
<u>(611)</u>	<u>21</u>	<u>244</u>	<u>74</u>	<u>3,566</u>	<u>5,505</u>
-	-	-	-	-	-
-	-	-	-	3,400	-
<u>(58)</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>(8,893)</u>	<u>(337)</u>
<u>(58)</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>(5,493)</u>	<u>(337)</u>
(669)	21	229	74	(1,927)	5,168
<u>11,747</u>	<u>3,540</u>	<u>1,845</u>	<u>1,541</u>	<u>12,582</u>	<u>51,358</u>
<u>11,078</u>	<u>3,561</u>	<u>2,074</u>	<u>1,615</u>	<u>10,655</u>	<u>56,526</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

		Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)
REVENUES					
Taxes and special assessments	\$	-	-	-	87
Intergovernmental		-	10,851	-	-
Charges for current services		-	-	-	33,070
Rent		-	-	-	-
Investment income		-	-	-	191
Other revenues		-	-	-	-
Total revenues		-	10,851	-	33,348
EXPENDITURES					
Current:					
General government		-	-	-	-
Public safety		-	-	-	-
Community services		-	8,628	-	-
Sanitation		-	-	-	22,354
Capital maintenance		-	1,140	-	1,575
Capital outlay		-	-	-	19,458
Total expenditures		-	9,768	-	43,387
Excess (deficiency) of revenues over (under) expenditures		-	1,083	-	(10,039)
OTHER FINANCING SOURCES (USES)					
Capital lease financing proceeds		-	-	-	-
Transfers in		-	-	-	-
Transfers out		-	-	-	(743)
Total other financing sources (uses)		-	-	-	(743)
Net change in fund balances		-	1,083	-	(10,782)
Fund balances - beginning		20	4,886	7	49,939
Fund balances - ending	\$	20	5,969	7	39,157

Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Byrne Memorial Justice (Funds 474,477)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Funds 536, 481)	Total
27,436	-	-	-	-	114,543
-	-	57	-	-	47,124
-	729	-	411	5,050	70,995
-	-	-	-	48,377	50,319
40	10	1	6	47	1,759
32	-	-	-	118	3,525
<u>27,508</u>	<u>739</u>	<u>58</u>	<u>417</u>	<u>53,592</u>	<u>288,265</u>
-	-	-	-	-	14,992
-	-	58	-	-	1,219
13,543	-	-	-	56,113	96,432
-	-	-	-	-	22,354
-	129	-	1,161	6,647	95,351
-	578	-	-	982	47,767
<u>13,543</u>	<u>707</u>	<u>58</u>	<u>1,161</u>	<u>63,742</u>	<u>278,115</u>
<u>13,965</u>	<u>32</u>	<u>-</u>	<u>(744)</u>	<u>(10,150)</u>	<u>10,150</u>
-	-	-	-	-	17,445
-	-	-	2,200	13,715	22,023
<u>(13,754)</u>	<u>(226)</u>	<u>-</u>	<u>(1,990)</u>	<u>(422)</u>	<u>(52,265)</u>
<u>(13,754)</u>	<u>(226)</u>	<u>-</u>	<u>210</u>	<u>13,293</u>	<u>(12,797)</u>
211	(194)	-	(534)	3,143	(2,647)
<u>8,244</u>	<u>1,851</u>	<u>-</u>	<u>746</u>	<u>12,729</u>	<u>352,570</u>
<u>8,455</u>	<u>1,657</u>	<u>-</u>	<u>212</u>	<u>15,872</u>	<u>349,923</u>

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Prusch			Gift Trust					
	Memorial Park			(Fund 131)			(Fund 139)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)			
REVENUES									
Taxes and special assessments	\$ -	-	-	-	-	-			
Intergovernmental	-	-	-	-	-	-			
Charges for current services	-	-	-	-	-	-			
Rent	85	85	-	-	-	-			
Gifts	-	-	-	-	-	-			
Investment income	3	4	1	3,991	45	(3,946)			
Other revenues	-	-	-	-	969	969			
Total revenues	<u>88</u>	<u>89</u>	<u>1</u>	<u>3,991</u>	<u>1,014</u>	<u>(2,977)</u>			
EXPENDITURES									
Current:									
General government	-	-	-	-	-	-			
Public safety	-	-	-	-	-	-			
Community services	283	166	(117)	4,448	1,163	(3,285)			
Sanitation	-	-	-	-	-	-			
Capital maintenance	-	-	-	-	-	-			
Capital outlay	-	-	-	-	31	31			
Total expenditures	<u>283</u>	<u>166</u>	<u>(117)</u>	<u>4,448</u>	<u>1,194</u>	<u>(3,254)</u>			
Excess (deficiency) of revenues over (under) expenditures	<u>(195)</u>	<u>(77)</u>	<u>118</u>	<u>(457)</u>	<u>(180)</u>	<u>277</u>			
OTHER FINANCING SOURCES (USES)									
Proceeds from sale of capital assets	-	-	-	-	-	-			
Transfers in	-	-	-	-	-	-			
Transfers out	-	-	-	-	-	-			
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			
Net change in fund balances	<u>\$ (195)</u>	<u>(77)</u>	<u>118</u>	<u>(457)</u>	<u>(180)</u>	<u>277</u>			
Fund balances - beginning		377			3,835				
Prior year encumbrances		-			87				
Fund balances - ending		<u>\$ 300</u>			<u>\$ 3,742</u>				

Workforce Investment Act (Funds 290-294, 298)			San José Arena Enhancement (Fund 301)			Special Assessment Maintenance Districts (Funds 302, 310, 344, 345, 351-369, 371-374, 376, 379)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	11,232	11,124	(108)
14,843	9,607	(5,236)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	141	155	14
-	-	-	-	-	-	2,110	2,124	14
<u>14,843</u>	<u>9,607</u>	<u>(5,236)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,483</u>	<u>13,403</u>	<u>(80)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
13,368	10,195	(3,173)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	16,153	14,271	(1,882)
-	-	-	-	-	-	7	7	-
<u>13,368</u>	<u>10,195</u>	<u>(3,173)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,160</u>	<u>14,278</u>	<u>(1,882)</u>
<u>1,475</u>	<u>(588)</u>	<u>(2,063)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,677)</u>	<u>(875)</u>	<u>1,802</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,031	1,015	(16)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,031	1,015	(16)
<u>1,475</u>	<u>(588)</u>	<u>(2,063)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,646)</u>	<u>140</u>	<u>1,786</u>
	1,185			1			17,133	
	28			-			264	
	<u>\$ 625</u>			<u>\$ 1</u>			<u>\$ 17,537</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Ng Shing Gung Capital Maintenance			Subdivision Park Trust		
	(Fund 303)			(Fund 375)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	2,445	2,445
Charges for current services	-	-	-	537	14,448	13,911
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Investment income	-	1	1	-	780	780
Other revenues	-	2	2	-	-	-
Total revenues	<u>-</u>	<u>3</u>	<u>3</u>	<u>537</u>	<u>17,673</u>	<u>17,136</u>
EXPENDITURES						
Current:						
General government	20	20	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	39,970	22,365	(17,605)
Capital outlay	-	-	-	9,538	9,538	-
Total expenditures	<u>20</u>	<u>20</u>	<u>-</u>	<u>49,508</u>	<u>31,903</u>	<u>(17,605)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20)</u>	<u>(17)</u>	<u>3</u>	<u>(48,971)</u>	<u>(14,230)</u>	<u>34,741</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(185)	(185)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(185)</u>	<u>(185)</u>	<u>-</u>
Net change in fund balances	<u>\$ (20)</u>	<u>(17)</u>	<u>3</u>	<u>(49,156)</u>	<u>(14,415)</u>	<u>34,741</u>
Fund balances - beginning		82			53,727	
Prior year encumbrances		-			9,179	
Fund balances - ending		<u>\$ 65</u>			<u>\$ 48,491</u>	

Construction and Property Conveyance Tax (Funds 377-378, 380-398)			1943 Gas Tax Maintenance and Construction (Fund 409)			1964 Gas Tax Maintenance and Construction (Funds 410-411)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
53,820	43,301	(10,519)	-	-	-	-	-	-
852	1,255	403	7,660	7,764	104	9,840	9,573	(267)
-	81	81	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
851	920	69	-	-	-	-	-	-
13	102	89	-	-	-	-	-	-
<u>55,536</u>	<u>45,659</u>	<u>(9,877)</u>	<u>7,660</u>	<u>7,764</u>	<u>104</u>	<u>9,840</u>	<u>9,573</u>	<u>(267)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
90,548	44,785	(45,763)	7,660	7,764	104	9,840	9,573	(267)
8,597	8,597	-	-	-	-	-	-	-
<u>99,145</u>	<u>53,382</u>	<u>(45,763)</u>	<u>7,660</u>	<u>7,764</u>	<u>104</u>	<u>9,840</u>	<u>9,573</u>	<u>(267)</u>
<u>(43,609)</u>	<u>(7,723)</u>	<u>35,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	17,445	17,445	-	-	-	-	-	-
1,690	1,690	-	-	-	-	-	-	-
<u>(5,360)</u>	<u>(25,624)</u>	<u>(20,264)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(3,670)</u>	<u>(6,489)</u>	<u>(2,819)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(47,279)</u>	<u>(14,212)</u>	<u>33,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	84,012			-			-	
	6,411			-			-	
	<u>\$ 76,211</u>			<u>\$ -</u>			<u>\$ -</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Storm Drainage Fee			Supplemental Local Law Enforcement		
	(Funds 413, 427)			(Fund 414)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	2,335	2,171	(164)
Charges for current services	179	211	32	-	-	-
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Investment income	6	8	2	24	24	-
Other revenues	-	-	-	-	-	-
Total revenues	<u>185</u>	<u>219</u>	<u>34</u>	<u>2,359</u>	<u>2,195</u>	<u>(164)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	3,105	2,078	(1,027)
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	886	239	(647)	-	-	-
Capital outlay	-	-	-	216	216	-
Total expenditures	<u>886</u>	<u>239</u>	<u>(647)</u>	<u>3,321</u>	<u>2,294</u>	<u>(1,027)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(701)</u>	<u>(20)</u>	<u>681</u>	<u>(962)</u>	<u>(99)</u>	<u>863</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	(7)	(3)	4	-	-	-
Total other financing sources (uses)	<u>(7)</u>	<u>(3)</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (708)</u>	<u>(23)</u>	<u>685</u>	<u>(962)</u>	<u>(99)</u>	<u>863</u>
Fund balances - beginning		515			1,497	
Prior year encumbrances		197			179	
Fund balances - ending		<u>\$ 689</u>			<u>\$ 1,577</u>	

Underground Utility (Fund 416)			State Drug Forfeiture (Fund 417)			Library Parcel Tax (Fund 418)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	8,656	8,670	14
30	2,253	2,223	-	-	-	-	-	-
750	-	(750)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	68	68	5	6	1	75	113	38
-	-	-	100	45	(55)	-	-	-
<u>780</u>	<u>2,321</u>	<u>1,541</u>	<u>105</u>	<u>51</u>	<u>(54)</u>	<u>8,731</u>	<u>8,783</u>	<u>52</u>
-	-	-	-	-	-	-	-	-
-	-	-	727	163	(564)	-	-	-
-	-	-	-	-	-	7,776	6,296	(1,480)
-	-	-	-	-	-	-	-	-
2,221	308	(1,913)	-	-	-	2,602	2,272	(330)
-	-	-	-	-	-	-	-	-
<u>2,221</u>	<u>308</u>	<u>(1,913)</u>	<u>727</u>	<u>163</u>	<u>(564)</u>	<u>10,378</u>	<u>8,568</u>	<u>(1,810)</u>
(1,441)	2,013	3,454	(622)	(112)	510	(1,647)	215	1,862
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(15)	(15)	-	-	-	-	(58)	(58)	-
(15)	(15)	-	-	-	-	(58)	(58)	-
<u>(1,456)</u>	1,998	<u>3,454</u>	<u>(622)</u>	(112)	<u>510</u>	<u>(1,705)</u>	157	<u>1,862</u>
	5,364			648			11,664	
	-			-			54	
	<u>\$ 7,362</u>			<u>\$ 536</u>			<u>\$ 11,875</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Federal Drug Forfeiture			Residential Construction Tax Contribution		
	(Fund 419)			(Fund 420)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	10	256	246
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Investment income	20	57	37	182	20	(162)
Other revenues	200	129	(71)	-	-	-
Total revenues	<u>220</u>	<u>186</u>	<u>(34)</u>	<u>192</u>	<u>276</u>	<u>84</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	1,296	284	(1,012)	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	289	22	(267)
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>1,296</u>	<u>284</u>	<u>(1,012)</u>	<u>289</u>	<u>22</u>	<u>(267)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,076)</u>	<u>(98)</u>	<u>978</u>	<u>(97)</u>	<u>254</u>	<u>351</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(17)	(15)	2
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17)</u>	<u>(15)</u>	<u>2</u>
Net change in fund balances	<u>\$ (1,076)</u>	<u>(98)</u>	<u>978</u>	<u>(114)</u>	<u>239</u>	<u>353</u>
Fund balances - beginning		3,214			1,838	
Prior year encumbrances		317			-	
Fund balances - ending		<u>\$ 3,433</u>			<u>\$ 2,077</u>	

Arterial and Major Collectors (Fund 421)			Community Facility Revenue (Funds 422,432,438)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-
-	-	-	-	-	-
-	66	66	-	4,468	4,468
-	-	-	1,857	1,857	-
-	-	-	-	-	-
4	15	11	87	148	61
-	-	-	-	-	-
<u>4</u>	<u>81</u>	<u>77</u>	<u>1,944</u>	<u>6,473</u>	<u>4,529</u>
-	-	-	3,768	2,559	(1,209)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
45	-	(45)	2,281	336	(1,945)
-	-	-	-	-	-
<u>45</u>	<u>-</u>	<u>(45)</u>	<u>6,049</u>	<u>2,895</u>	<u>(3,154)</u>
<u>(41)</u>	<u>81</u>	<u>122</u>	<u>(4,105)</u>	<u>3,578</u>	<u>7,683</u>
-	-	-	-	-	-
-	-	-	3,400	3,400	-
-	-	-	<u>(9,056)</u>	<u>(8,893)</u>	<u>163</u>
-	-	-	<u>(5,656)</u>	<u>(5,493)</u>	<u>163</u>
<u>(41)</u>	<u>81</u>	<u>122</u>	<u>(9,761)</u>	<u>(1,915)</u>	<u>7,846</u>
	1,455			(6,332)	
	84			5	
	<u>\$ 1,620</u>			<u>\$ (8,242)</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Building and Structures Construction Tax			Development Enhancement		
	(Fund 429)			(Fund 439)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ 24,000	23,670	(330)	-	-	-
Intergovernmental	15,238	2,279	(12,959)	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Investment income	200	590	390	-	-	-
Other revenues	-	4	4	-	-	-
Total revenues	<u>39,438</u>	<u>26,543</u>	<u>(12,895)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	51,122	22,501	(28,621)	-	-	-
Capital outlay	8,360	8,360	-	-	-	-
Total expenditures	<u>59,482</u>	<u>30,861</u>	<u>(28,621)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,044)</u>	<u>(4,318)</u>	<u>15,726</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	(337)	(337)	-	-	-	-
Total other financing sources (uses)	<u>(337)</u>	<u>(337)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (20,381)</u>	<u>(4,655)</u>	<u>15,726</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - beginning		44,037			1	
Prior year encumbrances		7,166			-	
Fund balances - ending		<u>\$ 46,548</u>			<u>\$ 1</u>	

Community Development Block Grant (Funds 441, 304)			Economic Development Administration Loans (Fund 444)			Storm Drainage Service Use Charge (Funds 446, 469)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
8,890	9,297	407	-	-	-	-	-	-
-	-	-	-	-	-	1,381	87	(1,294)
-	-	-	-	-	-	32,580	33,070	490
-	-	-	-	-	-	-	-	-
-	-	-	2	-	(2)	225	407	182
-	-	-	-	-	-	-	-	-
<u>8,890</u>	<u>9,297</u>	<u>407</u>	<u>2</u>	<u>-</u>	<u>(2)</u>	<u>34,186</u>	<u>33,564</u>	<u>(622)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
14,221	11,531	(2,690)	-	-	-	-	-	-
-	-	-	-	-	-	25,856	23,110	(2,746)
3,460	2,169	(1,291)	-	-	-	23,560	6,563	(16,997)
-	-	-	-	7	7	19,458	19,458	-
<u>17,681</u>	<u>13,700</u>	<u>(3,981)</u>	<u>-</u>	<u>7</u>	<u>7</u>	<u>68,874</u>	<u>49,131</u>	<u>(19,743)</u>
<u>(8,791)</u>	<u>(4,403)</u>	<u>4,388</u>	<u>2</u>	<u>(7)</u>	<u>(9)</u>	<u>(34,688)</u>	<u>(15,567)</u>	<u>19,121</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(743)	(743)	-
-	-	-	-	-	-	(743)	(743)	-
<u>(8,791)</u>	<u>(4,403)</u>	<u>4,388</u>	<u>2</u>	<u>(7)</u>	<u>(9)</u>	<u>(35,431)</u>	<u>(16,310)</u>	<u>19,121</u>
	8,704			14			40,772	
	898			-			9,038	
	<u>\$ 5,199</u>			<u>\$ 7</u>			<u>\$ 33,500</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2017
(\$000's)

	Transient Occupancy Tax			Lake Cunningham		
	(Fund 461)			(Fund 462)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ 26,954	27,436	482	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	895	729	(166)
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Investment income	48	69	21	10	20	10
Other revenues	-	32	32	-	-	-
Total revenues	<u>27,002</u>	<u>27,537</u>	<u>535</u>	<u>905</u>	<u>749</u>	<u>(156)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	18,432	14,196	(4,236)	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	773	290	(483)
Capital outlay	-	-	-	578	578	-
Total expenditures	<u>18,432</u>	<u>14,196</u>	<u>(4,236)</u>	<u>1,351</u>	<u>868</u>	<u>(483)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,570</u>	<u>13,341</u>	<u>4,771</u>	<u>(446)</u>	<u>(119)</u>	<u>327</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	(13,715)	(13,755)	(40)	-	(226)	(226)
Total other financing sources (uses)	<u>(13,715)</u>	<u>(13,755)</u>	<u>(40)</u>	<u>-</u>	<u>(226)</u>	<u>(226)</u>
Net change in fund balances	<u>\$ (5,145)</u>	<u>(414)</u>	<u>4,731</u>	<u>(446)</u>	<u>(345)</u>	<u>101</u>
Fund balances - beginning		7,723			1,431	
Prior year encumbrances		503			412	
Fund balances - ending		<u>\$ 7,812</u>		<u>\$ 1,498</u>		

Edward Byrne Memorial Justice (Funds 474,477)			Municipal Golf Courses (Fund 518)			Convention and Cultural Facilities (Funds 536, 481)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	57	57	-	-	-	-	-	-
-	-	-	455	411	(44)	-	-	-
-	-	-	-	-	-	-	-	-
-	1	1	-	10	10	28	109	81
-	-	-	-	-	-	120	118	(2)
-	58	58	455	421	(34)	148	227	79
-	-	-	-	-	-	-	-	-
182	58	(124)	-	-	-	-	-	-
-	-	-	-	-	-	6,842	2,328	(4,514)
-	-	-	1,176	1,167	(9)	-	-	-
-	-	-	-	-	-	11,706	9,311	(2,395)
-	-	-	-	-	-	982	982	-
182	58	(124)	1,176	1,167	(9)	19,530	12,621	(6,909)
(182)	-	182	(721)	(746)	(25)	(19,382)	(12,394)	6,988
-	-	-	-	-	-	-	-	-
-	-	-	2,200	2,200	-	13,715	13,715	-
-	-	-	(2,002)	(1,990)	12	(423)	(422)	1
-	-	-	198	210	12	13,292	13,293	1
(182)	-	182	(523)	(536)	(13)	(6,090)	899	6,989
	339			743			12,075	
	-			-			199	
\$	339		\$	207		\$	13,173	

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Nonmajor Debt Service Funds

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

GO Bonds Parks, Libraries & Public Safety Fund – Established to account for debt issued for construction of various library, parks and public safety projects. Debt repayments are funded by ad valorem property taxes.

City Hall Fund – Established to account for payments of debt service related to the construction of City Hall.

Nonmajor Debt Service Funds

City of San José
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2017
(\$000's)

	GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
ASSETS			
Receivables (net of allowances for uncollectibles)	\$ 199	2	201
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	32,829	372	33,201
Total assets	<u>\$ 33,028</u>	<u>374</u>	<u>33,402</u>
FUND BALANCES			
Restricted for debt service	33,028	374	33,402
Total fund balances	<u>\$ 33,028</u>	<u>374</u>	<u>33,402</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2017
(\$000's)

	GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
REVENUES			
Taxes and special assessments	\$ 37,342	-	37,342
Investment income	85	150	235
Total revenues	<u>37,427</u>	<u>150</u>	<u>37,577</u>
EXPENDITURES			
Debt service:			
Principal	19,655	-	19,655
Interest and fiscal charges	17,843	11	17,854
Total expenditures	<u>37,498</u>	<u>11</u>	<u>37,509</u>
Excess (deficiency) of revenues over(under) expenditures	<u>(71)</u>	<u>139</u>	<u>68</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	25,183	25,183
Transfers out	-	(25,141)	(25,141)
Total other financing sources (uses)	<u>-</u>	<u>42</u>	<u>42</u>
Net change in fund balances	(71)	181	110
Fund balances - beginning	<u>33,099</u>	<u>193</u>	<u>33,292</u>
Fund balances - ending	<u>\$ 33,028</u>	<u>374</u>	<u>33,402</u>

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Nonmajor Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Capital Project Funds established by the City of San José are as follows:

Capital Improvements Funds – Established to account for assessment charges for the construction of the Alviso Ring Levee.

Construction Excise Tax Funds – Established to account for revenues and expenditures related to traffic maintenance and improvements.

Parks Bond Projects Fund – Established to account for general obligation bond proceeds for various parks construction projects.

Branch Libraries Bond Projects Fund – Established to account for general obligation bond proceeds for various library construction projects.

Neighborhood Security Bond Projects Fund – Established to account for general obligation bond proceeds to improve various libraries, parks and public safety facilities.

Nonmajor Capital Project Funds

City of San José
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2017
(\$000's)

	Capital Improvements (Funds 408, 424, 476)	Construction Excise Tax (Funds 309, 348,349,464 465,470,478-480)
ASSETS		
Equity in pooled cash and investments held in City Treasury	\$ 451	109,048
Receivables (net of allowance for uncollectibles)	1	2,788
Due from other funds	-	224
Advances and deposits	5	34
Restricted assets:		
Equity in pooled cash and investments held in City Treasury	-	108
Cash and investments held with fiscal agent	-	-
Total assets	\$ 457	112,202
LIABILITIES		
Accounts payable	-	2,613
Accrued salaries, wages and payroll taxes	-	508
Due to other funds	-	-
Advances, deposits, and reimbursable credits	-	-
Total liabilities	-	3,121
FUND BALANCES		
Nonspendable	5	34
Restricted	452	40,965
Assigned	-	68,082
Total fund balances	457	109,081
Total liabilities and fund balances	\$ 457	112,202

Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Neighborhood Security Bond Projects (Fund 475)	Total
-	-	-	109,499
10	-	-	2,799
-	-	-	224
-	-	-	39
2,441	-	1,481	4,030
26,623	1,152	437	28,212
<u>29,074</u>	<u>1,152</u>	<u>1,918</u>	<u>144,803</u>
6	-	-	2,619
6	-	-	514
-	224	-	224
-	-	13	13
<u>12</u>	<u>224</u>	<u>13</u>	<u>3,370</u>
-	-	-	39
29,062	928	1,905	73,312
-	-	-	68,082
<u>29,062</u>	<u>928</u>	<u>1,905</u>	<u>141,433</u>
<u>29,074</u>	<u>1,152</u>	<u>1,918</u>	<u>144,803</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the Year Ended June 30, 2017
(\$000's)

	Capital Improvements (Funds 408, 424, 476)	Construction Excise Tax (Funds 309, 348, 349, 464 465, 470, 478-480)
REVENUES		
Taxes	\$ -	30,188
Intergovernmental	-	17,854
Charges for current services	-	5,933
Investment income	3	571
Other revenues	-	2,057
Total revenues	3	56,603
EXPENDITURES		
Current:		
Capital maintenance	-	44,712
Capital outlay	-	4,928
Total expenditures	-	49,640
Excess (deficiency) of revenues over (under) expenditures	3	6,963
OTHER FINANCING SOURCES (USES)		
Transfers in	-	870
Transfers out	(4)	(2,425)
Total other financing sources (uses)	(4)	(1,555)
Net change in fund balances	(1)	5,408
Fund balances - beginning	458	103,673
Fund balances - ending	\$ 457	109,081

Parks Bond Projects (Fund 471)	Branch Libraries Bond Projects (Fund 472)	Neighborhood Security Bond Projects (Fund 475)	Total
-	-	-	30,188
-	-	-	17,854
-	-	-	5,933
186	16	4	780
-	-	214	2,271
<u>186</u>	<u>16</u>	<u>218</u>	<u>57,026</u>
221	501	11	45,445
<u>383</u>	<u>531</u>	<u>-</u>	<u>5,842</u>
<u>604</u>	<u>1,032</u>	<u>11</u>	<u>51,287</u>
<u>(418)</u>	<u>(1,016)</u>	<u>207</u>	<u>5,739</u>
-	350	-	1,220
-	-	(200)	(2,629)
-	<u>350</u>	<u>(200)</u>	<u>(1,409)</u>
(418)	(666)	7	4,330
<u>29,480</u>	<u>1,594</u>	<u>1,898</u>	<u>137,103</u>
<u>29,062</u>	<u>928</u>	<u>1,905</u>	<u>141,433</u>

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Internal Service Funds

Internal Service Funds are used to account for the exchange of benefits within the City's funds or departments on a cost reimbursement basis.

Public Works Programs Support Fund – Established to account for Public Works Department administrative services provided to City-wide capital programs and certain other Public Works operating divisions.

Employee Benefits Funds – Established to account for the cost of funding the City's portion of employee fringe benefits.

Vehicle Maintenance and Operations Funds – Established to account for the purchase and maintenance of City vehicles and the cost of operating a maintenance facility for equipment used by other City departments for repairs, demolition, or other abatement of dangerous buildings.

Internal Service Funds

City of San José
Combining Statement of Fund Net Position
Internal Service Funds
June 30, 2017
(\$000's)

	Public Works Programs Support (Fund 150)	Employee Benefits (Funds 155-161)	Stores, Vehicle Maintenance and Operations (Funds 552-553)	Total
ASSETS				
Current assets:				
Equity in pooled cash and investments held in City Treasury	\$ 5,565	9,325	4,412	19,302
Receivables (net of allowance for uncollectibles)	23	197	16	236
Inventories	-	-	983	983
Total current assets	<u>5,588</u>	<u>9,522</u>	<u>5,411</u>	<u>20,521</u>
Capital assets (net of accumulated depreciation):				
Depreciable	-	-	7,616	7,616
Total assets	<u>5,588</u>	<u>9,522</u>	<u>13,027</u>	<u>28,137</u>
LIABILITIES				
Current liabilities:				
Accounts payable	114	742	511	1,367
Accrued salaries, wages, and payroll taxes	441	445	290	1,176
Unearned revenue	-	826	-	826
Total current liabilities	<u>555</u>	<u>2,013</u>	<u>801</u>	<u>3,369</u>
Noncurrent liabilities:				
Accrued vacation, sick leave and compensatory time	2,710	61	700	3,471
Total liabilities	<u>3,265</u>	<u>2,074</u>	<u>1,501</u>	<u>6,840</u>
NET POSITION				
Net investment in capital assets	-	-	7,616	7,616
Restricted for capital projects and other agreements	7	-	1,588	1,595
Unrestricted	2,316	7,448	2,322	12,086
Total net position	<u>\$ 2,323</u>	<u>7,448</u>	<u>11,526</u>	<u>21,297</u>

City of San José
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2017
(\$000's)

	Public Works Programs Support (Fund 150)	Employee Benefits (Funds 155-161)	Stores, Vehicle Maintenance and Operations (Funds 552-553)	Total
OPERATING REVENUES				
Charges for services	\$ 14,357	87,215	18,583	120,155
OPERATING EXPENSES				
Operations and maintenance	15,076	88,159	17,347	120,582
Depreciation and amortization	-	-	2,608	2,608
Total operating expenses	<u>15,076</u>	<u>88,159</u>	<u>19,955</u>	<u>123,190</u>
Operating loss	<u>(719)</u>	<u>(944)</u>	<u>(1,372)</u>	<u>(3,035)</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	18	79	15	112
Loss on disposal of capital assets	-	-	(89)	(89)
Other revenues (expenses), net	-	-	58	58
Net nonoperating revenues (expenses)	<u>18</u>	<u>79</u>	<u>(16)</u>	<u>81</u>
Loss before transfers	<u>(701)</u>	<u>(865)</u>	<u>(1,388)</u>	<u>(2,954)</u>
Transfers in	-	5	1,002	1,007
Transfers out	<u>(5)</u>	<u>(80)</u>	<u>(98)</u>	<u>(183)</u>
Changes in net position	<u>(706)</u>	<u>(940)</u>	<u>(484)</u>	<u>(2,130)</u>
Net position - beginning	3,029	8,388	12,010	23,427
Net position - ending	<u>\$ 2,323</u>	<u>7,448</u>	<u>11,526</u>	<u>21,297</u>

City of San José
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2017
(\$000's)

	<u>Public Works Programs Support (Fund 150)</u>	<u>Employee Benefits (Funds 155-161)</u>	<u>Stores, Vehicle Maintenance and Operations (Funds 552-553)</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from interfund services provided	\$ 14,347	87,180	18,690	120,217
Cash payment to suppliers of goods and services	(1,362)	(86,374)	(9,006)	(96,742)
Cash payment to employees for services	(13,461)	(147)	(8,172)	(21,780)
Net cash provided by (used in) operating activities	<u>(476)</u>	<u>659</u>	<u>1,512</u>	<u>1,695</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer from other funds	-	5	1,002	1,007
Transfer to other funds	(5)	(80)	(98)	(183)
Net cash provided by (used in) noncapital financing activities	<u>(5)</u>	<u>(75)</u>	<u>904</u>	<u>824</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	-	-	(2,996)	(2,996)
Proceeds from sale of capital assets	-	-	5	5
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>(2,991)</u>	<u>(2,991)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income on investments	18	79	15	112
Net change in cash and cash equivalents	(463)	663	(560)	(360)
Cash and cash equivalents - beginning	6,028	8,662	4,972	19,662
Cash and cash equivalents - ending	<u>\$ 5,565</u>	<u>9,325</u>	<u>4,412</u>	<u>19,302</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:				
Operating loss	\$ (719)	(944)	(1,372)	(3,035)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	2,608	2,608
Other nonoperating revenues	-	-	58	58
Decrease (increase) in:				
Accounts receivable	(10)	(35)	48	3
Inventories	-	-	12	12
Increase (decrease) in:				
Accounts payable and accrued liabilities	137	801	129	1,067
Accrued vacation, sick leave and compensatory time	116	12	29	157
Unearned revenue	-	825	-	825
Total adjustments	<u>243</u>	<u>1,603</u>	<u>2,884</u>	<u>4,730</u>
Net cash provided by (used in) operating activities	<u>\$ (476)</u>	<u>659</u>	<u>1,512</u>	<u>1,695</u>
Noncash noncapital, capital and related financing, and investing activities:				
Loss on disposal of capital assets	\$ -	-	(94)	(94)

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by a governmental unit in a trustee capacity and/or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include pension trust funds, private purpose trust funds, and agency funds.

Federated City Employees' Retirement System Funds – Established to account for the accumulation of resources to be used for retirement annuity and postemployment healthcare payments to all full-time and some eligible part-time City of San José employees, except members of the Police and Fire Department Retirement Plan.

Police and Fire Plan Funds – Established to account for the accumulation of resources to be used for retirement annuity and postemployment healthcare payments to all sworn members of the City of San José's Police and Fire departments.

James Lick Private Purpose Trust Fund – Established to account for resources legally held in the trust for use towards the support of the Eastfield Ming Quong (EMQ) Families First Agency. All resources of the fund, including any earnings on invested resources, are used to support the organization's activities.

Successor Agency to the Redevelopment Agency Private Purpose Trust Fund – Established to make payments on the former Redevelopment Agency of the City of San José's "enforceable obligations" and to wind down the activities of the former Agency through the sale and disposition of assets and properties.

Arena Capital Reserve Fund – Established to account for Arena Facilities monies that will be used to budget and defray Arena Facilities expenditures relating to capital maintenance repairs and replacement for the San José Arena (SAP Center at San José).

Trust and Agency Funds

City of San José
Combining Statement of Fiduciary Net Position
Pension Trust Funds
June 30, 2017
(\$000's)

ASSETS	Federated City Employees' Retirement System	Police and Fire Plan	Total
Investments, excluding securities lending collateral	\$ 2,189,214	3,423,019	5,612,233
Receivables (net of allowance for uncollectibles):			
Accrued investment income	3,214	2,223	5,437
Employee contributions	1,395	1,614	3,009
Employer contributions	9,200	8,810	18,010
Brokers and others	60,720	10,226	70,946
Capital assets (net of accumulated depreciation)	1,514	1,513	3,027
Total assets	2,265,257	3,447,405	5,712,662
LIABILITIES			
Due to brokers	30,437	2,864	33,301
Other liabilities	1,658	1,602	3,260
Total liabilities	32,095	4,466	36,561
NET POSITION HELD RESTRICTED FOR:			
Employees' pension benefits	1,972,792	3,293,257	5,266,049
Employees' postemployment healthcare benefits	260,370	149,682	410,052
Net position restricted for pension and postemployment healthcare benefits	2,233,162	3,442,939	5,676,101

City of San José
Combining Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2017
(\$000's)

	Federated City Employees' Retirement System	Police and Fire Plan	Total
ADDITIONS			
Investment income:			
Interest	\$ 14,462	10,132	24,594
Dividends	19,127	14,812	33,939
Net rental income	-	2,418	2,418
Net appreciation in fair value of plan investments	141,995	297,547	439,542
Investment expenses	(12,533)	(19,722)	(32,255)
Contributions:			
Employer	170,388	157,624	328,012
Employees	34,054	38,696	72,750
Total additions	<u>367,493</u>	<u>501,507</u>	<u>869,000</u>
DEDUCTIONS			
General and administrative	4,622	4,817	9,439
Health insurance premiums	31,007	24,799	55,806
Refund of contributions	1,263	364	1,627
Retirement and other benefits:			
Death benefits	12,411	11,072	23,483
Retirement benefits	169,756	184,596	354,352
Total deductions	<u>219,059</u>	<u>225,648</u>	<u>444,707</u>
Change in net position	148,434	275,859	424,293
Net position restricted for pension and postemployment healthcare benefits			
Beginning of year	2,084,728	3,167,080	5,251,808
End of year	<u>\$ 2,233,162</u>	<u>3,442,939</u>	<u>5,676,101</u>

City of San José
Combining Statement of Fiduciary Net Position
Federated City Employees' Retirement System
June 30, 2017
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust	
ASSETS					
Investments	\$ 1,313,890	604,597	30,394	240,333	2,189,214
Receivables (net of allowance for uncollectibles):					
Accrued investment income	2,331	635	17	231	3,214
Employee contributions	589	172	-	634	1,395
Employer contributions	4,597	3,279	-	1,324	9,200
Brokers and others	40,047	16,935	3,715	23	60,720
Capital assets (net of accumulated depreciation)	1,034	414	66	-	1,514
Total assets	<u>1,362,488</u>	<u>626,032</u>	<u>34,192</u>	<u>242,545</u>	<u>2,265,257</u>
LIABILITIES					
Due to brokers	10,244	3,993	-	16,200	30,437
Other liabilities	1,069	422	45	122	1,658
Total liabilities	<u>11,313</u>	<u>4,415</u>	<u>45</u>	<u>16,322</u>	<u>32,095</u>
NET POSITION RESTRICTED FOR:					
Employees' pension benefits	1,351,175	621,617	-	-	1,972,792
Employees' postemployment healthcare benefits	-	-	34,147	226,223	260,370
Net position restricted for pension and postemployment healthcare benefits	<u>\$ 1,351,175</u>	<u>621,617</u>	<u>34,147</u>	<u>226,223</u>	<u>2,233,162</u>

City of San José
Combining Statement of
Changes in Fiduciary Net Position
Federated City Employees' Retirement System
For the Year Ended June 30, 2017
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust	
ADDITIONS					
Investment income:					
Interest	\$ 9,670	3,947	569	276	14,462
Dividends	10,514	4,471	499	3,643	19,127
Net appreciation in fair value of plan investments	89,077	40,158	2,822	9,938	141,995
Investment expenses	(8,307)	(3,520)	(409)	(297)	(12,533)
Contributions:					
Employer	77,321	61,162	4,577	27,328	170,388
Employees	13,500	3,727	-	16,827	34,054
Total additions	191,775	109,945	8,058	57,715	367,493
DEDUCTIONS					
General and administrative	3,093	1,287	145	97	4,622
Health insurance premiums	-	-	31,007	-	31,007
Refund of contributions	1,096	167	-	-	1,263
Retirement and other benefits:					
Death benefits	7,410	5,001	-	-	12,411
Retirement benefits	127,098	42,658	-	-	169,756
Total deductions	138,697	49,113	31,152	97	219,059
Change in net position	53,078	60,832	(23,094)	57,618	148,434
Net position restricted for pension and postemployment healthcare benefits					
Beginning of year	1,298,097	560,785	57,241	168,605	2,084,728
End of year	\$ 1,351,175	621,617	34,147	226,223	2,233,162

City of San José
Combining Statement of Fiduciary Net Position
Police and Fire Department Retirement Plan
June 30, 2017
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan			Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust - Police	IRS Code Section 115 Trust - Fire	
ASSETS						
Investments	\$ 2,017,524	1,259,560	43,045	65,136	37,754	3,423,019
Receivables (net of allowance for uncollectibles):						
Accrued investment income	1,790	458	(37)	8	4	2,223
Employee contributions	596	284	734	-	-	1,614
Employer contributions	4,245	3,610	-	534	421	8,810
Brokers and others	6,244	1,787	2,195	-	-	10,226
Capital assets (net of accumulated depreciation)	947	541	25	-	-	1,513
Total assets	2,031,346	1,266,240	45,962	65,678	38,179	3,447,405
LIABILITIES						
Due to brokers	3,011	(208)	61	-	-	2,864
Other liabilities	967	559	27	25	24	1,602
Total liabilities	3,978	351	88	25	24	4,466
NET POSITION RESTRICTED FOR:						
Employees' pension benefits	2,027,368	1,265,889	-	-	-	3,293,257
Employees' postemployment healthcare benefits	-	-	45,874	65,653	38,155	149,682
Net position restricted for pension and postemployment healthcare benefits	\$ 2,027,368	1,265,889	45,874	65,653	38,155	3,442,939

City of San José
Combining Statement of Defined Benefit and Postemployment Healthcare
Changes in Plan Net Position
Police and Fire Department Retirement Plan
For the Year Ended June 30, 2017
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan			Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust - Police	IRS Code Section 115 Trust - Fire	
ADDITIONS						
Investment income:						
Interest	\$ 6,275	3,620	163	48	26	10,132
Dividends	8,018	4,756	199	1,197	642	14,812
Net rental income	1,498	882	38	-	-	2,418
Net appreciation in fair value of plan investments	177,967	109,006	4,182	4,054	2,338	297,547
Investment expenses	(12,127)	(7,161)	(304)	(79)	(51)	(19,722)
Contributions:						
Employer	69,011	67,946	1,599	10,905	8,163	157,624
Employees	13,977	6,603	18,116	-	-	38,696
Total additions	<u>264,619</u>	<u>185,652</u>	<u>23,993</u>	<u>16,125</u>	<u>11,118</u>	<u>501,507</u>
DEDUCTIONS						
General and administrative	2,921	1,714	69	71	42	4,817
Health insurance premiums	-	-	24,799	-	-	24,799
Refund of contributions	296	68	-	-	-	364
Retirement and other benefits:						
Death benefits	5,995	5,077	-	-	-	11,072
Retirement benefits	132,499	52,097	-	-	-	184,596
Total deductions	<u>141,711</u>	<u>58,956</u>	<u>24,868</u>	<u>71</u>	<u>42</u>	<u>225,648</u>
Change in net position	122,908	126,696	(875)	16,054	11,076	275,859
Net position restricted for pension and postemployment healthcare benefits						
Beginning of year	1,904,460	1,139,193	46,749	49,599	27,079	3,167,080
End of year	<u>\$ 2,027,368</u>	<u>1,265,889</u>	<u>45,874</u>	<u>65,653</u>	<u>38,155</u>	<u>3,442,939</u>

City of San José
Combining Statement of Fiduciary Net Position
Private Purpose Trust Funds
June 30, 2017
(\$000's)

	<u>James Lick</u>	<u>Successor Agency to the Redevelopment Agency</u>	<u>Total</u>
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	\$ 154	-	154
Cash and investments	330	17,326	17,656
Receivables (net of allowance for uncollectibles):			
Due from the City of San José	-	57	57
Due from the County of Santa Clara	-	13,130	13,130
Brokers and other	1	275	276
Restricted cash and investments	-	162,238	162,238
Total current assets	<u>485</u>	<u>193,026</u>	<u>193,511</u>
Noncurrent assets:			
Advances to the City of San José	-	790	790
Accrued interest	-	900	900
Loans receivable, net	-	4,693	4,693
Advances and deposits	-	6	6
Property held for resale	-	32,392	32,392
Capital assets:			
Nondepreciable	-	60,751	60,751
Depreciable, net	-	59,555	59,555
Total noncurrent assets	<u>-</u>	<u>159,087</u>	<u>159,087</u>
Total assets	<u>485</u>	<u>352,113</u>	<u>352,598</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	<u>-</u>	<u>23,654</u>	<u>23,654</u>
LIABILITIES			
Current liabilities:			
Accounts payable	-	6,540	6,540
Accrued salaries and benefits	-	243	243
Due to the City of San José	-	174	174
Accrued interest payable	-	33,507	33,507
Pass-through payable to the County of Santa Clara	-	2,624	2,624
Unearned revenue	-	156	156
Other liabilities	-	9	9
Total current liabilities	<u>-</u>	<u>43,253</u>	<u>43,253</u>
Long-term liabilities:			
Due within one year	-	202,459	202,459
Due in more than one year	-	1,738,200	1,738,200
Total noncurrent liabilities	<u>-</u>	<u>1,940,659</u>	<u>1,940,659</u>
Total liabilities	<u>-</u>	<u>1,983,912</u>	<u>1,983,912</u>
NET POSITION (DEFICIT)			
Held in trust for:			
Redevelopment dissolution and other purposes	485	(1,608,145)	(1,607,660)
Total net position (deficit)	<u>\$ 485</u>	<u>(1,608,145)</u>	<u>(1,607,660)</u>

City of San José
Combining Statement of Changes in Fiduciary Net Position
Private Purpose Trust Funds
For the Year Ended June 30, 2017
(\$000's)

	<u>James Lick</u>	<u>Successor Agency to the Redevelopment Agency</u>	<u>Total</u>
ADDITIONS			
Redevelopment property tax revenues	\$ -	284,566	284,566
Charges for services	-	660	660
Grant revenue	-	6,476	6,476
Investment earnings	4	1,008	1,012
Net rental income	-	333	333
Development fees	-	244	244
Gain on sale of revenue participation	-	12,350	12,350
Gain on sales of property and other assets	-	1,233	1,233
Other	-	2,852	2,852
Total additions	<u>4</u>	<u>309,722</u>	<u>309,726</u>
DEDUCTIONS			
General and administrative	-	2,391	2,391
Project expenses	-	1,765	1,765
Pass through amounts to the County of Santa Clara	-	38,709	38,709
Capital contributions to the City of San José	-	7,448	7,448
Parking Fund loan reinstatement	-	13,528	13,528
Depreciation	-	2,077	2,077
Allowance for loan losses	-	504	504
Interest on debt	-	90,204	90,204
Total deductions	<u>-</u>	<u>156,626</u>	<u>156,626</u>
Change in net position	<u>4</u>	<u>153,096</u>	<u>153,100</u>
NET POSITION HELD IN TRUST			
Beginning of year	481	(1,761,241)	(1,760,760)
End of year	<u>\$ 485</u>	<u>(1,608,145)</u>	<u>(1,607,660)</u>

City of San José
Statement of Changes in Assets and Liabilities
Agency Fund
For The Year Ended June 30, 2017
(\$000's)

<u>Arena Capital Reserve (Fund 459)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 5,166	1,570	2,179	4,557
Receivables:				
Accrued interest	12	19	12	19
Total assets	<u>5,178</u>	<u>1,589</u>	<u>2,191</u>	<u>4,576</u>
LIABILITIES				
Other liabilities	5,178	1,526	2,128	4,576
Total liabilities	\$ <u>5,178</u>	<u>1,526</u>	<u>2,128</u>	<u>4,576</u>

Statistical Section

Statistical Section

Statistical Section

This section of the comprehensive annual financial report for the City of San José presents detailed information as a context to the information presented in the financial statements, note disclosures, and required supplementary information and to provide a framework to assess the economic condition affecting the City of San José.

GASB issued Statement No. 44, *Economic Condition Reporting; The Statistical Section – an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition affecting a government.

The dissolution of the former Agency on February 1, 2012 had a significant impact on the presentation of funds in the City's governmental fund financial statements and government-wide financial statements which affects the statistical data. Most notably, transfers of assets and long-term debt of the former Agency to SARA affected the ratios of outstanding debt for the governmental activities in Schedules IX and X.

Contents	Schedule
Financial Trends	I - IV
<i>These schedules present trend information to help the reader understand the City's financial performance and condition.</i>	
Revenue Capacity	V - VIII
<i>These schedules contain information regarding property tax, the City's most significant local revenue source.</i>	
Debt Capacity	IX - XIII
<i>These schedules present information regarding the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	XIV-XV
<i>These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the City's financial activities.</i>	
Operating Information	XVI-XVIII
<i>These schedules contain service and infrastructure data related to services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF SAN JOSE
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$000's)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013 ⁽³⁾	2014	2015 ⁽⁴⁾	2016	2017
Governmental activities										
Net investment in capital assets										
Restricted	\$ 4,769,191	\$ 4,400,552	\$ 4,201,672	\$ 3,810,801	\$ 5,350,666	\$ 5,012,359	\$ 4,769,632	\$ 4,566,716	\$ 4,478,760	\$ 4,391,069
Unrestricted	662,863	654,124	527,931	622,241	939,509	864,808	889,631	927,190	930,553	982,168
Total governmental activities net position	95,863	32,914	(53,494)	(129,419)	(197,298)	(217,340)	(206,396)	(1,734,224)	(1,723,260)	(1,935,456)
	\$ 5,527,917	\$ 5,087,590	\$ 4,676,109	\$ 4,303,623	\$ 6,092,877	\$ 5,659,827	\$ 5,452,867	\$ 3,759,682	\$ 3,686,053	\$ 3,437,781
Business-type activities										
Net investment in capital assets										
Restricted	\$ 823,223	\$ 885,744	\$ 926,638	\$ 889,674	\$ 859,392	\$ 817,594	\$ 779,015	\$ 769,516	\$ 766,107	\$ 814,473
Unrestricted	160,153	103,694 ⁽¹⁾	120,510	122,534	128,361	124,753	125,345	113,459	76,709	75,945
Total business-type activities net position	281,494	339,254	307,209	332,633	329,047	359,035	406,663	247,428	339,422	351,101
	\$ 1,264,870	\$ 1,328,692	\$ 1,354,357	\$ 1,344,841	\$ 1,316,800	\$ 1,301,382	\$ 1,311,023	\$ 1,130,403	\$ 1,182,238	\$ 1,241,519
Primary government										
Net investment in capital assets										
Restricted	\$ 5,592,414	\$ 5,286,296	\$ 5,128,310	\$ 4,700,475	\$ 6,210,058 ⁽²⁾	\$ 5,829,953	\$ 5,548,647	\$ 5,336,232	\$ 5,244,867	\$ 5,205,542
Unrestricted	823,016	757,818	648,441	744,775	1,067,870	989,561	1,014,976	1,040,649	1,007,262	1,058,113
Total primary government net position	377,357	372,168	253,715	203,214	131,749	141,695	200,267	(1,486,796)	(1,383,838)	(1,584,355)
	\$ 6,792,787	\$ 6,416,282	\$ 6,030,466	\$ 5,648,464	\$ 7,409,677	\$ 6,961,209	\$ 6,763,890	\$ 4,890,085	\$ 4,868,291	\$ 4,679,300

Note: (1) For fiscal year ended June 30, 2009, the Airport reclassified certain components of net position from restricted to unrestricted to conform with the provisions of its Airline Lease Agreement and Master Trust Agreement. The reclassifications do not have an effect on the financial position or changes in financial position. As a result, this schedule was not adjusted to reflect these reclassifications for prior fiscal years.

(2) The increase in net investment in capital assets as of June 30, 2012, was primarily due to long-term obligations of the former Agency totaling \$2.313 billion that were transferred to SARA.

(3) Due to the GASB Statement No. 65 implementation during the year ended June 30, 2013, net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as of June 30, 2013. Prior to July 1, 2012, net position represents the difference between assets and liabilities. The City did not retroactively restate the net position related to the implementation of GASB Statement No. 65.

(4) The decrease in net position as of June 30, 2015, was primarily due to the recording of the City's net pension liability in accordance with the GASB Statement Nos. 68 and 71.

CITY OF SAN JOSE
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$000's)

	2008	2009	2010	2011	2012 ⁽¹⁾	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	\$ 142,886	\$ 172,077	\$ 137,159	\$ 148,515	\$ 111,986	\$ 133,330	\$ 119,299	\$ 127,480	\$ 122,363	\$ 127,090
Public safety	476,570	463,196	457,892	487,659	490,442	489,572	493,544	466,519	555,072	694,557
Community services	211,511	276,396	260,835	254,481	247,518	214,770	207,967	236,840	274,838	310,470
Sanitation	113,525	122,705	130,343	129,138	135,543	160,860	146,058	141,244	145,516	156,299
Capital maintenance	569,636	595,547	588,382	515,909	473,674	475,995	484,260	507,523	395,393	444,867
Interest and fiscal charges	170,852	166,672	161,734	163,280	123,696	64,467	60,852	60,266	56,768	54,844
Total governmental activities expenses	1,684,980	1,796,593	1,736,345	1,688,982	1,582,669	1,538,994	1,511,980	1,539,872	1,549,950	1,788,126
Business-type activities:										
Norman Y. Mineta San José International Airport	153,927	140,641	171,976	195,867	200,380	199,681	199,987	197,786	201,017	204,774
Wastewater Treatment System	134,882	126,788	140,831	147,283	149,980	147,994	169,622	158,385	163,985	192,302
Municipal Water System	26,017	25,416	24,355	24,600	29,260	31,523	33,187	33,885	36,246	42,647
Parking System	10,127	11,800	11,579	9,630	9,290	10,231	10,751	12,714	13,607	14,269
Total business-type activities expenses	324,953	304,645	348,741	377,380	388,910	389,429	413,547	402,770	414,855	453,992
Total primary government expenses	\$ 2,009,933	\$ 2,101,238	\$ 2,085,086	\$ 2,076,362	\$ 1,971,779	\$ 1,928,423	\$ 1,925,527	\$ 1,942,642	\$ 1,964,805	\$ 2,242,118
Program Revenues										
Governmental activities:										
Charges for services:										
General government	32,585	30,906	29,986	25,716	24,732	49,213	41,168	44,044	46,952	48,358
Public safety	45,845	39,254	20,343	21,454	22,099	21,868	19,228	20,300	23,046	23,164
Community services	88,050	66,090	75,208	85,971	90,252	109,291	116,522	117,006	129,905	177,436
Sanitation	121,793	125,198	135,099	137,677	151,644	148,270	151,056	150,546	157,477	143,062
Capital maintenance	37,580	36,340	31,072	46,040	52,205	70,519	40,024	66,440	70,842	70,842
Operating grants and contributions	94,357	115,965	110,926	100,045	123,829	108,858	103,844	97,467	107,583	86,779
Capital grants and contributions	48,075	26,306	49,926	33,041	22,749	36,365	29,873	129,901	69,848	63,647
Total governmental program revenues	468,285	440,059	452,560	449,944	487,510	544,384	501,715	626,362	601,251	613,288
Business-type activities:										
Charges for services										
Norman Y. Mineta San José International Airport	138,532	138,999	130,030	145,895	154,713	154,246	159,978	163,962	182,445	194,057
Wastewater Treatment System	129,568	151,516	156,256	167,721	167,783	171,689	195,891	192,715	209,056	222,654
Municipal Water System	24,154	25,807	24,732	26,010	28,542	32,371	35,427	37,295	37,368	44,680
Parking System	11,226	11,052	10,458	9,541	11,585	12,093	13,621	15,614	16,503	17,612
Operating grants and contributions	8,444	9,326	1,149	701	670	565	1,651	1,266	864	1,233
Capital grants and contributions	9,162	18,618	46,237	19,413	10,899	16,246	14,507	6,225	15,437	13,258
Total business-type activities program revenues	321,086	355,318	370,862	369,281	374,192	387,210	421,075	417,077	461,673	493,484
Total primary government revenues	\$ 789,371	\$ 795,377	\$ 823,422	\$ 819,225	\$ 861,702	\$ 931,594	\$ 922,790	\$ 1,043,439	\$ 1,062,924	\$ 1,106,782

CITY OF SAN JOSE
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$'000's)

	2008	2009	2010	2011	2012 ⁽¹⁾	2013	2014	2015	2016	2017
Net (Expenses) Revenues										
Governmental activities	\$ (1,216,695)	\$ (1,356,534)	\$ (1,283,785)	\$ (1,249,038)	\$ (1,095,359)	\$ (994,610)	\$ (1,010,265)	\$ (913,510)	\$ (948,699)	\$ (1,174,838)
Business-type activities	(3,867)	50,673	22,121	(8,099)	(14,718)	(2,219)	7,528	14,307	46,818	39,502
Total primary government	(1,220,562)	(1,305,861)	(1,261,664)	(1,257,137)	(1,110,077)	(996,829)	(1,002,737)	(899,203)	(901,881)	(1,135,336)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property and other taxes	485,731	507,273	488,973	481,145	404,877	329,591	368,233	384,523	404,878	431,138
Utility	82,255	93,619	106,151	108,528	110,912	111,750	114,486	112,645	113,474	121,046
Franchise	41,064	41,067	38,410	41,273	41,709	43,741	45,749	46,909	48,949	49,642
Transient occupancy	23,900	19,261	17,250	18,102	22,451	25,258	29,685	36,980	41,125	45,511
Business license	39,901	38,597	34,952	37,963	41,134	45,140	45,500	47,431	50,864	54,159
Sales taxes shared revenues	149,500	127,802	123,312	137,970	154,026	163,751	173,412	180,407	201,797	207,695
State of California in-lieu	9,244	8,839	7,169	4,889	2,611	524	434	419	410	467
Unrestricted interest and investment earnings	65,721	34,092	5,010	8,142	6,950	2,019	5,060	4,125	7,790	9,062
Other revenue	53,420	40,372	35,786	33,237	21,207	20,678	18,278	17,753	2,103	4,459
Transfers	9,383	5,285	3,291	5,303	3,357	829	2,468	3,501	3,680	3,387
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-	2,075,379	(167,244)	-	-	-	-
Total governmental activities	970,119	916,207	872,304	876,552	2,884,613	576,037	803,305	834,693	875,070	926,566
Business-type activities										
Unrestricted interest and investment earnings	29,232	18,434	1,192	3,886	3,562	(1,612)	4,581	3,252	6,383	3,955
Other revenue	-	-	-	-	-	-	-	1,747	2,314	19,211
Transfers	(9,383)	(5,285)	(3,291)	(5,303)	(3,357)	(829)	(2,468)	(3,501)	(3,680)	(3,387)
Extraordinary loss on dissolution of RDA	-	-	-	-	(13,528)	-	-	-	-	-
Total business-type activities	19,849	13,149	(2,099)	(1,417)	(13,323)	(2,441)	2,113	1,488	5,017	19,779
Total primary government	\$ 989,968	\$ 929,356	\$ 870,205	\$ 875,135	\$ 2,871,290	\$ 573,596	\$ 805,418	\$ 836,191	\$ 880,087	\$ 946,345
Change in Net Position										
Governmental activities	\$ (246,576)	\$ (440,327)	\$ (411,481)	\$ (372,486)	\$ 1,789,254	\$ (418,573)	\$ (206,960)	\$ (78,817)	\$ (73,629)	\$ (248,272)
Business-type activities	15,982	63,822	20,022	(9,516)	(28,041)	(4,660)	9,641	15,805	51,835	59,281
Total primary government	\$ (230,594)	\$ (376,505)	\$ (391,459)	\$ (382,002)	\$ 1,761,213	\$ (423,233)	\$ (197,319)	\$ (63,012)	\$ (21,794)	\$ (188,991)

Note: (1) The amounts have not been retroactively restated prior to FY 2013 for the effect of GASB 65 implementation.

CITY OF SAN JOSE
 FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$000's)

Data prior to GASB 54 implementation:

	Fiscal Year		
	2008	2009	2010
General Fund			
Reserved	\$ 48,511	\$ 32,400	\$ 27,269
Unreserved	228,622	178,793	143,618
Total General Fund	\$ 277,133	\$ 211,193	\$ 170,887
Other Governmental Funds			
Reserved	\$ 695,408	\$ 704,866	\$ 711,231
Unreserved, reported in:			
Special revenue funds	299,078	314,128	280,031
Debt service funds	(31,067)	-	(1,373)
Capital project funds	263,207	185,549	38,384
Total Other Governmental Funds	\$ 1,226,626	\$ 1,204,543	\$ 1,028,273

Data incorporating GASB 54 implementation⁽¹⁾:

	Fiscal Year							
	2010 ⁽²⁾	2011	2012	2013	2014	2015	2016	2017
General Fund								
Nonspendable	\$ 13	\$ 13	\$ 13	\$ 13	\$ 219	\$ 203	\$ 186	\$ 170
Restricted	489	397	392	330	19,829	10,599	1,265	690
Committed	55,414	51,587	63,014	89,114	121,991	94,748	84,998	96,026
Assigned	70,527	69,852	70,236	73,237	111,587	143,398	167,239	136,083
Unassigned	44,443	44,772	49,373	64,200	50,638	67,006	65,351	79,853
Total General Fund	\$ 170,887	\$ 166,621	\$ 183,028	\$ 226,894	\$ 304,064	\$ 315,954	\$ 319,039	\$ 312,832
Other Governmental Funds								
Nonspendable	\$ 1,149	\$ 1,111	\$ 20,508	\$ 898	\$ 77	\$ 144	\$ 243	\$ 340
Restricted	953,322	1,007,431	921,164	851,869	876,041	897,253	909,733	960,159
Committed	30,450	41,774	28,928	29,110	31,779	39,425	55,435	59,319
Assigned	29,397	31,714	32,673	48,229	59,243	70,715	82,785	82,584
Unassigned	(642)	(222)	(172)	-	-	-	-	-
Total Other Governmental Funds	\$ 1,013,676	\$ 1,081,808	\$ 1,003,101	\$ 930,106	\$ 967,140	\$ 1,007,537	\$ 1,048,196	\$ 1,102,402

Note: The City made some changes to this schedule effective fiscal year 2011.

(1) The City implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions", beginning fiscal year 2011. Certain data required by GASB 54 was not readily available for years prior to 2010. The City of San José has elected to show five years of data prior to GASB 54 implementation, and six years of data incorporating GASB 54 for this schedule.

(2) The retrospective 2010 information is provided to show comparable information as if GASB 54 were implemented in fiscal year 2010.

CITY OF SAN JOSE
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$000's)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
REVENUES										
Taxes and special assessments	\$ 673,529	\$ 676,147	\$ 679,741	\$ 667,064	\$ 638,338	\$ 572,715	\$ 622,138	\$ 648,907	\$ 653,663	\$ 721,419
Sales taxes shared revenue	154,002	132,005	127,238	137,970	154,027	163,751	173,412	180,407	228,317	207,695
Licenses, permits, and fines	89,656	84,274	81,983	93,471	62,197	61,137	66,826	62,000	68,896	75,173
Intergovernmental	96,930	120,460	101,527	113,669	112,169	106,091	96,396	90,119	81,133	87,622
Charges for current services	296,281	322,002	308,164	206,328	227,522	248,636	236,865	249,659	257,212	251,447
Rent	13,789	12,740	19,676	21,082	20,970	24,020	28,663	36,997	43,284	50,838
Investment income and other revenues	169,506	106,979	73,729	75,270	73,081	110,720	99,216	104,171	118,903	131,895
Total revenues	1,493,693	1,454,607	1,392,058	1,314,864	1,288,304	1,287,070	1,323,536	1,372,260	1,452,368	1,526,089
EXPENDITURES										
General government	238,747	259,699	235,571	112,809	88,385	100,483	90,395	90,031	108,505	110,853
Public safety	418,869	420,463	428,594	434,260	445,790	440,231	464,672	486,770	516,614	537,287
Community services	191,541	249,624	233,355	222,950	214,719	183,193	178,189	214,788	241,644	258,167
Sanitation	111,965	123,477	130,114	128,309	133,908	160,881	142,766	143,406	145,008	151,310
Capital maintenance	248,203	282,230	279,396	214,305	160,346	165,377	169,689	200,523	231,467	259,199
Capital outlay	171,575	173,434	126,137	49,679	53,038	106,387	73,037	75,903	60,049	68,197
Debt service:										
Principal	71,621	88,738	152,239	107,829	110,578	51,042	51,085	86,370	53,405	56,139
Interest and fiscal charges	167,837	164,785	162,790	164,439	116,338	64,287	62,954	62,464	59,007	57,103
Bond issuance costs	4,718	2,926	1,068	1,839	-	1,762	-	-	-	-
Payment to refunded bond escrow agent	12,992	3,143	-	-	-	31,985	-	-	-	-
Total expenditures	1,638,068	1,768,539	1,749,264	1,436,419	1,323,102	1,305,628	1,232,787	1,360,255	1,415,699	1,488,255
Excess (deficiency) of revenues over (under) expenditures	(144,375)	(313,932)	(357,206)	(121,555)	(34,798)	(18,558)	90,749	12,005	36,669	27,834
OTHER FINANCING SOURCES (USES)										
Bonds issued	246,030	162,875	160,405	138,410	-	-	-	-	-	-
Proceeds from capital lease financing	-	-	-	-	-	-	19,286	-	-	-
Refunding bonds issued	125,500	88,380	-	-	-	335,980	-	-	-	-
Premium / (discount) on bonds	1,645	(1,072)	22	(2,650)	-	45,506	-	-	-	-
Payment to refunded bond escrow agent	(116,908)	(84,982)	(56,735)	-	-	(348,750)	-	-	-	-
Reclassification of debt	374	44,700	-	23,562	(88,600)	-	-	-	-	-
Proceeds from sale of capital assets	-	8,365	33,647	20,577	12,237	6,198	2,221	37,482	3,848	17,602
Transfers in	239,207	265,681	310,277	206,745	476,238	83,670	104,097	114,998	96,561	128,089
Transfers out	(229,824)	(258,038)	(306,986)	(201,223)	(472,172)	(83,036)	(102,149)	(112,198)	(83,334)	(125,526)
Total other financing sources (uses)	266,024	225,909	140,630	185,421	(72,297)	39,568	23,455	40,282	7,075	20,165
Extraordinary gain (loss) from dissolution of RDA	-	-	-	-	44,795	(50,139)	-	-	-	-
Net change in fund balances	\$ 121,649	\$ (88,023)	\$ (216,576)	\$ 63,866	\$ (62,300)	\$ (291,129)	\$ 114,204	\$ 52,287	\$ 43,744	\$ 47,989
Debt service as a percentage of noncapital ⁽¹⁾ expenditures	17.21%	16.09%	19.41%	19.63%	17.87%	12.28%	9.83%	11.59%	8.29%	7.92%

Note: (1) Debt ratio was calculated by dividing debt service expenditure excluding bond issuance costs by total government expenditures excluding capital outlay.
 (2) In 2011, as a result of the implementation of GASB 54, the City converted Public Works Program Support Fund (Fund 150), Employee Benefits Fund (Funds 155-161), and Stores Vehicle Maintenance and Operations Fund (Funds 551-553) from Special Revenue Funds to Internal Service Funds.

SCHEDULE V

CITY OF SAN JOSE
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (\$000's)

Fiscal Year	City				Former Agency / SARA				Net	
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Assessed Value	Taxable Assessed Value	Total Direct Rate
2008	\$ 100,183,489	\$ 4,397,235	\$ 3,487,434	\$ 101,093,290	\$ 13,948,249	\$ 4,104,730	\$ -	\$ 18,052,979	18,052,979	0.188
2009	104,823,540	4,686,153	3,682,139	105,827,554	15,256,509	4,253,680	-	19,510,189	19,510,189	0.189
2010	102,272,875	4,826,605	4,081,360	103,018,120	15,888,334	4,115,097	-	20,003,431	20,003,431	0.191
2011	100,551,658	4,317,806	4,180,818	100,688,646	14,633,045	3,861,489	-	18,494,534	18,494,534	0.189
2012	101,709,647	4,526,059	4,249,198	101,986,508	13,987,097	4,215,662	-	18,202,759	18,202,759	0.188
2013	102,910,953	4,740,429	4,452,573	103,198,809	14,920,273	3,674,268	-	18,594,541	18,594,541	0.184
2014	111,660,402	4,584,810	4,561,937	111,683,275	16,739,547	4,027,543	-	20,767,090	20,767,090	0.184
2015	119,264,034	4,282,669	4,761,308	118,785,395	18,904,511	3,788,295	-	22,692,806	22,692,806	0.181
2016	127,846,046	4,240,467	5,067,884	127,018,629	19,976,466	3,879,443	-	23,855,909	23,855,909	0.178
2017	135,539,046	4,363,681	5,113,275	134,789,452	22,520,225	4,097,930	-	26,618,155	26,618,155	0.177

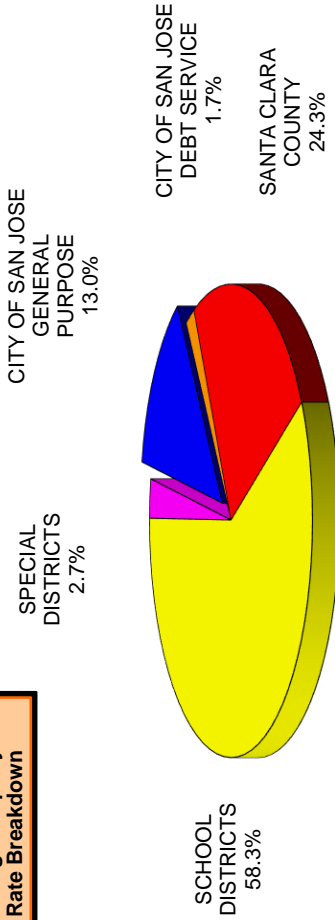
Note:

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the value of the property is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Department of Finance, County of Santa Clara

PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

**2017 Average Property Tax
Rate Breakdown**



Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
City of San José:										
General purpose	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156
Debt service	0.032	0.033	0.035	0.033	0.032	0.028	0.028	0.025	0.022	0.021
Total Direct Rate	0.188	0.189	0.191	0.189	0.188	0.184	0.184	0.181	0.178	0.177
Santa Clara County	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292	0.292
School districts	0.628	0.684	0.699	0.694	0.699	0.726	0.726	0.731	0.717	0.703
Special districts	0.030	0.031	0.031	0.030	0.030	0.031	0.031	0.030	0.029	0.032
Total direct and overlapping rates	1.138	1.196	1.213	1.205	1.209	1.233	1.233	1.234	1.216	1.204

Note:

- The above tax rates are applied per \$100 of assessed valuation.
- In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within as broken down in the pie chart above. In addition to the 1.00% fixed amount, the property owners are charged taxes as a percentage of assessed property values for the payment of school district bonds.

Source: Department of Finance, County of Santa Clara

CITY OF SAN JOSE
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO
 (\$000's)

SCHEDULE VII

	2017	2008	
Taxpayer	Taxable Assessed Value	Taxpayer	Taxable Assessed Value
	Percent of Total City Taxable Assessed Value		Percent of Total City Taxable Assessed Value
Cisco Technology, Inc.	\$ 1,157,810	Cisco Technology, Inc.	\$ 1,010,744
Essex Portfolio LP	961,711	Equity Office Properties	708,357
Sobrato Interests	604,664	Hitachi, Ltd.	690,117
M West Propco	598,694	The Irvine Company	664,178
FRIT San Joe Town & Country Village LLC	595,648	VF Mall LLC	471,452
River View Apartments	592,455	Carramerica Realty Operatin Partnership LP	398,854
The Irvine Company LLC	559,751	Legacy Partners	352,692
VF Mall LLC	536,827	Frit San Jose Town & Country Village LLC	318,548
San Jose Water Works	474,287	Mission West Properties Lp	304,034
Hitachi Global Storage Techs Inc.	436,838	Sobrato Companies	301,555
Total assessed property valuation, local secured net	\$ 6,518,685		\$ 5,220,531
	4.04%		0.25%
	4.04%		4.39%

Total City of San José net assessed property valuation (including the former Redevelopment Agency):
 FY 2007-2008 \$ 161,407,607
 FY 2016-2017 \$ 119,146,269

Source: California Municipal Statistics, Inc.
 Finance Department, County of Santa Clara

CITY OF SAN JOSE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(\$000's)

SCHEDULE VIII

Fiscal Year	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2008	\$ 137,290	\$ 135,866	99.0	\$ 223	\$ 136,088	99.1
2009	139,735	139,501	99.8	234	139,735	100.0
2010	132,901	132,175	99.5	246	132,421	99.6
2011	127,527	127,418	99.9	219	127,418	100.0
2012	129,822	129,822	100.0	0	129,822	100.0
2013	133,522	133,522	100.0	0	133,522	100.0
2014	146,783	146,783	100.0	0	146,783	100.0
2015	159,047	159,047	100.0	0	159,047	100.0
2016	168,813	168,813	100.0	0	168,813	100.0
2017	178,527	178,527	100.0	0	178,527	100.0

Note: The tax levied for the current year is based on estimates provided by the County of Santa Clara. The tax levied for prior years are adjusted to reflect actual tax collections.

Source: Finance Department, County of Santa Clara
Finance Department, City of San José

SCHEDULE IX

CITY OF SAN JOSE
 RATIOS OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (\$000's)

Fiscal Year	Governmental Activities										Total Governmental Activities
	General Obligation Bonds	Tax Allocation Bonds	Notes & Loans	Lease Revenue Bonds	Special Assessment Bonds	Revenue Bonds	Revenue Bonds	Capital Leases	Revenue Bonds	Capital Leases	
2008	\$ 535,832	\$ 2,033,899	\$ 87,366	\$ 629,241	\$ 70,591	\$ 312,240	\$ 0	\$ 3,669,169	\$ 0	\$ 0	
2009	526,592	2,155,169	83,058	655,058	62,729	301,250	0	3,783,856	0	0	
2010	506,964	2,153,332	77,850	644,908	58,825	284,150	0	3,726,029	0	0	
2011	487,034	2,091,270	71,827	666,540	161,924	271,385	0	3,749,980	0	0	
2012	467,104	0 ⁽¹⁾	22,003 ⁽¹⁾	657,017	158,484	164,125 ⁽¹⁾	0	1,468,733	0	0	
2013	447,180	0	15,906	649,577	154,676	153,305	18,069	1,438,713	18,069	18,069	
2014	427,256	0	15,906	631,899	150,533	141,995	39,370	1,406,959	39,370	39,370	
2015	407,332	0	2,396	595,742	144,159	130,140	38,850	1,318,619	38,850	38,850	
2016	387,403	0	2,157	579,326	139,434	117,715	37,209	1,263,244	37,209	37,209	
2017	367,469	0	1,917	561,102	134,467	104,685	35,495	1,205,135	35,495	35,495	

Business-type Activities

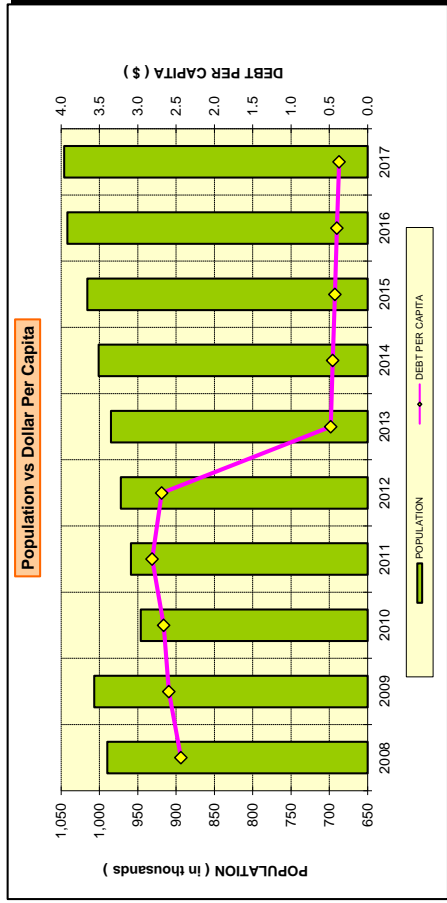
Fiscal Year	Airport			Clean Water			Wastewater			Total Business-type Activities			Debt Per Capita
	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	Revenue Bonds	
2008	\$ 1,060,658	\$ 73,808	\$ 41,953	\$ 1,176,419	\$ 4,845,588	\$ 4,07%	\$ 4.89						
2009	1,049,234	64,925	38,254	1,152,413	4,936,269	3.94%	4.90						
2010	1,037,329	60,049	34,487	1,131,865	4,857,894	3.95%	5.14						
2011	1,024,889	55,023	30,651	1,110,563	4,860,543	4.08%	5.07						
2012	1,415,551	49,842	26,746	1,492,139	2,960,872 ⁽¹⁾	2.46%	3.05						
2013	1,398,333	44,481	22,769	1,465,583	2,904,296	2.38%	2.95						
2014	1,376,038	38,925	18,720	1,433,683	2,840,642	2.14%	2.84						
2015	1,349,265	33,168	14,597	1,397,030	2,715,649	1.92%	2.67						
2016	1,325,579	27,138	10,399	1,363,116	2,626,360	1.74%	2.52						
2017	1,310,332	21,116	6,125	1,337,573	2,542,708	1.58%	2.43						

Note: Prior to FY2016, "Total Governmental Activities Debt" was restated to include "Capital Leases". Accordingly, the percentage of property value and debt per capita are recalculated.

(1) As of February 1, 2012, all bonds associated with the former Redevelopment Agency of the City of San Jose ("Agency") were transferred to the Successor Agency to the Redevelopment Agency of the City of San Jose ("SARA") resulting in a decrease in outstanding Tax Allocation Bonds, notes and loans, and other revenues bonds of the former Agency, which will be paid as enforceable obligations of SARA.

Sources: Finance Department, City of San José
 Finance Department, County of Santa Clara

CITY OF SAN JOSE
 RATIO OF NET GENERAL BONDED DEBT OUTSTANDING
 LAST TEN FISCAL YEARS
 (\$'000'S)



Fiscal Year	General Obligation Bonds		Tax Allocation Bonds		Total	Amount set aside to repay general debt	(4) Total net General Bonded Debt		Net Assessed Value	Population	(4) Ratio of Net General Bonded Debt to Net Assessed Value		Net General Bonded Debt Per Capita
	2008	2009	2010	2011			2012	2013			2014	2015	
2008	\$ 535,832	\$ 2,033,899	\$ 2,569,731	\$ 87	\$ 2,569,644	\$ 119,146,289	990,000	0.021567	\$ 2.60				
2009	526,592	2,155,169	2,681,761	11	2,681,750	125,337,743	1,007,000	0.021396	2.66				
2010	506,964	2,153,332	2,660,296	0	2,660,296	123,021,551	946,000	0.021625	2.81				
2011	487,034	2,091,270	2,578,304	0	2,578,304	119,183,180	959,000	0.021633	2.69				
2012	467,104	0 ⁽²⁾	467,104	0	467,104	120,189,267	971,000	0.003886	0.48 ⁽¹⁾				
2013	447,180	0 ⁽²⁾	447,180	0	447,180	121,793,350	984,000	0.003672	0.45				
2014	427,256	0 ⁽²⁾	427,256	0	427,256	132,450,365	1,001,000	0.003226	0.43				
2015	407,332	0 ⁽²⁾	407,332	0	407,332	141,478,201	1,016,000	0.002879	0.40				
2016	387,403	0 ⁽²⁾	387,403	6	387,397	150,874,538	1,042,000	0.002568	0.37				
2017	367,469	0 ⁽²⁾	367,469	0	367,469	161,407,607	1,046,000	0.002277	0.35				

Note: Total Outstanding General Debt excludes special assessment, special tax bonds, capital leases, and notes and loans payable.

(1) Decrease in General Bonded Debt Per Capita primarily due to Tax Allocation and Revenue bonds issued by the former Agency being transferred to SARA at February 1, 2012.
 (2) Due to the dissolution of former Redevelopment Agency, Tax Allocation Bonds were transferred to SARA at February 1, 2012.
 (3) Prior to FY2016, the Total Outstanding General Debt was restated to exclude "Lease revenue bonds" and "Revenue bonds".
 (4) Effectively 2017, Net General Bonded Debt is used to calculate ratio. Prior to FY 2016, the ratio of Net General Bonded Debt to Net Assessed Value and Net General Bonded Debt per Capita were restated.

CITY OF SAN JOSE
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2017

SCHEDULE XI

City Net Taxable Assessed Valuation (in thousands)		\$	<u>161,407,607</u>	
			Outstanding Debt as of 06/30/17	Estimated Share of Overlapping Debt
<u>City Direct Debt</u>	% Applicable	\$	<u>1,205,135,000</u>	<u>\$ 1,205,135,000</u>
<u>Direct Tax and Assessment Debt:</u>				
City of San Jose Community Facilities Districts	100.00%	\$	22,195,000	\$ 22,195,000
City of San Jose Special Assessment Bonds	100.00%		<u>12,125,000</u>	<u>12,125,000</u>
			<u>34,320,000</u>	<u>34,320,000</u>
<u>Overlapping Tax and Assessment Debt:</u>				
Alum Rock Union School District	76.80%		110,114,670	84,570,269
Berryessa Union School District	96.88%		93,243,031	90,335,713
Cambrian School District	64.32%		51,149,944	32,900,667
Campbell Union High School District	59.79%		215,895,000	129,094,415
Campbell Union School District	47.18%		181,299,080	85,536,906
Cupertino Union School District	15.78%		281,213,688	44,386,769
East Side Union High School District	96.33%		859,296,744	827,794,925
Evergreen School District	99.47%		118,586,562	117,962,797
Evergreen School District Community Facilities District No. 92-1	100.00%		575,000	575,000
Foothill-DeAnza Community College District	4.15%		649,079,095	26,949,764
Franklin-McKinley School District	99.72%		104,397,596	104,101,107
Fremont Union High School District	9.26%		364,345,088	33,720,138
Gavilan Joint Community College District	5.64%		92,870,000	5,235,082
Los Gatos Union School District	1.94%		89,255,000	1,735,117
Los Gatos-Saratoga Joint Union High School District	0.94%		114,990,000	1,083,206
Luther Burbank School District	21.35%		9,107,683	1,944,308
Midpeninsula Regional Open Space District	0.01%		44,225,000	5,307
Milpitas Unified School District	0.00%		105,435,000	42
Moreland School District	75.17%		111,312,251	83,672,306
Morgan Hill Unified School District	12.89%		80,710,000	10,401,098
Mount Pleasant School District	88.10%		18,058,070	15,909,882
Oak Grove School District	99.92%		191,080,617	190,931,574
Orchard School District	100.00%		39,326,545	39,326,545
San Jose Unified School District	98.40%		506,759,025	498,661,016
San Jose-Evergreen Community College District	85.44%		441,465,983	377,170,877
Santa Clara County	38.33%		784,845,000	300,823,240
Santa Clara Unified School District	23.47%		501,080,000	117,623,519
Santa Clara Valley Water District Benefit Assessment District	38.33%		90,945,000	34,858,309
Union School District	72.60%		109,727,657	79,656,793
West Valley Community College District	32.69%		<u>407,295,973</u>	<u>133,132,835</u>
Subtotal Overlapping Tax and Assessment Debt			<u>6,767,684,302</u>	<u>3,470,099,526</u>
Total Direct and Overlapping Tax and Assessment Debt			<u>6,802,004,302</u>	<u>3,504,419,526</u>
<u>Overlapping Other Debt:</u>				
Alum Rock Union School District Certificates of Participation	76.80%		22,730,000	17,457,095
Berryessa Union School District Certificates of Participation	96.88%		5,299,347	5,134,113
Campbell Union High School District General Fund Obligations	59.80%		15,165,000	9,067,912
Campbell Union School District General Fund Obligations	47.18%		3,090,000	1,457,862
East Side Union High School District Post Employment Obligations	96.33%		29,440,000	28,360,730
Foothill-DeAnza Community College District General Fund Obligations	4.15%		30,830,528	1,280,084
Franklin-McKinley School District Certificates of Participation	99.72%		3,975,000	3,963,711
Gavilan Joint Community College District General Fund Obligations	5.64%		7,415,000	417,984
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.94%		5,495,000	51,763
Midpeninsula Regional Open Space Park District General Fund Obligations	0.01%		112,143,611	13,457
Morgan Hill Unified School District Certificates of Participation	12.89%		13,505,000	1,740,389
San Jose Unified School District Certificates of Participation	98.40%		13,500,000	13,284,270
San Jose-Evergreen Community College District Benefit Obligations	85.44%		47,450,000	40,539,382
Santa Clara County Board of Education Certificates of Participation	38.33%		5,690,000	2,180,920
Santa Clara County General Fund Obligations	38.33%		634,190,521	243,078,885
Santa Clara County Pension Obligation Bonds	38.33%		362,470,957	138,931,493
Santa Clara County Vector Control District Certificates of Participation	38.33%		2,685,000	1,029,134
Santa Clara Unified School District Certificates of Participation	23.47%		13,795,000	3,238,238
West Valley-Mission Community College District General Fund Obligations	32.69%		<u>63,715,000</u>	<u>20,826,522</u>
Total Gross Direct and Overlapping General Fund Debt			<u>1,392,584,964</u>	<u>532,053,944</u>
Total Overlapping Debt		\$	<u>8,194,589,266</u>	<u>\$ 4,036,473,470</u>
Total Direct and Overlapping Debt				<u>\$ 4,036,473,470</u>

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses in the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt, of each overlapping government. The City direct debt in this schedule includes bonds, notes, certificate of participation, loans, and capital leases.

Source: California Municipal Statistics, Inc.
Finance Department, County of Santa Clara

CITY OF SAN JOSE
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (\$000's)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<u>Calculation of Debt Limit</u>										
Gross assessed value for fiscal year	\$ 122,633,703	\$ 129,019,882	\$ 127,102,911	\$ 123,363,998	\$ 124,438,465	\$ 126,245,923	\$ 137,012,302	\$ 146,239,509	\$ 155,942,422	\$ 166,520,882
Debt limit at 15% of assessed value (1)	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15	x .15
Debt limit applicable to fiscal year	\$ 18,395,055	\$ 19,352,982	\$ 19,065,437	\$ 18,504,600	\$ 18,665,770	\$ 18,936,888	\$ 20,551,845	\$ 21,935,926	\$ 23,391,363	\$ 24,978,132
<u>Calculation of Legal Debt Margin</u>										
Debt limit applicable to fiscal year	\$ 18,395,055	\$ 19,352,982	\$ 19,065,437	\$ 18,504,600	\$ 18,665,770	\$ 18,936,888	\$ 20,551,845	\$ 21,935,926	\$ 23,391,363	\$ 24,978,132
Total general obligation bonds	535,832	526,592	506,964	487,034	467,104	447,180	427,256	407,332	387,403	367,469
Less: Amounts set aside to repay general debt	(87)	(11)	0	0	0	0	0	0	(6)	0
Total net debt applicable to debt limit	\$ 535,745	\$ 526,581	\$ 506,964	\$ 487,034	\$ 467,104	\$ 447,180	\$ 427,256	\$ 407,332	\$ 387,397	\$ 367,469
Legal debt margin	\$ 17,859,310	\$ 18,826,401	\$ 18,558,473	\$ 18,017,566	\$ 18,198,666	\$ 18,489,708	\$ 20,124,589	\$ 21,528,594	\$ 23,003,966	\$ 24,610,663
Legal debt margin as a percentage of the debt limit	2.9%	2.7%	2.7%	2.6%	2.5%	2.4%	2.1%	1.9%	1.7%	1.5%

Note: The prior years' debts applicable to the limit were restated to be offset by the amounts that the applicable law expressly allows. Accordingly, the legal debt margin is recalculated.

(1) Section 1216 of the San José City Charter limits the general obligation bonds of the City to 15% of the total assessed value of all real and personal property within the City limits.

Source: Finance Department, County of Santa Clara

CITY OF SAN JOSE
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(\$000's)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

Year	Gross Revenues and Other Available Funds (1),(7)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements		Available Passenger Facility Charges (4)	Net Bond Debt Service Payable from Revenues	Coverage (3), (4), (5)
				Principal	Interest			
2008	\$ 163,826	\$ 95,615	\$ 68,211	\$ 9,753	\$ 11,814	\$ -	\$ 21,567	3.16
2009	169,094	91,051	78,043	11,195	11,842	-	23,037	3.39
2010	161,836	82,711	79,125	11,653	19,714	4,588	26,779	2.95
2011	175,985	76,850	99,135	12,135	41,755	21,368	32,502	3.05
2012	188,490	67,875	120,615	25,550	55,175	21,336	59,389	2.03
2013	190,857	64,974	125,883	13,440	72,885	22,100	64,225	1.96
2014	202,874	66,319	136,555	22,275	72,793	25,747	69,321	1.97
2015	206,064 (8)	70,054 (6)	136,010	23,475	72,608	25,202	70,881	1.92
2016	217,275 (8)	73,118	144,157	23,660	71,792	24,829	70,623	2.04
2017	234,154	77,577	156,577	24,700	70,960	24,789	70,871	2.21

(1) Includes operating and other revenues and prior year's surplus, excludes Passenger Facility Charges and other items as defined in the Master Trust Agreement.

(2) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.

(3) Debt coverage is calculated by dividing net revenue available for debt service by total debt service requirements.

(4) Under the Master Trust Agreement, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt services. The amount of Debt Service is reduced by the amount Available Passenger Facility Charges designated by the City and deposited with Trustee to pay Debt Service. Beginning 2009 - 2010, debt service requirements calculation excludes Passenger Facility Charges.

(5) The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service will be at least 125% of annual debt service for each fiscal year.

(6) Fiscal year 2015 Operating Expenses were revised to exclude expenses related to GASB Statement No. 68.

(7) Other Available Funds includes Rolling Coverage Amount, uncommitted monies in the General Revenue Fund, from the prior fiscal year, unspent bond proceeds in FY12 through FY17, and CFC Revenues, in an amount not to exceed the amount of eligible debt service and transportation costs.

(8) Other Available Funds was restated to include CFC revenues available for debt service not to exceed the amount of CFC eligible debt service and transportation costs.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

WASTEWATER TREATMENT SYSTEM

Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements		Coverage (3)
				Principal	Interest	
2008	\$ 141,777	\$ 105,779	\$ 35,998	\$ 7,943	\$ 3,405	3.17
2009	165,484 *	101,833	63,651	8,179	3,276	5.56
2010	159,124	113,648	45,476	8,407	3,038	3.97
2011	170,078	120,225	49,853	8,626	2,816	4.36
2012	168,976	122,439	46,537	8,850	2,569	4.08
2013	171,689	120,329	51,360	9,102	2,310	4.50
2014	196,937	141,092	55,845	9,369	2,047	4.89
2015	194,168	129,153	65,015	9,643	1,736	5.71
2016	209,512	134,874	74,638	9,993	1,414	6.54
2017	222,890	162,951	59,939	10,130	1,122	5.33

(1) Includes operating revenues, operating grants/contributions, and other revenues.

(2) Includes operating expenses less depreciation and amortization.

(3) 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.

* Rate increase effective July 1, 2008.

Source: Environmental Services Department, City of San José

CITY OF SAN JOSE
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Net Taxable Assessed Values (2) (\$000's)	Per Capita Taxable Property Values (\$000's)	Average Unemployment Rate % (3)
2008	990,000	\$ 119,146,269	\$ 120,350	5.3
2009	1,007,000	125,337,743	124,466	6.6
2010	946,000 (*)	123,021,551	130,044	12.2
2011	959,000	119,183,180	124,279	12.2
2012	971,000	120,189,267	123,779	10.8
2013	984,000	121,793,350	123,774	9.3
2014	1,001,000	132,450,365	132,318	7.7
2015	1,016,000	141,487,201	139,259	5.1
2016	1,042,000	150,874,538	144,793	4.3
2017	1,046,000	161,407,607	154,309	3.6

Note: Data pertaining to personal income is not readily available, thus the City used taxable assessed values to calculate per capita taxable property values.

Sources / Notes:

1. State of California, Department of Finance, Population Estimates for California Cities
2. Finance Department, County of Santa Clara
3. State of California, Employment Development Department, Labor Market Information Division

(*) Revised by State of California Department of Finance due to using the 2010 Census counts as the new benchmark in estimating population for California Cities.

CITY OF SAN JOSE
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO

SCHEDULE XV

Company or Organization	2017			2008		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	17,800	1	1.75%	15,240	2	1.67%
Cisco Systems	14,000	2	1.38%	18,950	1	2.08%
City of San Jose*	6,159	3	0.61%	6,990	4	0.77%
Paypal, Inc.	3,000	4	0.30%	n/a (**)	n/a (**)	n/a (**)
Western Digital/HGST	3,000	5	0.30%	n/a (**)	n/a (**)	n/a (**)
eBay	3,000	6	0.30%	3,000	6	0.33%
IBM Corporation	2,750	7	0.27%	7,450	3	0.82%
Kaiser Permanente	2,500	8	0.25%	2,100	11	0.23%
Adobe Systems, Inc.	2,200	9	0.22%	2,000	12	0.22%
Insight Global	1,950	10	0.19%	n/a (**)	n/a (**)	n/a (**)
Good Samaritan Hospital	1,950	11	0.19%	1,850	13	0.20%
Brocade Communications	1,750	12	0.17%	n/a (**)	n/a (**)	n/a (**)
Cadence Design Systems	1,700	13	0.17%	1,800	15	0.20%
Super Micro	1,700	14	0.17%	n/a (**)	n/a (**)	n/a (**)
Regional Medical Center	1,600	15	0.16%	n/a (**)	n/a (**)	n/a (**)

Note: (*) Full-time employees.

(**) Company or Organization not included in top 15 principal employers in 2008.

Source: California Employment Development Department, Labor Market Information Division
 City of San Jose FY2017-2018 Proposed Operating Budget
 FY 2007-2008 CAFR

CITY OF SAN JOSE
 FULL-TIME AND PART-TIME CITY EMPLOYEES
 LAST TEN FISCAL YEARS

	Full-Time and Part-Time Employees as of June 30 ⁽⁴⁾									
	2008	2009	2010	2011 ⁽²⁾	2012	2013	2014	2015	2016	2017
Airport	367	343	281	190	181	169	165	172	164	180
City Attorney's Office	85	87	79	71	67	73	72	72	79	76
City Auditor's Office	17	19	16	14	12	15	14	14	14	15
City Clerk's Office	21	21	16	12	11	11	16	14	14	13
City Council Staff	93	80	83	81	81	85	78	89	90	95
City Manager's Office	117	118	104	68	62	61	59	60	65	65
Convention & Cultural Facilities	72	69	53	8	1	0	0	0	0	0
Environmental Services Department	477	498	499	486	455	427	452	466	460	489
Finance Department	142	139	127	114	109	112	112	125	124	111
Fire Department	867	828	816	712	740	783	762	758	779	781
General Services Department	208	304 ⁽¹⁾	303	234	0 ⁽³⁾	0	0	0	0	0
Housing Department	85	86	83	65	57	50	49	54	51	55
Human Resources	179	148	140	93	74	60	39	46	46	46
Independent Police Auditor	6	5	6	6	6	6	6	6	6	5
Information Technology	143	141	128	99	83	76	70	63	68	76
Library Department	712	701	651	566	532	575	525	576	643	574
Office of Economic Development	76	90	90	107	138	112	54	58	59	66
Parks, Recreation & Neighborhood Services	1,909	1,709 ⁽¹⁾	1,717	1,521	1,422	1,425	1,018	1,104	1,160	1,178
Planning, Building & Code Enforcement	367	328	272	295	288	324	294	317	289	284
Police Department	1,927	1,953	1,831	1,715	1,572	1,580	1,524	1,422	1,569	1,682
Public Works Department	361	332	293	240	475 ⁽³⁾	503	516	519	535	557
Retirement Services	29	30	28	28	27	26	32	35	36	35
Transportation	478	462	444	408	406	396	406	418	428	422
Total	8,738	8,491	8,060	7,133	6,799	6,869	6,263	6,388	6,679	6,805

Note: (1) Effective FY 2008-2009, the Animal Care Services Division was transferred from the Parks, Recreation & Neighborhood Services Department to the General Services Department.

(2) Decrease primarily due to layoffs and a number of eliminated positions as a cost-saving strategy to reduce the \$115.2 million budget shortfall.

(3) Effective FY 2011-2012, the General Services Department merged with the Public Works Department.

(4) Part-Time Employees include temporary employees.

Source: Finance Department, City of San José

CITY OF SAN JOSE
OPERATING INDICATORS
LAST TEN FISCAL YEARS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
AIRPORT:										
Takeoffs Per Year:										
Commercial Airline Operations	96,860	86,672	76,024	73,094	71,672	71,000	74,088	73,835	76,050	104,377 ⁽⁶⁾
Cargo Commercial Airlines Operations	3,140	2,554	2,076	2,046	1,678	1,500	1,504	1,497	1,570	1,654
Taxi / Commuter Commercial	29,504	23,830	19,776	16,172	14,806	16,000	16,843	18,326	19,055	NA ⁽⁶⁾
General Aviation	55,146	46,674	33,439	30,503	31,664	31,000	31,246	31,950	34,670	34,105
Military Flights	64	242	275	276	285	230	228	200	241	279
Landings Per Day:										
Commercial	177	155	134	125	121	120	125	128	132	143
General Aviation	76	64	46	42	43	40	43	44	47	47
Number of Passengers Per Year:										
Business	5,116,800	4,200,000	3,950,400	4,026,720	3,964,800	4,075,000	4,350,000	4,586,000	4,800,000	5,600,000
Non-Business	5,543,200	4,550,000	4,279,600	4,362,280	4,295,200	4,414,000	4,713,000	4,969,000	5,200,000	5,600,000
ENVIRONMENT AND UTILITIES:										
Water:										
Gallons of Wastewater Treated Per Day (in millions)	116	107	106	111 ⁽²⁾	107 ⁽²⁾	111	109	101	92	101
Gallons of Municipal Water Consumption Per Year (in billions)	8.3	8.7	7.9	6.8	7.7	8.1	8.1	8.2	6	6.5
Recycled Materials:										
Tons of Recyclables	132,821	129,462	120,511	120,819	114,369	101,102	103,000	82,000	85,239	96,363
Tons of Yard Trimmings	123,473	125,676	128,728	130,637	132,875	132,979	129,000	125,000	115,682	129,136
Gallons of Used Motor Oil	120,098	116,864	123,318	122,745	124,871	81,127	77,999	84,000	65,428	64,571
FIRE:										
Fires Per Year	3,172	3,018	1,659	1,570	1,765	1,988	2,000	2,000	1,950	2,300
Hazardous Materials Incidents Per Year	546	841	368	291	448	880	NA ⁽⁴⁾	NA ⁽⁴⁾	NA ⁽⁴⁾	NA ⁽⁴⁾
Fire Safety Code Inspections Per Year	16,989	12,056	11,073	11,508	14,318	13,615	13,000	13,700	15,000	17,000
Emergency Medical Calls Per Year	40,534	46,533	49,036	49,683	49,320	52,210	48,000	51,000	54,000	55,000
LIBRARIES:										
Circulation	14,250,000	14,399,685	15,000,000	13,560,762	11,544,886	10,702,251	10,700,000	9,840,912	9,705,777	9,228,155
Reference Questions	600,000	648,721	650,000	748,647	666,385	563,753	550,000	438,450	550,000	450,000
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Annual Participant Hours / Attendance in Recreation Programs	2,740,500	2,200,000	2,050,000	2,030,000	220,743 ⁽¹⁾	278,481	575,000	611,316	683,913	779,077
POLICE:										
911 Calls Per Year	400,155	457,360	405,739	689,594	420,862	454,919	549,000	578,000	563,000	565,000
311 Calls Per Year	257,100	256,648	343,868	435,312	360,929	385,189	368,000	370,000	385,000	382,000
Cases Investigated Per Year	46,096	45,000	38,006	35,090	32,982	NA ⁽³⁾	22,300	27,000	22,000	23,000
BUILDING PERMITS:										
Number issued:										
New Buildings	916	593	369	388	620	947	1,191	901	742	885
Building Alterations	7,272	6,165	6,020	6,677	4,495	4,812	6,085	6,116	4,998	6,474
Value:										
New Buildings (in \$)	455,272,352	332,315,767	298,573,631	388,496,732	517,738,795	547,633,219	1,398,057,690	852,554,975	866,643,670	1,002,500,194
Building Alterations (in \$)	439,999,543	342,053,067	301,370,071	383,794,593	475,777,145	468,400,699	746,751,604	1,384,326,525	770,315,772	967,071,695

Note: (1) Decrease due to change in methodology used to calculate attendance from hours to attendees to number of events.
 (2) Data reported previously was revised to reflect the most recent information.
 (3) Data currently unavailable due to the Police Department's transition to a new Records Management System.
 (4) Data currently unavailable due to staffing resources. Efforts are underway to enhance and automate the process.
 (5) Effective FY2017, Airport Department no longer tracks the Taxi/Commuter Commercial separately. It is now included in Commercial Airline Operations.

CITY OF SAN JOSE
CAPITAL ASSET STATISTICS
BY FUNCTION
LAST TEN FISCAL YEARS

SCHEDULE XVIII

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
AIRPORT:										
Terminals	2	2	2	2	2	2	2	2	2	2
Runways	3	3	3	3	3	3	3	3	3	3
Public Parking Spaces:										
Short-Term Parking	2,383	2,383	2,695	2,539	2,539	2,500	2,500	2,500	2,500	2,130
Long-Term Parking	3,991	3,991	3,600	3,085	3,085	3,100	3,030	3,030	3,030	3,030
ENVIRONMENT AND UTILITIES:										
Wastewater:										
Miles of Municipal Sewer Mains	2,200	2,200	2,251	2,258	2,264	2,271	2,294	2,302	2,308	2,030
Maximum Daily Capacity (millions of gallons)	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0
Water:										
Meters in Municipal Service Water Area	26,230	26,500	26,475	26,300	26,400	26,700	26,700	26,700	26,700	26,700
Miles of Water Mains	343	344	344	344	345	345	345	345	345	345
FIRE:										
Stations	34	34	34	33	33	33	33	33	33	33
LIBRARIES:										
Main Library	1	1	1	1	1	1	1	1	1	1
Branches	21	21	21	21	22	22	22	22	23	23
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Park Sites	174	183	188	189	192	193	194	199	200	200
Community Centers	38	42	10	12	12	12	12	12	12	12
POLICE:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles and Motorcycles	387	390	384	382	430	430	369	369	380	352
Horses and Dogs	27	27	27	26	20	18	18	16	15	15
Aircraft	2	2	2	2	2	2	2	2	2	2

Source: City Manager's Office, City of San José

CITY OF SAN JOSE
 CONDUIT ISSUER OF MULTIFAMILY HOUSING REVENUE BONDS OUTSTANDING ⁽¹⁾
 AS OF JUNE 30, 2017

SCHEDULE XIX

Project Name	Series	Date Issued	Issue Amount	6/30/2017 Balance	Maturity/Redemption	Annual Fees ⁽²⁾
Almaden Lake Village Apartments	1997A	03/27/97	\$ 25,000,000	\$ 25,000,000	03/01/32	\$ 33,750
Helzer Court Apartments	1999A	06/02/99	23,169,000	14,618,000	12/01/41	26,123
Ohlone-Chynoweth Commons Apartments	1999	06/04/99	16,200,000	-	05/30/09	20,250
Almaden Lake Village Apartments	2000A	03/29/00	2,000,000	2,000,000	03/01/32	n/a
Craig Gardens Apartments	2000A	12/05/00	7,100,000	3,594,275	12/01/32	8,875
El Parador Apartments	2000A,B & C	12/07/00	11,530,000	5,270,000	01/01/41	14,413
Monte Vista Gardens Senior Housing	2000A	12/08/00	3,740,000	2,572,731	07/15/33	9,350
San Jose Lutheran Seniors Apartments	2001A-1	07/11/01	5,000,000	2,916,155	02/15/34	6,250
Terramina Square Apts/North White Rd Proj	2001F	11/15/01	16,845,000	15,188,354	04/01/44	21,056
Almaden Senior Housing Apartments	2001G	12/05/01	6,050,000	2,555,000	07/15/34	7,563
Betty Anne Gardens Apartments	2002A	04/05/02	11,000,000	5,950,000	04/01/34	13,750
El Paseo Apartments	2002B	04/05/02	9,600,000	4,045,000	10/01/34	12,000
Sunset Square Apartments	2002E	06/26/02	10,904,000	3,769,000	06/01/34	13,630
Villa Monterey Apartments	2002F	06/27/02	11,000,000	10,300,000	07/15/35	13,750
Monte Vista Gardens Senior Housing Apartments, Phase II	2002C-1	07/24/02	3,665,000	2,642,840	02/01/35	4,581
Pollard Plaza Apartments	2002D	08/06/02	14,000,000	6,195,000	08/01/35	17,500
Hacienda Villa Creek Senior Apartments	2002G-1	10/10/02	4,453,000	3,139,000	12/01/34	8,750
Kennedy Apartment Homes	2002K	12/11/02	14,000,000	7,975,000	12/15/35	17,500
Fallen Leaves Apartments	2002J-1	12/18/02	13,360,000	9,805,000	06/01/36	23,500
Fallen Leaves Apartments	2002J-2 (Sub.)	12/18/02	3,340,000	2,550,000	05/01/36	n/a
Turnleaf Apartments	2003A	06/26/03	15,290,000	15,090,000	06/21/36	19,113
The Oaks of Almaden Apartments	2003B-1	07/29/03	4,365,000	3,336,168	02/15/36	10,438
Cinnabar Commons	2003C	08/07/03	25,900,000	23,400,000	02/01/37	32,375
Almaden Family Apartments	2003D	11/14/03	31,300,000	-	11/15/37	39,125
Trestles Apartments	2004A	03/04/04	7,325,000	7,325,000	03/01/37	10,781
Trestles Apartments	2004A (Sub.)	03/04/04	1,300,000	1,131,028	04/15/37	n/a
Vintage Tower Apartments	2004B-1	06/28/04	5,500,000	2,815,581	01/15/37	6,875
Delmas Park	2004C-1	10/15/04	13,780,000	12,237,834	01/01/47	24,224
Raintree Apartments	2005A	02/01/05	21,100,000	-	02/01/38	26,375
Paseo Senter I	2005B-1	12/21/05	6,142,200	4,393,359	12/01/38	7,500
Paseo Senter II	2005C-1	12/21/05	4,903,000	3,387,627	06/01/38	7,500
Casa Feliz Studio Apartments	2007A	06/13/07	11,000,000	-	12/01/09	7,500
Curtner Studios	2007C-1	12/19/07	8,794,969	4,812,804	11/15/37	7,500
Fairgrounds Senior Housing Apartments	2008B	05/08/08	26,000,000	11,530,000	05/01/41	32,500
Las Ventanas Apartments	2008B	07/15/08	25,900,000	25,900,000	07/01/38	38,750
Brookwood Terrace Family Apts	2009B-1	12/23/09	13,225,000	7,320,000	01/01/44	17,000
Fourth Street Apts	2010A-1	06/04/10	23,000,000	5,036,797	01/01/14	7,500
Orvieto Family Apartments	2010B-1	07/20/10	14,200,000	7,475,000	08/01/29	17,750
Kings Crossing Apartments	2010C	09/17/10	24,125,000	2,549,899	09/01/45	7,500
Taylor Oaks Apartments	2011A-1 & A-2	10/21/11	6,300,000	3,835,000	10/01/28	7,875
1st and Rosemary Family Apartments	2012C	04/19/12	35,500,000	26,244,666	10/01/44	33,900
1st and Rosemary Senior Apartments	2012D	04/19/12	15,500,000	9,536,917	10/01/44	12,319
Mayfair Court Apartments	2012B-1 & B-2	04/20/12	22,000,000	4,829,306	10/01/44	27,500
La Moraga Apartments	2012E	09/07/12	52,440,000	-	03/01/26	65,550
3rd Street Residential	2013A	06/27/13	6,630,000	3,924,916	07/01/33	8,288
Cambrian Center	2014A-1	10/17/14	19,034,500	12,757,043	05/01/47	51,824
Cambrian Center	2014A-2	10/17/14	19,034,500	12,757,043	05/01/47	n/a
Parkview Family Apartments	2014B	11/13/14	13,600,000	-	06/01/16	17,000
Parkview Senior Apartments	2014C	11/13/14	14,630,000	-	06/01/16	18,288
Poco Way Apartments	2015A-1	02/01/15	21,833,000	11,423,645	09/01/47	14,406
Canoas Terrace Apartments	2015B	10/30/15	22,700,000	22,700,000	05/01/48	28,375
Town Park Towers Apartments	2015C	10/14/15	45,250,000	27,042,548	04/01/48	56,563
Casa del Pueblo Apartments	2015D	12/04/15	30,000,000	-	12/01/17	37,500
Don de Dios Apartments	2016A	12/22/16	17,376,102	3,595,224	06/01/34	21,720
Villa De Guadalupe	2017A1 & A2	05/23/17	37,700,000	37,700,000	03/01/52	41,995
Villa De Guadalupe Junior	2017B	05/23/17	4,615,712	4,615,712	03/01/52	n/a
Grand Total			\$ 879,249,983	\$ 448,788,472		\$ 1,036,000

(1) California Government Code Chapter 10.7 "Conduit Financing Transparency and Accountability" requires additional reporting and public disclosures by public agencies that issue certain revenue bonds, including conduit revenue bonds. This table provides the information required by section 5872 of Chapter 10.7 which includes disclosure of fees imposed on borrowers by conduit financing provider, expenditures related to fees, dollar amount and nature of fees and expenses, amount of any authorized, but unsold bonds at end of June 30, 2017, and amount of debt issued and outstanding at end of reporting period. As of June 30, 2017, the City has served as a conduit issuer for only multifamily housing revenue bonds.

(2) Annual monitoring fees and upfront fees are collected pursuant to City Council Policy No. 1-16, Policy for the Issuance of Multifamily Housing Revenue Bonds. The annual monitoring fee is charged to reimburse the City for monitoring the restricted units and the reimbursement agreement and to ensure compliance with tax law. The annual monitoring fees are deposited in the Housing Activities Fund.