City of San José, California

Single Audit Reports

Basic Financial Statements with
Federal Compliance Sections

For the Year Ended June 30, 2021

Certified
Public
Accountants

City of San José, California
For the Year Ended June 30, 2021

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Independent Auditor's Report

City Council
City of San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of San José Federated City Employees' Retirement System and the City of San José Police and Fire Department Retirement Plan (collectively, "the Pension Trust Funds"), which represent 87.5 percent, 104.8 percent, and 71.8 percent, respectively, of the assets, fund balances/net position, and revenues/additions of the aggregate remaining fund information. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pension Trust Funds, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 19, 2021, except for our report on the schedule of expenditures of federal awards,
as to which the date is March 15, 2022

The Management's Discussion and Analysis ("MD&A") provides an overview of the City of San José's ("City") activities and financial performance for the year ended June 30, 2021. Readers are encouraged to read the MD&A in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal at the beginning of the Introductory Section and other portions of this Annual Comprehensive Financial Report ("ACFR"). All amounts in the billions and millions have been rounded to the nearest million and hundred thousand, respectively. All percentages have been rounded to the nearest one hundredth of a percent.

FINANCIAL HIGHLIGHTS

- The government-wide statement of net position for the City's governmental and business-type activities indicates that as of June 30, 2021, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $3.710 billion. Of this amount, a deficit of $2.756 billion represents unrestricted net position, which is comprised of a deficit balance of $2.978 billion for governmental activities, and a positive balance of $222.4 million for business-type activities. In addition, the City's restricted net position totals $1.166 billion ($1.116 billion for governmental activities and $49.8 million for business-type activities) based on the restrictions imposed by the enabling legislations or debt covenants. Lastly, net position of $5.300 billion is the City's net investment in capital assets, which include $4.090 billion from governmental activities and $1.210 billion from business-type activities.

- The net position decreased by $238.1 million or 6.03 percent during FY 2021 to $3.710 billion from $3.948 billion. Governmental Activities accounted for $263.1 million of the decrease mainly due to total expense of $2.191 billion exceeding the total revenue and transfers of $1.928 billion. Business-type activities accounted for $25.0 million of increase primarily due to total revenue of $802.0 million exceeding the total expense and transfers of $777.0 million.

- Governmental funds reported a combined ending fund balance of $1.861 billion at June 30, 2021, which is $3.9 million or 0.21 percent higher than the June 30, 2020 balance. The change was attributable to a decrease in the General Fund of $46.9 million, the Housing Activities Fund of $11.0 million, the Special Assessment Districts Fund of $2.1 million, the San José Financing Authority Debt Service Fund of $16.7 million, and offset by an increase in the Low and Moderate Income Housing Asset Fund of $22.7 million, and the Nonmajor Governmental Funds of $57.9 million.

- Unassigned fund balance of governmental funds is negative $36.4 million, which is negative 1.95 percent of the combined governmental fund balances at June 30, 2021.

- Total long-term liabilities increased by $154.3 million to $7.193 billion at June 30, 2021, which represents an increase of 2.19 percent compared to $7.039 billion at June 30, 2020. The primary factors leading to the increase in long-term liabilities for governmental activities of $182.5 million was due to the increase of pension liability by $206.3 million and debt service activities by $63.2 million, offset by the decrease of Other Postemployment Benefits ("OPEB") liability by $104.2 million. The primary factor leading to the decrease in long-term liabilities for business-type activities of $28.2 million was the result of a bond refunding and the scheduled debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduce the City's basic financial statements, which are comprised of four components:

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

In addition, this report also contains other supplementary information.

Government-wide Financial Statements

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

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

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

Both government-wide financial statements address functions principally 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 system, parking operations, and clean energy.

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

Fund Financial Statements

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

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's capacity to finance its programs in the near future.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate comparison between governmental funds and governmental activities.

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

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

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

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 custodial funds are reported as fiduciary funds. The government-wide financial statements do not include fiduciary funds as their resources are not available to support City programs.

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

Required Supplementary Information includes the budgetary schedules for the General Fund, the Housing Activities Fund, and the Low and Moderate Income Housing Asset Fund. In addition, pension and other postemployment healthcare schedules present the City's progress toward funding its obligations to provide future pension and other postemployment healthcare benefits for its active and retired employees.

Combining and individual fund statements and schedules provide information for nonmajor governmental funds, internal service funds, and fiduciary funds and are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of net position: As noted earlier, net position may serve as a useful indicator of the City's financial position. As of June 30, 2021, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by $3.710 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, 2021 and 2020
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Assets:						
Current and other assets……………………	$ 2,446,574	$ 2,308,031	$ 926,979	$ 1,046,055	$ 3,373,553	$ 3,354,086
Capital assets…………………………………	5,035,624	5,145,711	2,463,156	2,353,286	7,498,780	7,498,997
Total assets………………………………	7,482,198	7,453,742	3,390,135	3,399,341	10,872,333	10,853,083
Deferred outflows of resources:						
Loss on refundings of debt…………………	4,128	329	11,516	7,639	15,644	7,968
Deferred outflows of resources related to pensions…………………………	697,257	642,710	67,722	73,973	764,979	716,683
Deferred outflows of resources related to other postemployment benefits	98,152	98,703	12,766	8,917	110,918	107,620
Total deferred outflows of resources…..	799,537	741,742	92,004	90,529	891,541	832,271
Liabilities:						
Current and other liabilities…………………	522,415	396,160	192,624	199,701	715,039	595,861
Long-term liabilities…………………………	1,397,595	1,317,176	1,338,705	1,361,702	2,736,300	2,678,878
Net pension liability…………………………	3,214,827	3,008,528	376,970	374,697	3,591,797	3,383,225
Net OPEB Liability…………………………	787,874	892,094	77,000	84,451	864,874	976,545
Total liabilities……………………………	5,922,711	5,613,958	1,985,299	2,020,551	7,908,010	7,634,509
Deferred inflows of resources:						
Gain on refundings of debt…………………	3,634	4,152	-	-	3,634	4,152
Deferred inflows of resources related to pensions…………………………	33,835	58,838	7,468	3,964	41,303	62,802
Deferred inflows of resources related to other postemployment benefits	93,560	27,430	7,215	8,253	100,775	35,683
Total deferred inflow of resources……	131,029	90,420	14,683	12,217	145,712	102,637
Net position:						
Net investment in capital assets	4,089,937	4,262,597	1,209,961	1,090,408	5,299,898	5,353,005
Restricted ……………………………………	1,116,441	1,088,593	49,785	76,104	1,166,226	1,164,697
Unrestricted …………………………………	(2,978,383)	(2,860,084)	222,411	290,590	(2,755,972)	(2,569,494)
Total net position…………………………	$ 2,227,995	$ 2,491,106	$ 1,482,157	$ 1,457,102	$ 3,710,152	$ 3,948,208

At June 30, 2021, the City reported positive balances in net position on a total basis. Net investment in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire assets and deferred inflows and outflows related to debt) of $5.300 billion comprises 142.85 percent of the City's total net position. These capital assets facilitate providing services to the San José community, but they are not liquid, and therefore not available for future spending. During FY 2021, net investment in capital assets decreased $53.1 million primarily due to the decreases of $172.7 million from governmental activities and the increase of $119.6 million from business-type activities. A portion of the City's net position, $1.166 billion or 31.43 percent, are subject to legal restrictions for their use, including $1.116 billion in governmental activities and $49.8 million in business-type activities. Of the total net position at June 30, 2021, a deficit balance of $2.756 billion or 74.28 percent represents unrestricted net position, which comprises a deficit balance of $2.978 billion for governmental activities, and a positive balance of $222.4 million for business-type activities. The primary factor contributing to the deficit in unrestricted net position is the City's net pension and OPEB liabilities.

During FY 2021, the City's total net position decreased by $238.1 million. Notable changes in the statement of net position between June 30, 2021 and June 30, 2020 include:

Assets

- Capital assets decreased by $0.2 million compared to the prior fiscal year. Governmental capital assets decreased by $110.1 million and business-type capital assets increased by $109.9 million. The decrease in governmental capital assets resulted from depreciation expense of $232.1 million for major infrastructure and other assets and $0.2 million in net deletions, partially offset by additions to capital assets of $122.2 million, which included $52.5 million of additional capital projects, $13.2 million of contributed capital from donated infrastructure assets, $17.4 million in vehicles and equipment, $38.7 million from property acquisitions, and $0.4 million additions to buildings and improvements other than buildings. The increase in business-type capital assets was primarily due to depreciation expense of $89.6 million and net of deletions of $6.4 million, offset by additions to capital assets of $205.9 million primarily from the Airport and Wastewater Treatment Facility.

- Current and other assets increased by $19.5 million or 0.58 percent due to an increase of $138.6 million for governmental activities and a decrease of $119.1 million for business-type activities. The increase in governmental activities is mainly due to the increase in cash and investments resulting from the receipt of federal Coronavirus State and Local Fiscal Relief Funds ("CSLFRF") through the American Rescue Plan Act ("ARPA"). The decrease in current assets for business-type activities is mainly due to lower cash and investments and receivables resulting from less revenue received through fees, fines, and service charges.

Liabilities

- Total long-term liabilities increased by $154.3 million to $7.193 billion at June 30, 2021, which represents an increase of 2.19 percent compared to $7.039 billion at June 30, 2020. The primary factors leading to the increase in long-term liabilities for governmental activities of $182.5 million was due to the increase of pension liability by $206.3 million and debt service activities by $63.2 million, offset by the decrease of OPEB liability by $104.2 million. The primary factor leading to the decrease in long-term liabilities for business-type activities of $28.2 million was the result of a bond refunding and the scheduled debt service payments.

- Current and other liabilities increased by $119.2 million or 20.00 percent due to an increase of $126.3 million for governmental activities, primarily due to the increase of $82.1 million in accounts payable and $40.5 million in unearned revenue. For business-type activities, current and other liabilities decreased by $7.1 million.

Net Position

- Unrestricted net position for governmental activities decreased by $118.3 million or 4.14 percent with a deficit balance of $2.978 billion at June 30, 2021. The primary factor contributing to the deficit in unrestricted net position is the City's net pension and OPEB liabilities. For business-type activities, unrestricted net position decreased by $68.2 million or 23.46 percent with a positive balance of $222.4 million at June 30, 2021.

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, 2021 and 2020
(in thousands)

	Governmental Activities			Business-type Activities		Totals	
	FY 2021	FY 2020		FY 2021	FY 2020	FY 2021	FY 2020
Revenues:							
Program revenues:							
Fees, fines, and charges for services	$ 366,388	$ 398,512		$ 728,244	$ 937,266	$ 1,094,632	$ 1,335,778
Operating grants and contributions	250,875	176,843		55,804	486	306,679	177,329
Capital grants and contributions	99,684	149,459		14,412	6,334	114,096	155,793
General revenues:							
Property and other taxes	593,878	531,075		-	-	593,878	531,075
Utility	127,844	120,213		-	-	127,844	120,213
Franchise	45,628	44,436		-	-	45,628	44,436
Transient occupancy taxes	13,479	35,329		-	-	13,479	35,329
Business taxes	71,169	71,978		-	-	71,169	71,978
Sales taxes	284,020	260,558		-	-	284,020	260,558
State of California in-lieu	770	826		-	-	770	826
Unrestricted interest and investment income	14,438	39,635		1,808	33,030	16,246	72,665
Other revenue	49,798	56,435		1,712	654	51,510	57,089
Gain on sale of capital assets	6,913	5,231		-	-	6,913	5,231
Total revenues	1,924,884	1,890,530		801,980	977,770	2,726,864	2,868,300
Expenses:							
General government	351,491	296,294		-	-	351,491	296,294
Public safety	783,928	813,126		-	-	783,928	813,126
Community services	345,762	301,697		-	-	345,762	301,697
Sanitation	184,816	183,197		-	-	184,816	183,197
Capital maintenance	487,239	476,251		-	-	487,239	476,251
Interest and fiscal charges	38,021	44,771		-	-	38,021	44,771
Norman Y. Mineta San José International Airport	-	-		205,378	232,002	205,378	232,002
Wastewater Treatment System	-	-		211,098	252,033	211,098	252,033
Municipal Water System	-	-		51,936	51,574	51,936	51,574
Parking System	-	-		12,581	22,559	12,581	22,559
San Jose Clean Energy	-	-		292,670	301,115	292,670	301,115
Total expenses	2,191,257	2,115,336		773,663	859,283	2,964,920	2,974,619
Excess (deficiency) before transfers	(266,373)	(224,806)		28,317	118,487	(238,056)	(106,319)
Transfers	3,262	6,391		(3,262)	(6,391)	-	-
Change in net position	(263,111)	(218,415)		25,055	112,096	(238,056)	(106,319)
Net position at beginning of year, as restated	2,491,106	2,709,521		1,457,102	1,345,006	3,948,208	4,054,527
Net position at end of year	$ 2,227,995	$ 2,491,106	*(a)*	$ 1,482,157	$ 1,457,102	$ 3,710,152	$ 3,948,208

(a) FY2020 totals have been restated due to prior period adjustments overstating the Homeless Housing, Assistance and Prevention ("HHAP") grant revenue and understating unearned revenue in Housing Activities Fund for $12,408,000.

Governmental activities: The change in net position for governmental activities decreased by $44.7 million during FY 2021 from a deficit of $218.4 million to a deficit of $263.1 million. Total expenses increased by $75.9 million and total revenues including transfers increased by $31.2 million. The major factors contributing to the decrease in net position in FY 2021 compared to FY 2020 are as follows:

Revenues

- Fees, fines, and charges for services decreased by $32.1 million or 8.06 percent mainly due to a $32.9 million decrease of concession income from the San José Convention Center. Revenue increases for Subdivision Park Trust Fund In-lieu fees were offset by decreases in other fee programs.

- Operating grants and contributions increased by $74.0 million or 41.86 percent mainly due to a $29.5 million increase in General Fund, primarily from the receipt and recognition of federal aid from the Coronavirus Aid, Relief, and Economic Stability ("CARES") Act to support COVID-19 related expenditures, $25.8 million increase mainly due to a prior period adjustment was recorded in the Housing Activities Fund to restate an overstated grant revenue in FY 2020 from Homeless Housing, Assistance and Prevention and $13.9 million received from two reimbursements for Office of Emergency Services' strike team and the Santa Clara Valley Transportation Authority ("VTA") and BART project.

- Capital grants and contributions decreased by $49.8 million or 33.30 percent mainly due to the decrease in funding received from the VTA Pavement Maintenance Measure B grant, from $43.2 million in FY 2020 to $17.8 million in FY 2021. Additionally, there was a $36.9 million decrease due to an one-time capital asset transfer from SARA to the City in FY 2020.

- Other revenues increased by $39.1 million or 3.34 percent mainly due to a $62.8 increase in property taxes due to higher assessed valuations based on a strong real estate market and Measure E property tax, and a $23.4 million increase in sales taxes due to favorable economy, offset by a $25.2 million decrease in unrestricted interest and investment income and a $21.9 million decrease in transient occupancy taxes impacted by the COVID-19 pandemic.

Expenses

- Pension expense decreased $100.8 million or 42.41 percent during FY 2021. Federated City Employees' Retirement System ("FCERS")'s pension expense decreased by $66.2 million which was primarily due to a reduction in amortized deferred outflows and inflows by $61.7 million. Police and Fire Department Retirement Plan ("PFDRP")'s pension expense decreased by $34.6 million was primarily due to a decrease of amortized deferred outflows and inflows by $34.6 million offset by a change in net of contributions by $12.9 million.

- OPEB expense decreased by $50.2 million or 5.56 percent during FY 2021. FCERS's OPEB expense decreased by $46.0 million primarily due to the reduction of OPEB liability by $31.2 million and the decrease in net of deferred outflows and inflows by $14.8 million. PFDRP's OPEB expense decreased by $4.2 million primarily due to the reduction of OPEB liability by $80.9 million and the increase in net of deferred outflows and inflows by $76.7 million.

- General government expenses increased $55.2 million or 18.63 percent during FY 2021 mainly due to a $59.1 million increase in personnel, food distribution, and other miscellaneous expenses related to COVID-19 response activities and a $7.2 million increase in general liability expenses due to the City having numerous unsettled lawsuits filed or claims asserted as of June 30, 2021. Additionally, pension and OPEB expenses decreased $15.5 million and $1.6 million, respectively.

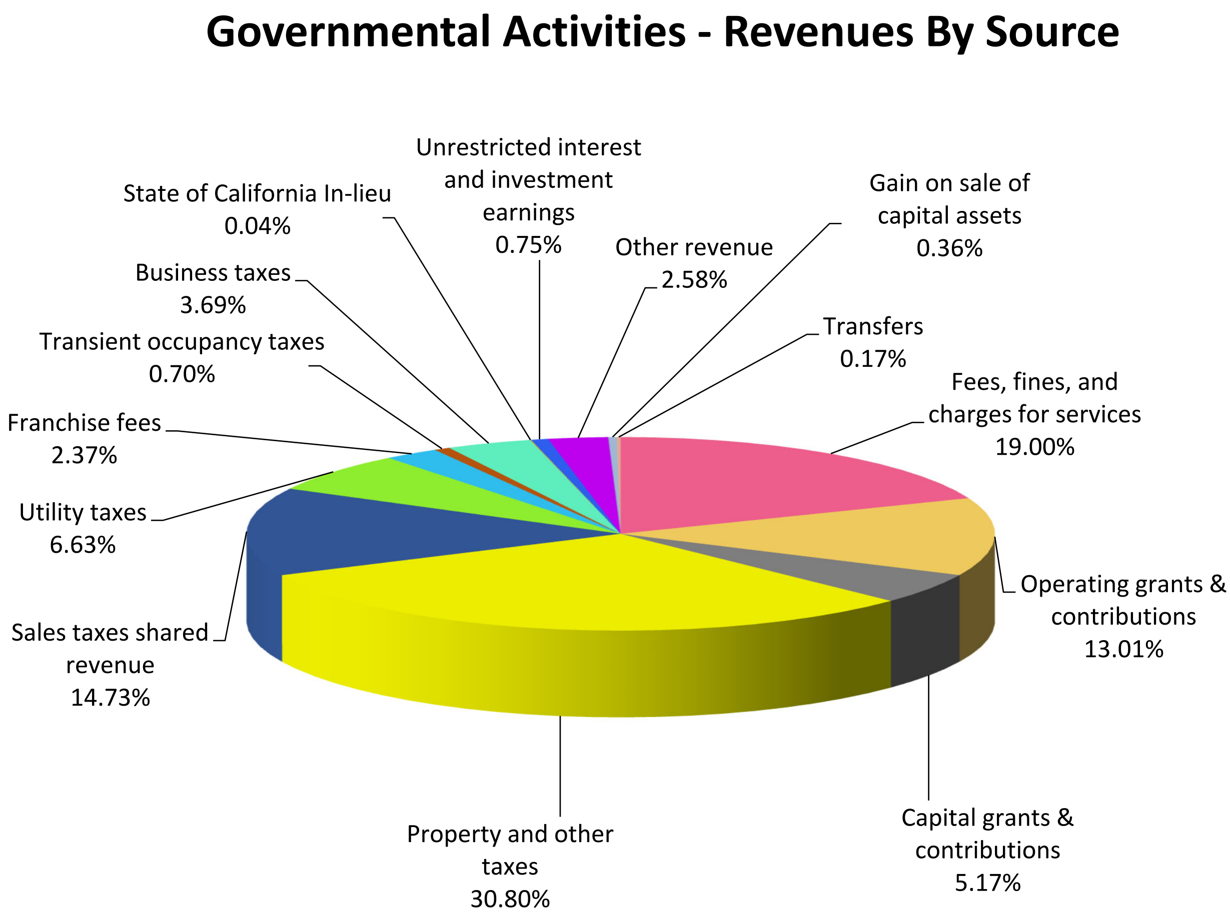
- Public safety expenses decreased by $29.2 million or 3.59 percent primarily due to the reduction of net OPEB and pension expense for $40.5 million and $34.6 million, respectively. These changes were offset by the increases of $35.0 million in the General Fund and $12.3 million in workers' compensation cost. The change in the General Fund included a $39.9 million increase in fire suppression personnel expenses, offset by a $5.9 million reduction in police cost. The increase in workers' compensation costs was due to the increased number of claims as of June 30, 2021.

- Community services expenses increased by $44.1 million or 14.61 percent mainly due to the increase of $30.4 million in Housing Activities due to higher expenses in CARES Emergency Shelters, Loans and Grants, and Homelessness Prevention.

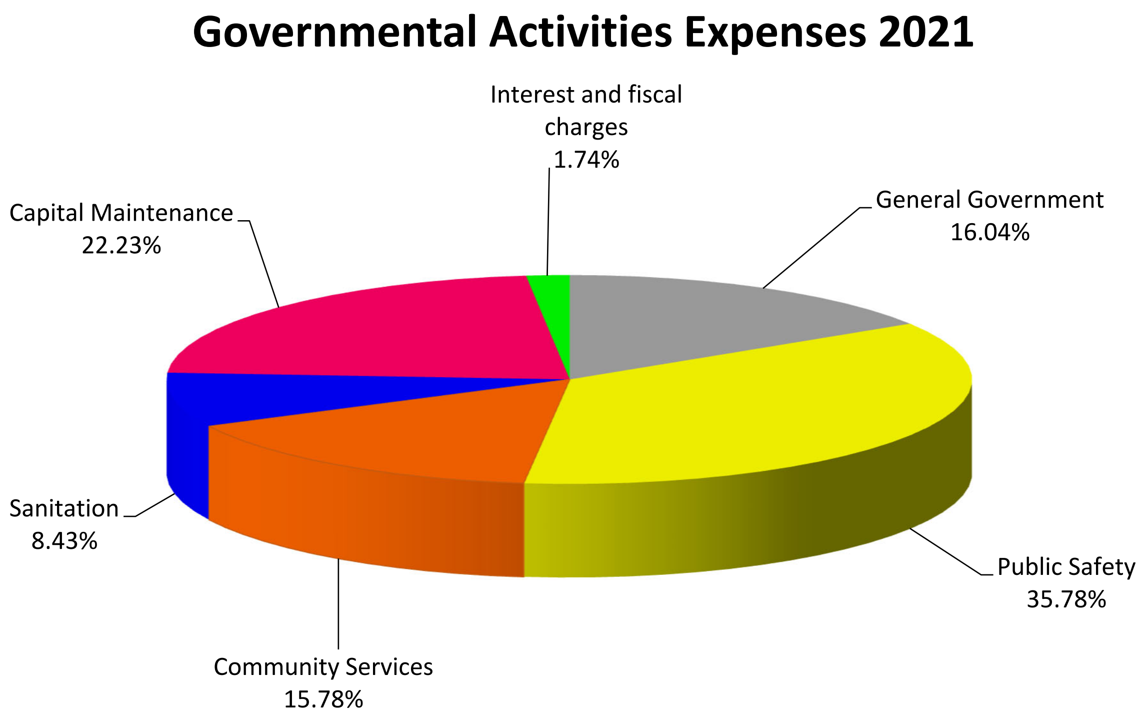
- Capital maintenance expenses increased by $11.0 million or 2.31 percent primarily due to an increase in expense of $46.0 million for the Ice Centre expansion project, an increase of $38.8 million for pavement maintenance funded by the Measure T Bond, offset by a decrease of $39.9 million in the General Fund due to the removal of the development fee programs, and a decrease of $31.4 million on pavement maintenance funded by the VTA Pavement Maintenance Measure B Grant.

- Interest and fiscal charges decreased $6.8 million or 15.08 percent in FY 2021 due to a $11.2 million decrease for the Civic Center Project offset by a $3.5 million increase in the Ice Centre Refunding Project.

The chart below shows the primary components of governmental activities revenue sources for FY 2021. Of the $1.928 billion in total revenues and transfers generated by governmental activities, 77.54 percent is attributable to four categories: property and other taxes (30.80 percent), fees, fines, and charges for services (19.00 percent), sales taxes revenue (14.73 percent), and operating grants and contributions (13.01 percent).



The chart below shows the major categories of FY 2021 expenses for governmental activities. Of the $2.191 billion in total expenses incurred by governmental activities, 89.83 percent is attributable to four categories: public safety (35.78 percent), capital maintenance (22.23 percent), general government (16.04 percent), and community services (15.78 percent).



<u>Business-type activities</u>: Business-type activities net position increased by $25.0 million or 1.72 percent to $1.482 billion in FY 2021.

The notable components of the changes in net position for business-type activities in FY 2021 are:

<u>Airport</u> change in net position from prior year activities showed an increase of $12.6 million in FY 2021 compared to a decrease of $5.1 million in FY 2020. The increase in net position was a combination of CARES Act Airport Grants, a decrease in operating expenses, a decrease in the participating airline net revenue sharing, and an increase in capital contributions, offset by a decrease in operating revenues, a decrease in passenger facility charges ("PFCs"), a decrease in investment income, and a decrease in customer facility charges ("CFCs").

Net nonoperating revenues increased $40.1 million due to $53.5 million received in CARES Act Airport Grants, a $10.6 million decrease in the participating airline net revenue sharing, and a $5.5 million decrease in interest expense, offset by a $11.1 million decrease in PFCs, a $10.0 million decrease in investment income, and a $8.9 million decrease in CFCs. Capital contributions increased $8.9 million.

The Airport had a net operating loss of $17.0 million, a decrease of $31.3 million compared to prior year's operating income of $14.3 million. Operating revenues decreased by 25.16 percent from $175.3 million in FY 2020 to $131.2 million in FY 2021 mainly due to decreased revenues in parking and roadway, and terminal buildings and concessions as a result of decreased activity from the COVID-19 pandemic.

Operating expenses in FY 2021 decreased 8.0 percent, or $12.8 million, from $161.0 million in FY 2020 to $148.2 million in FY 2021. The Airport targeted cost savings by decreasing spending on operating expenses in FY 2021.

Wastewater Treatment System net position increased by $27.4 million or 2.69 percent from $1.021 billion to $1.048 billion. The increase was primarily due to revenues exceeding expenses (before capital contributions) by $27.2 million. The largest portion, $909.0 million or 86.72 percent, of the net position was its net investment in capital assets (e.g. land, buildings, and infrastructure) less outstanding debt that was used to acquire those assets. Approximately $139.2 million, or 13.28 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

Operating revenues decreased $84.8 million primarily due to lower contributions from the City of Santa Clara and the Tributary Agencies toward the Water Pollution Control Plant ("the Plant") ongoing maintenance, replacement and debt service costs by $89.0 million; a decrease of $2.2 million in fees charged for one-time connections to the City's wastewater system or change of use; and lower contributions from other jurisdictions served by the sanitary sewer collection system due to delayed joint sewer line projects by $3.0 million; offset by higher sewer revenue due to increase in sewer discharges and a 4.00 percent sewer rate increase effective July 1, 2020; and higher recycled-water revenue due to a recycled-water rate increase by $0.6 million.

Total operating expenses decreased by $40.8 million compared to the prior fiscal year. The decrease was mainly due to the $34.2 million expenses recognized for the first time in the prior year per GASB Statement No. 49, *Accounting and Financial Reporting of Pollution Remediation Obligations*; a net decrease of $16.7 million in pension expense and other postemployment benefits expense; and a decrease of $2.7 million in Owner-Controlled Insurance Program expenses, which provides a centralized insurance program for risks associated with onsite construction of the Plant CIP; offset by a $6.2 million increase in condition assessment projects in the sewer collection system; a $2.3 million increase in personal service costs; a $2.0 million increase in program management of various Plant projects; a $1.0 million increase in the Plant Master Plan update; a $0.5 million increase in overhead; and an increase of $0.5 million in the cost and revenue sharing payment to the Santa Clara Valley Water District for the Silicon Valley Advanced Water Purification center.

Net nonoperating revenues/expenses decreased by $17.0 million primarily due to decreases in the fair value of investments. Capital contributions decreased by $1.0 million mainly due to a $1.5 million increase in donated assets from developers offset by a $2.5 million decrease in the U.S. Bureau of Reclamation grants for construction of wastewater recycling activities.

Municipal Water System net position increased by $3.9 million or 4.51 percent from $88.3 million to $92.2 million. The change was mainly due to the increases in operating revenues. Operating revenues of $56.1 million increased by $4.1 million or 7.89 percent due to increases in both user fee rates and additional consumption of potable and recycled water usage.

Parking System net position decreased by $6.4 million or 6.55 percent from $96.7 million to $90.3 million. Operating revenues decreased by $7.7 million or 52.16 percent from $14.8 million to $7.1 million. Nonoperating revenues and expenses increased by $1.9 million or 105.32 percent. The increase in nonoperating revenues and expenses is primarily due to not having the one-time shared expense of 20% Supplemental Educational Revenue Augmentation Fund ("SERAF") portion for affordable housing of $3.5 million, when the Successor Agency to the Redevelopment Agency of the City of San Jose ("SARA") paid back the 2001A loan to Parking fund in FY 2020. The absence of loan expense this year allowed revenues and expenses to reflect a typical activity of the Parking System. Operating expenses decreased by $6.3 million or 33.3 percent.

San José Clean Energy (SJCE) is the enterprise fund established in FY 2018 to account for revenues from the sale of electricity and the costs associated with the San José Clean Energy ("SJCE") Program. Operating revenues were $280.4 million and expenses were $291.6 million in FY 2021. In FY 2020, operating revenues were $337.0 million and expenses were $300.1 million. Operating revenues declined approximately 16.79 percent while expenses decreased less than 2.83 percent. The year-over-year decrease in operating revenues stems from decreases in rates made in October 2020, January 2021, and March 2021. SJCE establishes rates that mirror the structure of Pacific Gas and Electric's ("PG&E's") rates, while factoring in PG&E fees that SJCE customers pay as part of SJCE's rate setting. In FY 2021, PG&E increased the Power Charge Indifference Adjustment ("PCIA") fee significantly, which resulted in SJCE lowering rates to largely offset the PCIA fee impact on its customers. In addition, the financial impacts caused by the COVID-19 pandemic resulted in a decrease in energy usage by customers and an increase in the allowance for bad debts due to an increase in customer payment delinquencies, further reducing revenues.

SJCE's cash reserves were depleted as a result of the reduced revenues. To mitigate declining revenues, SJCE increased its rates of their two established energy products and introduced a new low-cost product in addition to discounted rate programs for low income customers in May 2021. To ensure cash reserves were not fully depleted, the City Council approved in June 2021, SJCE's participation in the City of San José Financing Authority's Commercial Paper program wherein SJCE borrowed $15.0 million. Participation in the program assisted SJCE to maintain a positive cash balance at the end of a very challenging fiscal year.

SJCE began providing electric generation service to the City's facilities in fall 2018 in the first of three phases. Phase II launch (residential and large commercial accounts) began in February 2019; and Phase III launch (small commercial customers) began in June 2019. Net Energy Metering (solar) customers were transitioned to SJCE in phases through January 2021. As of June 30, 2021, SJCE serves approximately 350,000 customer accounts in San José with three electricity rate options that provide customers with the ability to select the rate plan that best serves their financial needs while also providing access to service choices with renewable energy content that is greater than that of the electricity provided by PG&E.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses ***fund accounting*** to ensure and demonstrate compliance with finance-related legal requirements.

As of June 30, 2021, the City's governmental funds reported combined fund balances of $1.861 billion compared to $1.857 billion balances in FY 2020. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- $0.1 million consists of nonspendable fund balance related to advances and deposits long-term in nature that are not intended to convert into cash and do not represent currently available resources.
- $1.299 billion is reported as restricted fund balance that includes restrictions imposed by external parties or enabling legislation. This amount includes unspent bond proceeds, unspent grant revenues, and restricted tax revenues.
- $167.3 million is reported as committed fund balance that had been limited by formal Council action for a specific purpose.
- $430.4 million is reported as assigned fund balance that includes amounts that may be used for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- Negative $36.4 million is reported as unassigned fund balance that represents the residual classification for the City's General Fund and San José Financing Authority Debt Service 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, 2021, the General Fund unassigned fund balance is $8.0 million or 1.95 percent of the $413.3 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, 2021, unassigned fund balance represents 0.68 percent of total General Fund expenditures of $1.190 billion, while total fund balance represents 34.73 percent of total General Fund expenditures. At June 30, 2020, the same measures were 7.19 percent and 41.69 percent, respectively.

The General Fund ending fund balance decreased by $46.9 million from $460.2 million to $413.3 million at June 30, 2021.

In FY 2021, General Fund revenues of $1.181 billion were $10.2 million or 0.87 percent higher than FY 2020 revenues of $1.171 billion. The general Secured Property Tax receipts growth of $15.8 million in FY 2021 primarily reflects an increase in assessed value and increased valuation due to changes in ownership or new construction. Secured Property Tax collections were positively impacted by excess Educational Revenue Augmentation Fund (ERAF) revenue. ERAF collections totaled $33.2 million in FY 2021, which is $10.1 million above the FY 2020 collection level. Additionally, the Real Property Transfer Tax did not begin until July 2020, therefore no revenue was received in FY 2020, compared to the $50.5 million collected in FY 2021. Partially offsetting the higher revenues is a significant year-over-year decrease related to the Development Fee Program. Revenue totaling $71.1 million was received in FY 2020; however, revenue was not captured in the General Fund in FY 2021 as these revenues (and associated expenditures) were moved out of the General Fund and into specific Development Fee Program funds. Utility Tax had a growth of $11.2 million due to businesses re-opening while a large portion of remote workers did not return to the office, which may have led to higher business and residential consumption.

FY 2021 General Fund expenditures of $1.190 billion were $86.5 million or 7.84 percent higher than FY 2020 expenditures of $1.104 billion. The increase was primarily due to a $64.7 million increase in personnel services for Fire and Police due to an extremely active fire season in the summer and fall of 2020 and overtime to backfill sworn absences on the line due to the pandemic, a $59.1 million increase in personnel, food distribution, and other miscellaneous expenditures related to COVID-19 response activities, a $10.6 million increase in the Energy Services Company (ESCO) debt, and a $7.7 million increase in the Police Officer Retention expenditures. Development Fee Program expenditures totaling $58.2 million were expended in FY 2020; however, expenditures were not captured in the General Fund in FY 2021 as these expenditures were moved out of the General Fund and into the specific Development Fee Program funds.

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 and, in FY 2021, COVID-19 related funding through the U. S. Treasury. At June 30, 2021, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first-time homebuyers, was $62.0 million. This balance includes loans to developers for various projects, including Ford and Monterey, Taylor Oaks Apartments, Donner Lofts, Japantown Seniors, The Metropolitan, Roundtable, Kings Crossing, Fourth Street Apartments, Peacock Commons, Archer Studios, Curtner Studios, Homesafe, Markham Plaza, Corde Terra Village Senior, Willow Glen Senior Housing, Leigh Avenue Senior Apartments, and Second Street Studios.

Restricted fund balance decreased by $11.0 million to $144.7 million at June 30, 2021 which included a reinstatement of prior year's beginning balance of $12.4 million due to an unearned grant revenue in FY 2020. The decrease is primarily due to expenditures for community service ($61.5 million), capital outlay ($10.9 million), exceeding revenues from intergovernmental ($31.2 million), and investment and other revenues ($30.1 million). Community services expenditures increased by $30.4 million or 98.11 percent compared to prior year due to funding of new programs including CARES Emergency Shelter, Emergency Solutions Grants ("ESG") CARES, Emergency Housing Shelter, Loans and Grants, Homelessness

Prevention System. In addition, $10.9 million was spent on capital outlay in the current year which zero dollar was spent in the prior year.

Low and Moderate Income Housing Asset Fund. The Low and Moderate Income Housing Asset fund was created pursuant to the Redevelopment Dissolution Law to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the former Redevelopment Agency. At June 30, 2021, the fund's loan receivable balance (net) was $213.7 million. This balance consists mainly of loans to developers for various projects including Almaden Family Apartments, Belovida Apartments, Brookwood Terrace, Cinnabar Commons, Corde Terra Village, Las Ventanas, Oak Tree Village, Pollard Plaza, Villas on the Park, Second Street Studios, and The Metropolitan (South). Restricted fund balance increased by $22.7 million to $437.8 million from $415.1 million. The increase is primarily due to the repayment of interest 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 special assessment and community facilities districts located in different parts of the City. A total of $104.9 million in special assessment and special tax bonds were outstanding at June 30, 2021. All bonds are secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt, except for the Special Hotel Tax Revenue Bond, Series 2011, which is secured by a first lien on the Convention Center Facilities District No. 2008-1 special tax revenues and any of the available Transient Occupancy Tax ("TOT") (Available TOT as defined in the bond documents) and appropriated by the City Council. The City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund for these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

Restricted fund balance decreased by $2.1 million from $43.3 million to $41.2 million as of June 30, 2021. The total revenues of $13.9 million were over total expenditures of $13.4 million for FY 2021. The net transfers amount of negative $2.6 million resulted in a $2.1 million negative change in fund balance. The lower expenditures of $9.3 million, or 41.0 percent compared to the prior fiscal year was predominantly related to the pay-off of Bailey-Highway 101 CFD of $9.0 million in FY 2020.

City of San José Financing Authority Fund. The City's Financing Authority Debt Service Fund accounts for debt activity related to lease revenue bonds and commercial paper notes, which serves as a mechanism for financing City public improvements and other eligible purposes. Unassigned fund balance decreased by $16.7 million from a deficit of $27.7 million to a deficit of $44.4 million as of June 30, 2021. The decrease was primary due to a $31.8 million increase in current refunding escrow for the Ice Centre expansion refunding project, Civic Center project, and Recreation facility refunding project offset by a $10.9 million decrease in interest payment for Ice Centre expansion refunding project and Recreation facility refunding project.

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, 2021, the unrestricted net position was $26.1 million for the Airport, $139.2 million for the Wastewater Treatment System, $17.0 million for the Municipal Water System, $33.8 million for the Parking System, and $6.3 million for the San José Clean Energy fund. Net position for proprietary funds increased from $1.457 billion at June 30, 2020 to $1.482 billion at June 30, 2021, resulting in an increase of $25.1 million or 1.72 percent.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City Charter requires the City Manager to submit balanced operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1st and ends on the following June 30th. Council approved the FY 2021 budget in June 2020.

During the year ended June 30, 2021, there was a $211.7 million increase in the budgeted revenues between the original and final amended operating budget for the General Fund. The increase in budgeted revenues included Property Tax, Sales Tax, Intergovernmental, and Other Revenue categories. The $180.7 million increase in budgeted revenues was primarily due to the COVID-19 funding in the Intergovernmental category.

Actual budgetary basis expenditures of $1.247 billion were $302.8 million less than the amended budget as of June 29, 2021, and $246.8 million less than the original budget due to planned expenditures not occurring in the year ended June 30, 2021. A $76.8 million increase from the original to the amended budget was due to an increase in COVID-19 funding. Some of the unexpended expenditures include the general liability claim payments, the Fire Training Center Relocation, Emergency Operations Center Relocation, the Tech Museum Controls Module Improvements, Police Athletic League Stadium Turf Replacement, and other miscellaneous projects.

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 $7.498 billion at June 30, 2021. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible assets, and construction in progress. The City's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. For the year ended June 30, 2021, net capital assets decreased by $0.2 million ($110.1 million decreased in governmental activities and $109.9 million increased in business-type activities) compared to net capital assets at June 30, 2020. The decrease in capital assets of $110.1 million in governmental activities is primarily due to depreciation expense of $232.1 million and net deletions of $0.2 million. The decrease was offset by acquisitions of $122.2 million. The increase of $109.9 million in capital assets in the business-type activities resulted from depreciation expense of $89.6 million and deletions of a net value of $6.4 million, offset by additions of capital projects of $168.7 million and additions of $37.2 million in other capital improvements primarily at the Airport and the Wastewater Treatment Facility, respectively.

Total construction in progress increased by $106.3 million from $518.4 million at June 30, 2020 to $624.7 million at June 30, 2021. Construction in progress for the governmental activities increased by $0.3 million primarily due to $52.5 million additions to CIP projects and $52.2 million net of projects being transferred into service. Business-type activities contributed an increase of $106.0 million to the total CIP as additions to the Airport and the Wastewater Treatment System totaling $168.7 million was offset by $6.5 million deletions and $56.2 million projects that were completed and placed in service. The completed Airport projects include the following: Norman Y. Mineta San José International Airport - Economy Lot Parking Garage, Collapsed Airfield Fiber & Conduit Replacement, Airfield Electrical System Rehabilitation, Airport Monument Signs, Terminal A Fiber Upgrade. The completed projects for Wastewater Treatment System include: Design & Construction Management System, Legacy Lagoon Remediation, Land Improvements, Legacy Lagoon Remediation, and Environmental Services Building ("ESB") Lab HVAC Ducting Replacement.

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, 2021 and June 30, 2020 (in thousands):

	Governmental activities		Business-type activities		Total	
	2021	2020	2021	2020	2021	2020
Land	$ 542,184	$ 503,456	$ 137,938	$ 137,938	$ 680,122	$ 641,394
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	137,876	137,607	486,870	380,817	624,746	- 518,424
Buildings	904,399	947,179	1,019,595	1,015,043	1,923,994	1,962,222
Improvements, other than buildings	235,024	214,541	687,315	680,863	922,339	- 895,404
Infrastructure	3,162,624	3,291,406	-	-	3,162,624	3,291,406
Furniture and fixtures, vehicles, equipment	53,517	51,522	118,556	125,743	172,073	- 177,265
Total capital assets	$ 5,035,624	$ 5,145,711	$ 2,463,156	$ 2,353,286	$ 7,498,780	$ 7,498,997

Commitments outstanding as of June 30, 2021, related to governmental and business-type activities construction in progress totaled approximately $30.7 million and $362.9 million, respectively. Additional information about the City's capital assets can be found in the Notes to Basic Financial Statements, Note III.D.

Net General Obligation Bonded Debt Limit

The City Charter limits bonded indebtedness for General Obligation bonds to fifteen (15) percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2020-2021 tax roll was $213.9 billion, which results in a total debt limit of approximately $32.1 billion. As of June 30, 2021, the City had $519.3 million of Net General Obligation bonds outstanding which represents approximately 1.6 percent of the General Obligation bonds debt limit.

General Obligation Bonds and Other Bond Ratings

The City's General Obligation credit ratings as of June 30, 2021 are Aa1/AA+/AAA[1] from Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch"), respectively. The credit ratings from Moody's and S&P were both confirmed in June 2021, respectively, and remained unchanged from the prior year. Fitch upgraded the credit rating to AAA from AA+ in June 2021. The City continues to be one of the highest rated large cities (with population over 250,000) in California.

[1] During the rating review of the City's 2021 General Obligation Bonds, Fitch raised the City's General Obligation Bonds Ratings to AAA from AA+, with Stable outlook (June 30, 2021). Fitch's rating of the City's Issuer Default Rating (IDR) remained unchanged at AA+. Moody's and S&P reaffirmed the City's General Obligation Bonds rating at Aa1 and AA+, respectively.

As of June 30, 2021, the credit ratings and the outlook of the respective credit rating agencies for the City of San José Financing Authority ("Authority"), lease revenue bonds are set forth in the table below.

Series	Moody's	S&P	Fitch
2003A, 2013B and 2020A	Aa2	AA	AA
2011A	Aa3	AA	Not Rated
2020B	Aa3	AA	AA-
Rating Outlook	Stable	Stable	Stable

As of June 30, 2021, the underlying credit ratings of the City of San José Airport Revenue Bonds by Moody's, S&P and Fitch were: A2, A- and A, respectively. Please see Note IV. D for information related to a rating action taken by S&P on July 29, 2021 on the Special Hotel Tax Revenue Bonds and by Fitch on August 3, 2021 on Airport General Revenue Bonds.

Outstanding Debt

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

During the current fiscal year, the City's outstanding long-term debt increased by $53.3 million to $2.461 billion, comprised of $1.164 billion of governmental activities and $1.297 billion of business-type activities. The increase of $63.2 million in governmental activities is primarily due to the issuance of $355.6 million of Lease Revenue Bonds (Series 2020A Bonds) and $146.5 million Lease Revenue Bonds (Series 2020B Bonds), to finance projects and to refund the City's prior lease revenue bonds totaling $339.9 million. The decrease of $9.92 million in the business-type activities is primarily due to the City issued Airport Revenue Refunding Bonds (Series 2021ABC) in the amount of $428.1 million to refund all or a portion of prior Airport revenue bonds totaling $473.6 million.

COVID-19

As of June 30, 2021, the City was awarded and/or appropriated $801.6 million in federal, state and local grants and relief funding, including approximately $178.3 million of Coronavirus Relief Fund ("CRF") money under the CARES Act and $212.3 million of American Rescue Plan funding, to address the impact of the COVID-19 pandemic.

COVID-19 Related Funding Sources	Acronym	Amount
Coronavirus Relief Fund	CRF	$ 178,295,348
Community Development Block Grant Supplemental Funding	CDBG	12,841,925
Emergency Solutions Grant	ESG	35,520,318
Housing Opportunities for Person with AIDS	HOPWA	209,618
Federal Emergency Management Agency-Public Assistance	FEMA-PA	38,079,778
US Department of Justice-Bureau of Justice Assistance	BJA-Byrne	865,998
Federal Emergency Management Agency-Assistance for Firefighters	FEMA-AFG-S	301,124
Housing Opportunities for Person with AIDS-Competitive	HOPWA-Comp	140,108
California Emergency Homeless Housing	SB89	3,919,821
California Homeless Housing, Assistance & Prevention Grant	HHAP	28,498,789
HOME Investments Partnerships Program	HOME	23,226,980
HOME Investments Partnerships Program	HOME-ARPA	11,676,334
Emergency Rental Assistance Program - Phase 1	ERA1	30,379,740
Emergency Rental Assistance Program - Phase 2	ERA2	36,277,888
Resiliency Project	EDA-CRRP	1,171,579
Coronavirus State and Local Fiscal Recovery Fund (ARPA)	CSLFRF	212,280,152
San José Airport - CARES	SJC-CARES	65,633,236
San José Airport - ARPA - Primary	SJC-Primary	48,910,633
San José Airport - ARPA - Concessions	SJC-Concess	6,586,408
California Project Homekey	HomeKey	12,230,477
California Affordable Housing	SB2	8,697,292
Housing Authority Litigation Funds	HALA	2,000,000
Santa Clara County Office of Education	SCCOE	400,000
Continuity of Operations Reserve	General Fund	43,500,000
Total Funding Sources		**$ 801,643,546**

Note: The amounts reflect the base grant award excluding any interest earned.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The FY 2021 Adopted Budget was modified several times throughout the year as the City responded to new information regarding economic performance and persistence of COVID-19 cases. In the General Fund, actions were taken over the course of the year to decrease revenue estimates from business taxes, parking operations, and citations, hotel activity, and parks and recreation-related fees. As a result of these adjustments, as well as careful forecasting, monitoring, and management, General Fund FY 2021 revenue and expenditures ended the year very close to budgeted expectations. However, the fourth quarter of FY 2021 experienced sharp revenue growth in the General Fund, which contributed to a higher than anticipated level of year-end fund balance.

- The FY 2022 Adopted Budget includes modest increase to staffing levels to support a variety of activities and limited enhancements to other critical services. Overall, the level of staffing will increase by a net 55 positions, from 6,592 full-time equivalent positions in the FY 2021 Adopted Budget to 6,647 positions in the FY 2022 Adopted Budget. This one percent increase still leaves City staffing well below its peak of almost 7,500 positions in FY 2002 and well below the average of large U.S. cities.

- As reported in the GASB 67/68 Report as of June 30, 2021 prepared by the actuary for PFDRP, the net position of the Defined Benefit Pension Plan was 87.15 percent of the total pension liability. The total pension liability was $5.423 billion, and the fiduciary net position was $4.726 billion, resulting in a net pension liability of $0.697 billion. This report is for the use of the Plan, the City, and the auditors in preparing financial reports in accordance with applicable law and accounting requirements. The report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

- As reported in the GASB 67/68 Report as of June 30, 2021 prepared by the actuary for FCERS, the net position of the Defined Benefit Pension Plan was 63.72 percent of the total pension liability. The total pension liability was $4.527 billion, and the fiduciary net position was $2.884 billion, resulting in a net pension liability of $1.643 billion. This report is for the use of the System, the City, and the auditors in preparing financial reports in accordance with applicable law and accounting requirements. The report is not appropriate for other purposes, including the measurement of funding requirements for the System.

- As of June 30, 2021, the net position of PFDRP's OPEB Plan was 35.80 percent of the total OPEB liability. The actuary reported total OPEB liability for postemployment healthcare benefits was $771.8 million and the fiduciary net position was $276.3 million, resulting in a net OPEB liability of $495.5 million. This report is for the use of the Plan, the City, and the auditors in preparing financial reports in accordance with applicable law and accounting requirements. The report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

- As of June 30, 2021, the net position of the FCERS's OPEB Plan was 57.80 percent of the total OPEB liability. The actuary reported total OPEB liability for postemployment healthcare benefits was $665.4 million and the fiduciary net position was $384.6 million, resulting in a net OPEB liability of $280.8 million. This report is for the use of the System, the City, and the auditors in preparing financial reports in accordance with applicable law and accounting requirements. The report is not appropriate for other purposes, including the measurement of funding requirements for the System.

- For FY 2022, the City's contribution rates for pension benefits and postemployment healthcare benefits, as a percentage of payroll are as follows:

	PFDRP (1)				FCERS (1)	
Contribution Rates	**Police Tier 1**	**Police Tier 2**	**Fire Tier 1**	**Fire Tier 2**	**Tier 1**	**Tier 2**
Retirement Pension	124.30% (2)	14.43%	128.24% (2)	15.28%	133.00% (2)	8.17%
Postemployment Healthcare Benefits	19.82%	-	14.90%	-	5.50%	5.50%

(1) The rates are the Retirement Board adopted rates based on the June 30, 2020, actuarial valuations.
(2) PFDRP and FCERS Tier 1 pension rates are discounted because the City prefunded those amounts in FY 2022.

FORWARD-LOOKING STATEMENTS AND REQUESTS FOR INFORMATION

Forward-Looking Statements

When used in this ACFR, 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 ACFR. 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 ACFR. The City undertakes no obligation to revise or update any forward-looking statements to reflect any event or circumstance that may arise after the date of the ACFR.

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 ACFR 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 ACFR 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 ACFR as the holder of a particular document or to the Director of Finance. This report can also be found online at *http://www.sanjoseca.gov.*

Basic Financial Statements

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José
Statement of Net Position
June 30, 2021
($000's)

		Governmental Activities	Business-Type Activities	Total
ASSETS				
Equity in pooled cash and investments				
held in City Treasury	$	1,453,765	699,473	2,153,238
Other cash and investments		7	-	7
Receivables (net of allowances				
for uncollectibles)		212,413	79,036	291,449
Prepaid expenses, advances and deposits		-	9,699	9,699
Inventories		1,490	770	2,260
Internal balances		15,000	-	15,000
Notes receivable		20	-	20
Loans receivable (net of allowances				
for uncollectibles)		279,447	-	279,447
Advances and deposits		288	1,180	1,468
Restricted assets:				
Equity in pooled cash and investments				
held in City Treasury		76,461	47,980	124,441
Cash and investments held with fiscal agent		340,721	84,460	425,181
Other cash and investments		12,451	-	12,451
Receivables (net of allowances				
for uncollectibles)		-	2,959	2,959
Prepaid expenses, advances and deposits		-	11	11
Prepaid bond insurance costs		-	20	20
Prepaid bond insurance costs				
(net of accumulated amortization)		-	329	329
Other assets		54,511	-	54,511
Net other postemployment benefits asset		-	1,062	1,062
Capital assets (net of accumulated				
depreciation):				
Nondepreciable		680,060	637,690	1,317,750
Depreciable		4,355,564	1,825,466	6,181,030
Total assets		7,482,198	3,390,135	10,872,333
DEFERRED OUTFLOWS OF RESOURCES				
Loss on refundings of debt		4,128	11,516	15,644
Deferred outflows of resources related to pensions		697,257	67,722	764,979
Deferred outflows of resources related to other				
postemployment benefits		98,152	12,766	110,918
Total deferred outflows of resources		799,537	92,004	891,541
LIABILITIES				
Accounts payable		153,713	93,153	246,866
Accrued salaries, wages and payroll taxes		44,971	6,566	51,537
Interest payable		8,545	14,350	22,895
Internal balances		-	15,000	15,000
Due to outside agencies		485	-	485
Short-term notes payable		76,359	51,930	128,289
Unearned revenue		189,874	6,363	196,237
Advances, deposits, and reimbursable credits		7,604	5,262	12,866
Long-term payable to SARA		733	-	733
Other liabilities		40,131	-	40,131
Long-term obligations:				
Due within one year		126,055	18,095	144,150
Due in more than one year:				
Net pension liability		3,214,827	376,970	3,591,797
Net other postemployment benefits liability		787,874	77,000	864,874
Other long-term obligations		1,271,540	1,320,610	2,592,150
Total liabilities		5,922,711	1,985,299	7,908,010
DEFERRED INFLOWS OF RESOURCES				
Gain on refundings of debt		3,634	-	3,634
Deferred inflows of resources related to pensions		33,835	7,468	41,303
Deferred inflows of resources related to other				
postemployment benefits		93,560	7,215	100,775
Total deferred inflows of resources		131,029	14,683	145,712
NET POSITION				
Net investment in capital assets		4,089,937	1,209,961	5,299,898
Restricted for:				
Debt service		33,524	30,818	64,342
Capital projects		367,141	18,967	386,108
Community services		714,728	-	714,728
Public safety		1,048	-	1,048
Unrestricted (deficit)		(2,978,383)	222,411	(2,755,972)
Total net position	$	2,227,995	1,482,157	3,710,152

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, 2021
($000's)

Functions/Programs	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business -Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:							
General government	$ 351,491	5,534	92,738	-	(253,219)	-	(253,219)
Public safety	783,928	22,931	26,890	-	(734,107)	-	(734,107)
Community services	345,762	120,506	88,526	-	(136,730)	-	(136,730)
Sanitation	184,816	187,319	517	-	3,020	-	3,020
Capital maintenance	487,239	30,098	42,204	99,684	(315,253)	-	(315,253)
Interest and fiscal charges	38,021	-	-	-	(38,021)	-	(38,021)
Total governmental activities	**2,191,257**	**366,388**	**250,875**	**99,684**	**(1,474,310)**	**-**	**(1,474,310)**
Business -Type activities:							
Norman Y. Mineta San José International Airport	205,378	147,078	55,804	12,023	-	9,527	9,527
Wastewater Treatment System	211,098	237,593	-	2,209	-	28,704	28,704
Municipal Water System	51,936	56,123	-	180	-	4,367	4,367
Parking System	12,581	7,062	-	-	-	(5,519)	(5,519)
San José Clean Energy	292,670	280,388	-	-	-	(12,282)	(12,282)
Total business-type activities	**773,663**	**728,244**	**55,804**	**14,412**	**-**	**24,797**	**24,797**
Total	**$ 2,964,920**	**1,094,632**	**306,679**	**114,096**	**(1,474,310)**	**24,797**	**(1,449,513)**
General revenues:							
Taxes and franchise fees:							
Property and other taxes					593,878	-	593,878
Utility					127,844	-	127,844
Franchise					45,628	-	45,628
Transient occupancy					13,479	-	13,479
Business taxes					71,169	-	71,169
Sales taxes					284,020	-	284,020
State of California in-lieu					770	-	770
Unrestricted interest and investment income					14,438	1,808	16,246
Other revenue					49,798	1,712	51,510
Gain on sale of capital assets					6,913	-	6,913
Transfers					3,262	(3,262)	-
Total general revenues and transfers					**1,211,199**	**258**	**1,211,457**
Change in net position					**(263,111)**	**25,055**	**(238,056)**
Net position - beginning as previously reported					2,503,514	1,457,102	3,960,616
Adjustment to fund equity					(12,408)	-	(12,408)
Net position - beginning as restated					2,491,106	1,457,102	3,948,208
Net position - ending					**$ 2,227,995**	**1,482,157**	**3,710,152**

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2021
($000's)

		General Fund	Housing Activities	Low and Moderate Income Housing Asset
ASSETS				
Equity in pooled cash and investments held in City Treasury	$	567,062	88,280	165,112
Receivables (net of allowance for uncollectibles)		102,797	11,837	16,449
Due from other funds		3,445	-	-
Notes receivable		-	-	-
Loans receivables (net of allowance for uncollectibles)		1,241	62,047	213,739
Advances and deposits		104	-	-
Restricted assets:				
Equity in pooled cash and investments held in City Treasury		1,385	17,378	-
Cash and investments held with fiscal agent		-	-	-
Other cash and investments		2,055	-	-
Advances to other funds		3,297	-	-
Other assets		-	2,300	49,776
Total assets	$	681,386	181,842	445,076
LIABILITIES				
Accounts payable	$	30,916	5,494	1,299
Accrued salaries, wages, and payroll taxes		38,026	224	438
Due to other funds		-	-	-
Due to outside agencies		373	-	-
Short-term notes payable		-	-	-
Unearned revenue		153,751	8,162	-
Advances, deposits, and reimbursable credits		77	-	-
Advances from other funds		-	-	-
Long-term advances from SARA		-	-	733
Other liabilities		38,257	-	-
Total liabilities		261,400	13,880	2,470
DEFERRED INFLOWS OF RESOURCES		6,644	23,271	4,805
FUND BALANCES				
Nonspendable		104	-	-
Restricted		307	144,691	437,801
Committed		73,580	-	-
Assigned		331,310	-	-
Unassigned		8,041	-	-
Total fund balances		413,342	144,691	437,801
Total liabilities, deferred inflows of resources and fund balances	$	681,386	181,842	445,076

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

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
-	467	612,197	1,433,118
12,209	-	68,702	211,994
-	15,000	2,825	21,270
-	-	20	20
-	-	2,420	279,447
5	-	179	288
15,687	-	42,011	76,461
26,856	20,439	293,426	340,721
-	-	9,886	11,941
-	-	-	3,297
-	-	1,997	54,073
54,757	35,906	1,033,663	2,432,630
136	-	115,449	153,294
6	-	5,299	43,993
-	513	5,757	6,270
-	112	-	485
-	76,359	-	76,359
-	-	27,961	189,874
1,578	-	5,949	7,604
-	3,297	-	3,297
-	-	-	733
317	-	1,557	40,131
2,037	80,281	161,972	522,040
11,515	-	3,660	49,895
-	-	4	108
41,205	-	675,258	1,299,262
-	-	93,721	167,301
-	-	99,068	430,378
-	(44,375)	(20)	(36,354)
41,205	(44,375)	868,031	1,860,695
54,757	35,906	1,033,663	2,432,630

City of San José
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2021
($000's)

Total fund balances-governmental funds (Page 29)		$ 1,860,695
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	$ 542,184	
Construction in progress	137,876	
Infrastructure assets	11,598,177	
Other capital assets	2,140,516	
Accumulated depreciation	(9,386,649)	
Total capital assets		5,032,104
Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds.		38,380
Refundings of debt reported as deferred outflows/inflows of resources are not financial resources, therefore are not reported in the funds. Such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.		494
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.		11,515
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.		(8,545)
Internal service funds are used by management to charge the cost of public works support, employee benefits, and vehicle maintenance and operations to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.		21,708
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	$ (1,163,708)	
Accrued vacation, sick leave and compensatory time	(84,191)	
Estimated liability for self-insurance	(140,517)	
Other	(5,253)	
Total long-term obligations		(1,393,669)
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds. These amounts consist of:		
Net pension liability	$ (3,214,827)	
Deferred outflows of resources	697,257	
Deferred inflows of resources	(33,835)	
		(2,551,405)
Other postemployment benefits liability and related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the funds. These amounts consist of:		
Net other postemployment benefits liability	$ (787,874)	
Deferred outflows of resources	98,152	
Deferred inflows of resources	(93,560)	
		(783,282)
Net position of governmental activities (Page 26)		$ 2,227,995

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, 2021
($000's)

	General Fund	Housing Activities	Low and Moderate Income Housing Asset
REVENUES			
Taxes and special assessments	$ 684,866	-	-
Sales taxes	284,020	-	-
Licenses, permits, and fines	28,344	-	-
Intergovernmental	120,702	31,248	-
Charges for current services	7,285	-	-
Rent	-	-	-
Investment income	1,561	2,778	30,306
Other revenue	54,543	27,355	11,072
Total revenues	1,181,321	61,381	41,378
EXPENDITURES			
Current:			
General government	292,591	-	-
Public safety	676,303	-	-
Community services	121,738	61,453	18,247
Sanitation	4,632	-	-
Capital maintenance	45,340	-	-
Capital outlay	35,103	10,868	-
Debt service:			
Principal	12,431	-	-
Interest and fiscal charges	2,163	-	-
Current refunding escrow	-	-	-
Total expenditures	1,190,301	72,321	18,247
Excess (deficiency) of revenues over (under) expenditures	(8,980)	(10,940)	23,131
OTHER FINANCING SOURCES (USES)			
Bonds issued	17,777	-	-
Refunding bonds issued	-	-	-
Payment to refunded bond escrow agent	-	-	-
Proceeds from sale of capital assets	7,020	-	-
Transfers in	16,367	-	-
Transfers out	(79,074)	(62)	(409)
Total other financing sources (uses)	(37,910)	(62)	(409)
Net change in fund balances	(46,890)	(11,002)	22,722
Fund balance			
Beginning of year, as previously reported	460,232	168,101	415,079
Restatement	-	(12,408)	-
Beginning of year, as restated	460,232	155,693	415,079
End of year	$ 413,342	144,691	437,801

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

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
13,320	-	167,902	866,088
-	-	-	284,020
-	-	-	28,344
-	-	109,501	261,451
-	-	245,156	252,441
-	-	13,331	13,331
250	244	6,221	41,360
298	-	53,805	147,073
13,868	244	595,916	1,894,108
-	-	1,709	294,300
-	-	2,386	678,689
-	-	128,638	330,076
-	-	185,770	190,402
517	-	276,019	321,876
-	-	58,852	104,823
5,765	22,520	22,520	63,236
7,102	14,243	19,254	42,762
-	31,750	-	31,750
13,384	68,513	695,148	2,057,914
484	(68,269)	(99,232)	(163,806)
-	17,235	120,000	155,012
-	347,143	-	347,143
-	(344,516)	-	(344,516)
-	-	-	7,020
-	32,678	89,913	138,958
(2,622)	(962)	(52,762)	(135,891)
(2,622)	51,578	157,151	167,726
(2,138)	(16,691)	57,919	3,920
43,343	(27,684)	810,112	1,869,183
-	-	-	(12,408)
43,343	(27,684)	810,112	1,856,775
41,205	(44,375)	868,031	1,860,695

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, 2021
($000's)

Net change in fund balances--total governmental funds (Page 33)		$ 3,920
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	$ 104,823	
Depreciation expense	(230,405)	
Excess of depreciation expense over capital outlay		(125,582)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)		
Donated assets and other additions	$ 16,617	
Proceeds from sale of capital assets	(7,020)	
Gain on disposal of assets	6,913	
		16,510
Amortization of deferred inflows of resources and deferred outflows of resources resulting from the deferred refunding gains and losses.		4,317
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.		389,715
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.		
Increase in accrued interest payable	$ 973	
Amortization of premiums and discounts on bonds issued	36,808	
Total net interest expense and amortization of discount/premium		37,781
Bond proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net position.		(502,155)
Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available revenues" and are reported as deferred inflows of resources in the governmental funds.		7,246
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.		(1,130)
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 vacation, sick leave, and compensatory time	$ (2,626)	
Net increase in estimated liability for self-insurance	(14,887)	
Net decrease in other liabilities	12,990	
Total expenditures		(4,523)
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.		(126,749)
Changes to other postemployment benefits liability and related deferred outflows and inflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		37,539
Change in net position of governmental activities (Page 27)		$ (263,111)

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, 2021
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
ASSETS							
Current assets:							
Equity in pooled cash and investments held in City Treasury	$ 157,414	460,683	34,280	42,076	5,020	699,473	20,647
Other cash and investments	-	-	-	-	-	-	7
Receivables (net of allowance for uncollectibles)	16,630	9,326	12,100	231	40,749	79,036	419
Prepaid expenses, advances and deposits	223	1	-	-	9,475	9,699	-
Inventories	-	770	-	-	-	770	1,490
Other assets	-	-	-	-	-	-	438
Total unrestricted current assets	174,267	470,780	46,380	42,307	55,244	788,978	23,001
Restricted assets:							
Equity in pooled cash and investments held in City Treasury	25,734	-	-	2,246	20,000	47,980	-
Cash and investments held with fiscal agent	84,460	-	-	-	-	84,460	-
Other cash and investments	-	-	-	-	-	-	510
Receivables (net of allowances for uncollectibles)	2,959	-	-	-	-	2,959	-
Prepaid expenses, advances and deposits	11	-	-	-	-	11	-
Current portion of prepaid bond insurance	20	-	-	-	-	20	-
Total restricted assets	113,184	-	-	2,246	20,000	135,430	510
Total current assets	287,451	470,780	46,380	44,553	75,244	924,408	23,511
Noncurrent assets:							
Prepaid bond insurance (net of accumulated amortization)	329	-	-	-	-	329	-
Advances and deposits	1,180	-	-	-	-	1,180	-
Net other postemployment benefits asset	-	-	-	-	1,062	1,062	-
Capital assets (net of accumulated depreciation):							
Nondepreciable	113,312	488,670	11,098	24,610	-	637,690	-
Depreciable	1,160,871	570,747	64,170	29,678	-	1,825,466	3,520
Total noncurrent assets	1,275,692	1,059,417	75,268	54,288	1,062	2,465,727	3,520
Total assets	1,563,143	1,530,197	121,648	98,841	76,306	3,390,135	27,031
DEFERRED OUTFLOWS OF RESOURCES							
Loss on refundings of debt	11,516	-	-	-	-	11,516	-
Deferred outflows of resources related to pensions	17,287	42,288	4,220	1,258	2,669	67,722	-
Deferred outflows of resources related to other postemployment benefits	2,908	8,336	812	256	454	12,766	-
Total deferred outflows of resources	$ 31,711	50,624	5,032	1,514	3,123	92,004	-

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, 2021
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
LIABILITIES							
Current liabilities:							
Accounts payable	$ 6,614	46,383	4,694	-	35,349	93,040	419
Accrued salaries, wages, and payroll taxes	1,651	4,107	398	110	300	6,566	978
Interest payable	11	300	-	-	-	311	-
Due to other funds	-	-	-	-	15,000	15,000	-
Short-term notes payable	51,930	-	-	-	-	51,930	-
Accrued vacation, sick leave and compensatory time	1,847	4,102	246	192	399	6,786	-
Estimated liability for self-insurance	633	394	196	-	-	1,223	-
Advances and deposits payable	1,746	-	-	85	-	1,831	-
Unearned revenue	6,335	-	-	-	-	6,335	-
Total current liabilities unrestricted	70,767	55,286	5,534	387	51,048	183,022	1,397
Current liabilities payable from restricted assets:							
Accounts payable and accrued liabilities	113	-	-	-	-	113	-
Interest payable	14,039	-	-	-	-	14,039	-
Unearned revenue	28	-	-	-	-	28	-
Current portion of bonds payable, net	8,086	-	-	-	-	8,086	-
Pollution remediation obligation	-	2,000	-	-	-	2,000	-
Total current liabilities payable from restricted assets	22,266	2,000	-	-	-	24,266	-
Total current liabilities	93,033	57,286	5,534	387	51,048	207,288	1,397
Noncurrent liabilities:							
Accrued vacation, sick leave and compensatory time	590	793	-	-	-	1,383	3,926
Estimated liability for self-insurance	1,841	1,254	791	-	-	3,886	-
Advance contributions from participating agencies	-	1,738	-	-	-	1,738	-
Advances, deposits, and reimbursable credits	-	-	1,693	-	-	1,693	-
Pollution remediation obligation	-	26,187	-	-	-	26,187	-
Notes payable	-	150,368	-	-	-	150,368	-
Bonds payable (net of premium/discount)	1,138,786	-	-	-	-	1,138,786	-
Net pension liability	113,363	233,361	20,384	8,202	1,660	376,970	-
Net other postemployment benefits liability	18,650	52,111	5,118	1,121	-	77,000	-
Total noncurrent liabilities	1,273,230	465,812	27,986	9,323	1,660	1,778,011	3,926
Total liabilities	1,366,263	523,098	33,520	9,710	52,708	1,985,299	5,323
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources related to pensions	1,919	4,683	466	142	258	7,468	-
Deferred inflows of resources related to other postemployment benefits	1,642	4,816	462	173	122	7,215	-
Total deferred inflows of resources	3,561	9,499	928	315	380	14,683	-
NET POSITION							
Net investment in capital assets	171,356	909,049	75,268	54,288	-	1,209,961	3,520
Restricted for debt service	8,572	-	-	2,246	20,000	30,818	-
Restricted for capital projects and other agreements	18,967	-	-	-	-	18,967	-
Unrestricted	26,135	139,175	16,964	33,796	6,341	222,411	18,188
Total net position	$ 225,030	1,048,224	92,232	90,330	26,341	1,482,157	21,708

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2021
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
OPERATING REVENUES							
Charges for services	$ 30,420	193,495	56,123	7,062	280,388	567,488	148,894
Rentals and concessions	11,120	14,932	-	-	-	26,052	-
Service connection, engineering and inspection	78,938	2,173	-	-	-	81,111	-
Operating contributions from participating agencies	-	24,862	-	-	-	24,862	-
Other	10,684	2,131	-	-	-	12,815	-
Total operating revenues	131,162	237,593	56,123	7,062	280,388	712,328	148,894
OPERATING EXPENSES							
Operations and maintenance	73,788	144,990	46,460	3,462	283,268	551,968	148,745
General and administrative	21,231	31,780	2,486	7,285	8,347	71,129	-
Depreciation	53,134	31,758	2,990	1,695	-	89,577	1,772
Materials and supplies	-	488	-	139	-	627	-
Total operating expenses	148,153	209,016	51,936	12,581	291,615	713,301	150,517
Operating income (loss)	(16,991)	28,577	4,187	(5,519)	(11,227)	(973)	(1,623)
NONOPERATING REVENUES (EXPENSES)							
Passenger facility charges	9,377	-	-	-	-	9,377	-
Customer facility charges	6,539	-	-	-	-	6,539	-
Operating grants	2,266	-	-	-	-	2,266	-
Nonoperating grants	53,538	-	-	-	-	53,538	-
Investment income (expense)	1,236	563	121	79	(191)	1,808	145
Interest expense	(53,649)	(2,031)	-	-	-	(55,680)	-
Letter of credit fees	-	-	-	-	(1,055)	(1,055)	-
Bond issuance costs	(2,239)	-	-	-	-	(2,239)	-
Participating airline net revenue sharing	(1,325)	-	-	-	-	(1,325)	-
Contributions for maintenance reserves	-	(38)	-	-	-	(38)	-
Gain (loss) on disposal of capital assets	(12)	(13)	-	-	-	(25)	153
Other revenues (expenses), net	1,449	136	8	19	100	1,712	-
Net nonoperating revenues (expenses)	17,180	(1,383)	129	98	(1,146)	14,878	298
Income (loss) before capital contributions and transfers	189	27,194	4,316	(5,421)	(12,373)	13,905	(1,325)
Capital contributions	12,023	2,209	180	-	-	14,412	-
Transfers in	463	-	-	-	-	463	1,390
Transfers out	(66)	(1,987)	(512)	(914)	(246)	(3,725)	(1,195)
Changes in net position	12,609	27,416	3,984	(6,335)	(12,619)	25,055	(1,130)
Net position - beginning	212,421	1,020,808	88,248	96,665	38,960	1,457,102	22,838
Net position - ending	$ 225,030	1,048,224	92,232	90,330	26,341	1,482,157	21,708

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, 2021
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers and users	$ 133,128	218,886	53,542	7,210	292,926	705,692	-
Cash received from interfund services provided	-	-	-	-	-	-	148,380
Payments to suppliers	(34,895)	(76,780)	(37,376)	(8,567)	(314,133)	(471,751)	(122,810)
Payments for employees	(35,880)	(94,070)	(9,062)	(2,475)	(6,083)	(147,570)	(25,454)
Payments for City services	(24,124)	-	-	-	-	(24,124)	-
Payments to airlines	(11,910)	-	-	-	-	(11,910)	-
Claims paid	(157)	-	-	-	-	(157)	-
Other receipts	1,525	18,920	-	-	-	20,445	-
Net cash provided by (used in) operating activities	27,687	66,956	7,104	(3,832)	(27,290)	70,625	116
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfer from other funds	463	-	-	-	-	463	1,390
Transfer to other funds	(66)	(1,987)	(512)	(914)	(246)	(3,725)	(1,195)
Operating grants	691	-	-	-	-	691	-
Nonoperating grants	53,538	-	-	-	-	53,538	-
Net cash provided by (used in) noncapital financing activities	54,626	(1,987)	(494)	(914)	(246)	50,985	195
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Passenger facility charges received	7,312	-	-	-	-	7,312	-
Customer facility charges received	6,978	-	-	-	-	6,978	-
Proceeds from issuance of bonds (excluding amount placed in escrow)	28,666	-	-	-	-	28,666	-
Payment for redemption of bonds (with prior bond reserves)	(44,381)	-	-	-	-	(44,381)	-
Prepaid bond insurance	(284)	-	-	-	-	(284)	-
Capital grants received	10,540	285	-	-	-	10,825	-
Acquisition and construction of capital assets	(39,105)	(154,260)	(4,332)	(1,338)	-	(199,035)	(604)
Proceeds from commercial paper	-	-	-	-	15,000	15,000	-
Proceeds from line of credit	-	43,448	-	-	-	43,448	-
Principal payment on commercial paper	-	-	-	-	(10,000)	(10,000)	-
Principal paid on debt	(33,205)	(5,410)	-	-	-	(38,615)	-
Bond issuance cost paid	(2,239)	-	-	-	-	(2,239)	-
Interest paid on debt	(60,815)	(1,981)	-	-	-	(62,796)	-
Fees paid on letter of credit	-	-	-	-	(1,055)	(1,055)	-
Advances and deposits returned	211	-	-	-	-	211	-
Net cash used in capital and related financing activities	(126,322)	(117,918)	(4,332)	(1,338)	3,945	(245,965)	(604)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from sales and maturities of investments	150,241	-	-	-	-	150,241	-
Purchases of investments	(145,663)	-	-	-	-	(145,663)	-
Interest received (paid)	2,337	1,769	167	79	(191)	4,161	145
Land and building rentals	-	169	-	-	-	169	-
Net cash provided by (used in) investing activities	6,915	1,938	167	79	(191)	8,908	145
Net change in cash and cash equivalents	(37,094)	(51,011)	2,445	(6,005)	(23,782)	(115,447)	(148)
Cash and cash equivalents - beginning	289,083	511,694	31,835	50,327	48,802	931,741	21,312
Cash and cash equivalents - ending	$ 251,989	460,683	34,280	44,322	25,020	816,294	21,164

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, 2021
($000's)

	Enterprise Funds						
	Norman Y. Mineta San José International Airport	**Wastewater Treatment System**	**Municipal Water System**	**Parking System**	**San José Clean Energy**	**Total**	**Internal Service Funds**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	$ (16,991)	28,577	4,187	(5,519)	(11,227)	(973)	(1,623)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	53,134	31,758	2,990	1,695	-	89,577	1,772
Participating airline net revenue sharing	(1,325)	-	-	-	-	(1,325)	-
Other nonoperating revenues	1,525	-	8	19	100	1,652	-
Decrease (increase) in:							
Accounts receivable	1,354	212	(2,588)	130	9,948	9,056	(76)
Inventories	-	14	-	-	-	14	(243)
Prepaid expenses, advances and deposits	(26)	-	-	-	(9,475)	(9,501)	(438)
Other assets	-	(1)	-	-	-	(1)	-
Increase (decrease) in:							
Accounts payable and accrued liabilities	(14,092)	11,462	2,499	(206)	(7,504)	(7,841)	460
Accrued salaries, wages, and payroll taxes	-	425	39	17	64	545	-
Accrued vacation, sick leave and compensatory time	-	268	2	4	84	358	264
Estimated liability for self-insurance	(206)	(356)	27	-	(7,907)	(8,442)	-
Unearned revenue	4,045	-	-	-	-	4,045	-
Net pension liability, deferred outflows and inflows of pension related resources	3,206	7,726	753	257	85	12,027	-
Net other postemployment benefits liability, deferred outflows and inflows of postemployment benefits related resources	(2,785)	(8,259)	(813)	(229)	(600)	(12,686)	-
Advances, deposits, and reimbursable payable	(152)	-	-	-	(858)	(1,010)	-
Other liabilities	-	(4,870)	-	-	-	(4,870)	-
Net cash provided by (used in) operating activities	$ 27,687	66,956	7,104	(3,832)	(27,290)	70,625	116
Reconciliation of cash and cash equivalents to the statement of net position:							
Equity in pooled cash and investments held in City Treasury							
Unrestricted	$ 157,414	460,683	34,280	42,076	5,020	699,473	20,647
Restricted	25,734	-	-	2,246	20,000	47,980	517
Cash and investments held with fiscal agents	68,841	-	-	-	-	68,841	-
Cash and cash equivalents	$ 251,989	460,683	34,280	44,322	25,020	816,294	21,164
Noncash noncapital, capital and related financing, and investing activities:							
Disposal of capital assets	$ (12)	(13)	-	-	-	(25)	-
Capital contributions from developers	-	1,924	180	-	-	2,104	-
Amortization of bond discount/premium, and prepaid bond insurance costs	4,087	-	-	-	-	4,087	-
Amortization of deferred outflows/inflows of resources related to bond refundings	(460)	-	-	-	-	(460)	-
Change in capital related payables	(1,665)	-	-	-	-	(1,665)	-
Change in capital related receivables	(1,483)	-	-	-	-	(1,483)	-
Change in fair value of investments	395	-	-	-	-	395	-
Increase (decrease) in operating grants receivables	71	-	-	-	-	71	-
Increase (decrease) in nonoperating grants receivables	(1,647)	-	-	-	-	(1,647)	-
Bond refunding proceeds placed in escrow	434,548	-	-	-	-	434,548	-
Bond defeased from the escrow account	(434,548)	-	-	-	-	(434,548)	-

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, 2021
($000's)

	Pension Trust Funds	Private-Purpose Trust Funds	Custodial Fund
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	$ -	205	6,727
Cash and investments	-	4,902	-
Investments of retirement systems:			
Investments:			
Public equity	3,923,218	-	-
Short-term investment grade bonds	84,706	-	-
Investment grade bonds	792,734	-	-
Private equity	999,024	-	-
Market neutral strategies	123,861	-	-
Immunized cash flows	276,982	-	-
Core real estate	398,992	-	-
Commodities	31,851	-	-
Private debt	214,545	-	-
Emerging market bonds	172,583	-	-
Growth real estate	253,477	-	-
Treasury inflation protected securities	141,435	-	-
Cash and cash equivalents	179,503	-	-
Private real assets	199,552	-	-
Venture capital	9,668	-	-
Long-term government bonds	213,091	-	-
High yield bonds	140,203	-	-
Total investments of retirement systems	8,155,425	-	-
Receivables:			
Accrued investment income	10,789	-	22
Employee contributions	3,826	-	-
Employer contributions	17,022	-	-
Other	211,373	117	-
Restricted cash and investments held with fiscal agent	-	120,346	-
Total current assets	8,398,435	125,570	6,749
Noncurrent assets:			
Advances to the City of San José	-	733	-
Accrued interest	-	1,249	-
Loans receivable, net	-	4,096	-
Advances and deposits	-	5	-
Prepaid bond insurance	-	1,541	-
Capital assets:			
Nondepreciable	-	2,077	-
Depreciable, net	-	669	-
Other assets, net	7,850	-	-
Total noncurrent assets	7,850	10,370	-
Total assets	8,406,285	135,940	6,749
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	$ -	30,297	-

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

City of San José
Statement of Fiduciary Net Position (Continued)
Fiduciary Funds
June 30, 2021
($000's)

	Pension Trust Funds	Private-Purpose Trust Funds	Custodial Fund
LIABILITIES			
Current liabilities:			
Accounts payable	$ -	147	-
Due to brokers	129,269	-	-
Accrued interest payable	-	20,150	-
Unearned revenue	-	7	-
Other liabilities	5,110	-	-
Total current liabilities	134,379	20,304	-
Long-term liabilities:			
Due within one year	-	100,144	-
Due in more than one year	-	1,319,837	-
Total noncurrent liabilities	-	1,419,981	-
Total liabilities	134,379	1,440,285	-
NET POSITION			
Restricted for:			
Employees' pension benefits	7,610,984	-	-
Employees' postemployment healthcare benefits	660,922	-	-
Redevelopment dissolution and other purposes	-	(1,274,048)	-
Arena capital reserve	-	-	6,749
Total net position (deficit)	$ 8,271,906	(1,274,048)	6,749

City of San José
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2021
($000's)

ADDITIONS	Pension Trust Funds	Private-Purpose Trust Funds	Custodial Fund
Redevelopment property tax revenues	$ -	189,426	-
Investment income:			
Interest	64,236	342	3,744
Dividends	24,062	-	-
Net change in fair value of plan investments	1,809,435	-	-
Investment earnings/(expenses)	(24,481)	-	-
Total investment income	1,873,252	342	3,744
Contributions:			
Employer	439,967	-	-
Employees	77,507	-	-
Total contributions	517,474	-	-
Development fees	-	8	-
Gain on sale of revenue participation	-	567	-
Other	-	116	-
Total additions	2,390,726	190,459	3,744
DEDUCTIONS			
General and administrative	11,333	112	-
Project expenses	-	458	3,107
Pass through amounts to the County of Santa Clara	-	47,093	-
Depreciation	-	27	-
Interest on debt	-	48,388	-
Health insurance premiums	57,845	-	-
Refunds of contributions	1,881	-	-
Retirement and other benefits:			
Death benefits	30,793	-	-
Retirement benefits	438,842	-	-
Veba transfer	5	-	-
Total deductions	540,699	96,078	3,107
Change in net position	1,850,027	94,381	637
Net position restricted for pension benefits, postemployment healthcare benefits and other purposes:			
Beginning of year, as previously reported	6,421,879	(1,368,429)	-
Restatement due to implementation of GASB Statement No. 84	-	-	6,112
Beginning of year, as restated	6,421,879	(1,368,429)	6,112
End of year	$ 8,271,906	(1,274,048)	6,749

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

INDEX TO THE NOTES

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

Agency, the Office of the County Executive, the Clerk of the Board of Supervisors, and Office of the County Counsel.

In general, the SARA's assets can only be used to pay the enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In general, the SARA is allocating revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the Agency until all enforceable obligations of the Agency have been paid in full and all assets have been liquidated. Based upon the nature of the SARA's custodial role, the SARA is reported in a fiduciary fund (private-purpose trust fund).

- **San José – Santa Clara Clean Water Financing Authority** – The San José **–** Santa Clara Clean Water Financing Authority (the "Clean Water Financing Authority") was created pursuant to a Joint Exercise of Powers Agreement between the City and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San José – Santa Clara Water Pollution Control Plant (the "Plant"), currently known as the San José – Santa Clara Regional Wastewater Facility (the "RWF"). The Clean Water Financing Authority is governed by a five-member Board of Directors; three are members of the San José City Council and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara entered into an Improvement Agreement and subsequent amendments to the Improvement Agreement (the "Improvement Agreement"), which requires each city to make base payments that are at least equal to each city's allocable share of debt service requirements of the Clean Water Financing Authority's outstanding revenue bonds. Under the Improvement Agreement, the City of San José is entirely responsible for the repayment of the Clean Water Financing Authority's outstanding revenue bonds. The Clean Water Financing Authority is blended in the Wastewater Treatment System Enterprise Fund for financial reporting purposes. The final debt service payment on outstanding authority bonds was made on November 15, 2020.

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

- **San José Diridon Development Authority** – The San José Diridon Development Authority (the "Diridon Authority") was created in March 2011 by a Joint Exercise of Powers Agreement between the City and the Agency. The Diridon Authority was created for the purposes of overseeing the development of properties within the area of the City surrounding the San José Diridon Station, and is authorized to issue bonds for this purpose. The Diridon Authority is governed by an 11-member Governing Board, which consists of the members of the City Council. The Diridon Authority did not have any activity in fiscal year 2020-21 (also known as "FY 2021").

Separate financial reports for City departments and component units for the FY 2021, containing additional information and more detailed information regarding financial position, changes in financial position, and, where applicable, cash flows, are available from the City's Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

- Federated City Employees' Retirement System (the "FCERS")

- Police and Fire Department Retirement Plan (the "PFDRP")

- Successor Agency to the Redevelopment Agency of the City of San José
- Norman Y. Mineta San José International Airport (the "Airport")
- San José – Santa Clara Clean Water Financing Authority
- San José Clean Energy

B. Financial Statement Presentation

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

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

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

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

The City reports the following major governmental funds:

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

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

The ***Low and Moderate Income Housing Asset Fund*** is a special revenue fund that was created to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the Agency on February 1,

2012. This fund is primarily funded by loan repayment program income generated from the former Agency's housing assets.

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

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

The City reports the following major enterprise funds:

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

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

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

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

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

The City also reports the following types of funds:

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

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

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

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

Document Summaries. *All summaries of documents contained in the notes to the financial statements are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. Each reference is qualified in its entirety by reference to such document, which is on file with or may be obtained from the City's Director of Finance at the address set forth in Note I.A.*

C. Measurement Focus and Basis of Accounting

The basis of accounting determines when transactions are reported in the financial statements. The government-wide, proprietary and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility user taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

D. Use of Estimates

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

E. New Pronouncements

During the year ended June 30, 2021, the City implemented the following Governmental Accounting Standards Board (the "GASB") Statements:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments and describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary 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 ended June 30, 2021. The application of Statement No. 84 had an effect on the City's financial statements for the change of format and name from Agency Fund to Custodial Fund. The impact for Section 457 deferred compensation plans was offset by early implementation of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* as described below. The net position related to the Custodial fund was restated as a result of implementing Statement No. 84 in FY 2021.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Application of Statement No. 90 is effective for the City's fiscal year ended June 30, 2021. The application of Statement No. 90 did not have any effect on the City's financial statements.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* This statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This statement is effective for periods beginning after June 15, 2021. However, because of the above clarification, the City decided to early implement this statement to offset the impact on GASB Statement No. 84 for Section 457 plans. The overall net result is to provide a footnote disclosure of PTC Deferred Compensation Plan.

In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term *annual comprehensive financial report* and its acronym *ACFR* as the replacement term for *comprehensive annual financial report* and its acronym in addressing references in authoritative literature. This statement was developed in response to concerns raised by stakeholders that common pronunciation of the acronym for *comprehensive annual financial report* sounds like a profoundly objectionable racial slur. The requirements of this statement are effective for fiscal years ending after December 15, 2021. The City decided to early implement this statement. As a result, all references to the related term and its acronym were replaced starting from fiscal year 2021.

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

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of Statement No. 87 is effective for the City's fiscal year ending June 30, 2022.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund, and fiduciary fund. The City has updated the Capitalized Interest policy to no longer capitalize interest for the Wastewater Treatment System Fund which had an immaterial impact to the financial statements. Application of Statement No. 89 is effective for the City's fiscal year ending June 30, 2022, and will be applied to all remaining funds.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of Statement No. 91 is effective for the City's fiscal year ending June 30, 2023.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following: The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are*

Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and Terminology used to refer to derivative instruments. The requirements of this statement are effective as follows: The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021. The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021; The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

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

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

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

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 (i.e. Director of Finance), are considered cash equivalents for purposes of the statement of cash flows because the City's cash management pool and funds invested by the City Treasurer possess the characteristics of demand deposit accounts. Other restricted and unrestricted investments with maturities less than three months at the time of purchase are also considered cash equivalents for purposes of the statement of cash flows.

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

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

3. Deposits and Investments

Investments are accounted for in accordance with the provisions of GASB Statement No. 72, *Fair Value Measurement and Application.* The City categorizes its fair value measurements within the fair value hierarchy established by GAAP in the United States of America. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

Pooled Cash and Investments held in City Treasury. The City reports its investments held in the City Treasury at fair value. The fair value is based primarily on quoted market information and using pricing applications and models obtained from fiscal agents or other sources. Income from some investments is assigned to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the year ended June 30, 2021, the total investment income from these investments assigned and transferred to the General Fund was approximately $1,577,000.

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

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

4. Inventories

Inventories of proprietary funds are reported at cost.

5. Loans Receivable, net

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

6. Special Assessment Districts

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

7. Advances and Deposits

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

8. Other Assets

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

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

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

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

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

10. Restricted Assets

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

11. Capital Assets

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

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

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

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

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

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

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

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

The employee vacation accrual cap was temporarily raised from twice the employee's annual accrual rate, to three times the employee's annual accrual rate, effective April 19, 2020 through April 3, 2021. Employees who had earned in excess of the two times the annual accrual rate cap during this time stopped earning additional vacation time after April 3, 2021, until the balance of their vacation time returned below the two times accrual cap.

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

Unrepresented employees and all bargaining units are eligible for sick leave payouts if they were hired before September 30, 2012 except the San Jose Police Officers' Association and the San Jose Fire Fighters, IAFF Local 230 are eligible for sick leave payouts if they were hired before July 7, 2013 and September 14, 2014, respectively. The sick leave balance eligible for payouts were frozen on June 22, 2013 for unrepresented employees and all bargaining units except the San Jose Police Officers' Association and the San Jose Fire Fighters, IAFF Local 230 were frozen on July 6, 2013 and June 20, 2015, respectively.

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. 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.

At the time of the negotiated agreements, the Confidential Employees' Organization (CEO) was a separate bargaining unit. As of October 7, 2018, the classifications represented by CEO were incorporated under the exclusive representation of the Municipal Employees' Federation (MEF). All terms and conditions of the previous sick leave payout provision remain unchanged.

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, and are subject to elimination upon consolidation of similar fund types. The current portion of interfund loans and unsettled service transactions are reported as "due to/from other funds" and the noncurrent portion is reported as "advances to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

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

14. Insurance

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

15. Deferred Outflows/Inflows of Resources

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

16. Pensions

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

17. Other Postemployment Benefits (OPEB)

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

18. Net Position

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

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

- *Restricted Net Position* – This category represents net position that has external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2021, the government-wide statement of net position reported restricted net position of

$1,116,441,000 in governmental activities and $49,785,000 in business-type activities. Of these amounts $385,082,000 and $10,130,000, respectively, are restricted by enabling legislation.

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

19. Fund Balances

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

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

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

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

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

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

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

20. Property Taxes

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

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

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

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

The City's net assessed valuation for the year ended June 30, 2021, was approximately $207.4 billion, an increase of approximately 5.8% from the previous year. The City's tax rate was approximately $0.173 per $100 of assessed valuation, which included the City's share of the 1% basic levy and additional levies for general obligation bonds: Measures "O" and "P" (2000), Measure "O" (2002) and Measure "T" (2018).

On October 1, 2020, the County sent its notice of estimated distribution (the "County Notice") of Redevelopment Property Tax Trust Fund ("RPTTF") to successor agencies and taxing entities within the County, including the City, for the period of January to June 2021. The County Notice advised that commencing with this period the County will revise its method of calculating the share of residual property tax increment that is generated in the redevelopment project areas of the City's former redevelopment agency to be distributed to taxing entities, including the City, under Section 34183 of the Health and Safety Code. According to the County Notice, as a result of an appellate court decision in *City of Chula Vista v. Sandoval, 49 Cal.App.5th 539 (2020)*, it will distribute all such residuals in accordance with the pro rata tax share of each taxing entity and that it will adjust distributions of such residuals for the past three years as required by Health and Safety Code Section 34186(b). As a result, the City's distribution for FY 2021 was decreased by approximately $10 million, which is comprised of a $3 million reduction for FY 2021 and $7 million reduction for the repayment amount for the three prior fiscal years. As part of the 2020-2021 Mid-Year Budget Review, approved by the City Council on February 9, 2021, the property tax revenue estimate was reduced by $10 million to align the budget with the revised RPTTF distribution.

21. Wastewater Treatment System

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

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

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the year ended June 30, 2021, the City's portion of the capital and operating costs was approximately 80.5% and the City's interest in the net position of the Plant was approximately 80.9%.

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. As of June 30, 2021, the SARA had a deficit of $1,274,686,000, which will be reduced when future redevelopment property tax revenues, are distributed from the Redevelopment Property Tax Trust Fund administered by the County of Santa Clara Auditor-Controller to pay SARA's annual enforceable obligations.

B. Deficit Unrestricted Net Position – Governmental Activities

As of June 30, 2021, the City reported a negative balance in unrestricted net position for its governmental activities in the amount of $2,978,383,000 after accounting for net pension liabilities and net OPEB liabilities.

C. Deficit Fund Balance – Major Governmental Funds

As of June 30, 2021, the City reported a deficit fund balance of $44,375,000 for the San José Financing Authority Debt Service fund, which was primarily due to the outstanding FY 2019 issuance of $42,400,000 in commercial paper for the South Hall Project.

As of June 30, 2021, the City reported a deficit fund balance of $20,000 for the Edward Byrne Memorial Justice special revenue fund, which was primarily due to the purchase of Motorola radio consoles in FY 2019.

III. Detailed Notes on All Funds

A. Cash, Deposits, and Investments

As of June 30, 2021, total City cash, deposits and investments, at fair value, are as follows (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds: Pension Trust	Fiduciary Funds: Private-Purpose Trust	Fiduciary Funds: Custodial	Carrying Value
Equity in pooled cash and investments	$ 1,453,765	$ 699,473	$ -	$ 205	$ 6,727	$ 2,160,170
Cash and investments	7	-	-	4,902	-	4,909
Restricted assets:						
Equity in pooled cash and investments	76,461	47,980	-	-	-	124,441
Cash and investments with fiscal agents	340,721	84,460	-	120,346	-	545,527
Other cash and investments	12,451	-	-	-	-	12,451
Investments of retirement systems	-	-	8,155,425	-	-	8,155,425
Total deposits and investments	$ 1,883,405	$ 831,913	$ 8,155,425	$ 125,453	$ 6,727	$ 11,002,923
Deposits						$ 15,939
Investments						10,986,984
Total deposits and investments						$ 11,002,923

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

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

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

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

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

1. Cash and Investments Managed by the City Treasurer

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. On March 9, 2021, the City Council approved an amendment to the Investment Policy (Section 26.0 Temporary Modification – Weighted Average Maturity) extending the weighted average maturity of the investment portfolio to 2.5 years (or 913 days) which will automatically expire on July

1, 2022. 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 weighted average days to maturity of the City's pooled cash and investments at June 30, 2021, was approximately 565 days.

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

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

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

At June 30, 2021, the City's pooled and fiscal agent investments in LAIF were approximately $589,766,000 and the SARA's investments in LAIF was $4,184,000. The weighted average days to maturity of LAIF was 291 days at June 30, 2021. The total amount recorded by all public agencies in LAIF at June 30, 2021 was approximately $37 billion. PMIA is not registered with the Securities and Exchange Commission ("SEC"), but is required to invest according to the California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2021 was approximately $193 billion and of that amount, 83.38% was invested in U.S. Treasuries and agencies, 10.50% in depository securities, 5.74% in commercial paper, and 0.38% in loans.

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

The City Council adopted an investment policy (Council Policy 1-12) related to the City's cash and investment pool (the "Policy") on April 2, 1985, which is subject to annual review and was reviewed and amended on March 9, 2021. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an un-hedged position on the future direction of interest rates. Per the Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy.

The following table identifies the investment types that are authorized by the Policy as of June 30, 2021:

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

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

Other restrictions on investments are summarized as follows:

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

- Purchases of supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated in a rating category of “AA” or its equivalent or better by Moody’s Investor Services (“Moody’s”), S&P Global Ratings (“S&P”), or Fitch Ratings (“Fitch”). If rated by more than one organization, no rating may be lower than the category described in the preceding sentence at the time of purchase.

- Purchases of bankers’ acceptances are limited to issues by domestic U.S. or foreign banks. Issuing banks must have a short-term rating of “P-1, A-1 or F-1” or better by two of the three nationally recognized statistical rating organizations, Moody’s, S&P, or Fitch, respectively. Long-term ratings of the bank or its holding company must be in a rating category of “A” or its equivalent or better by Moody’s, S&P, or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence at the time of purchase.

- Deposits up to $10,000,000 may be invested in banks and savings and loans and deposits shall not exceed the net worth of that depository. Depositories must have a short-term rating of “P-1, A-1, or F-1” or better by two of the three nationally recognized statistical rating organizations:

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

- Commercial paper eligible for investment must be rated "P-1, A-1 or F-1" or better by two of the three nationally recognized statistical rating organizations; Moody's, S&P, or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of $500,000,000 and shall issue debt, other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or better, by Moody's, S&P, or Fitch. If rated by more than one organization, no rating may be lower than the category described in the preceding sentence at the time of purchase.

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

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

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

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

- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is $75 million. Also, the California State Treasurer authorized agencies receiving federal and/or state COVID-19 relief funds to deposit a maximum of $75 million in a special Emergency LAIF account. This account has also been fully invested due to the relative yields on LAIF as compared to other market investment opportunities.

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

- Municipal bonds under the Policy are limited to a total of no more than 30% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be in a rating category of "A" or its equivalent or better by two of the three nationally recognized statistical rating organizations; Moody's, S&P, or Fitch. No rating may be lower than the category described in the preceding sentence at the time of purchase.

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

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

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

The Policy permits the Director of Finance to authorize investments that depart from the Policy's numerical limits if such an action is in the best interest of the City and is otherwise consistent with the Policy and applicable City, state and federal laws. Whenever a deviation or exception to the Policy occurs, it must be reported to the City Manager within 3 business days and to the City Council within 10 days of its discovery.

The following schedule indicates the interest rate risk, credit risk and concentration of credit risk of the City's investments, as of June 30, 2021 (in thousands). The credit ratings listed are for Moody's and S&P, respectively.

Type of Investment	Credit Rating	Maturity: Under 30 Days	Maturity: 31 - 180 Days	Maturity: 181 - 365 Days	Maturity: 1 - 5 Years	Carrying Value
Pooled investments in the City Treasury:						
Treasury Notes	AAA / N/A	$ -	$ -	$ 915	$ 15,695	$ 16,610
Treasury Discounts	N/A	74,998	29,998	-	-	104,996
Federal Home Loan Banks	AAA / AA+	13,629	-	-	38,318	51,947
Federal Home Loan Banks - Callable	AAA / AA+	-	-	-	29,587	29,587
Federal National Mortgage Association	AAA / AA+	-	-	6,822	138,050	144,872
Federal National Mortgage Association - Callable	AAA / AA+	-	-	-	44,780	44,780
Federal Farm Credit Bank Bonds	AAA / AA+	-	-	17,214	57,602	74,816
Federal Farm Credit Bank Bonds - Callable	AAA / AA+	-	-	-	29,731	29,731
Federal Home Loan Mortgage Corporation	AAA / AA+	-	10,013	-	81,787	91,800
Federal Home Loan Mortgage Corporation - Callable	AAA / N/A	-	-	-	119,892	119,892
Farmer MAC Interest Bearing	N/A	-	-	-	22,166	22,166
Farmer MAC Interest Bearing-Callable	N/A	-	-	-	9,980	9,980
Supranationals	AAA / AAA	55,000	-	10,104	197,298	262,402
Corporate Medium Term Notes	AAA / AAA	-	63,291	112,284	113,398	288,973
Corporate Floaters	A2 / A	-	3,481	-	-	3,481
Negotiable Certificates of Deposit	N/A	35,000	165,026	63,905	-	263,931
Commercial Paper	P-1 / A-1	50,000	89,963	-	-	139,963
Asset Backed Securities	AAA / AAA	-	-	-	26,438	26,438
Municipal Bonds	AAA / AAA	-	18,317	53,197	168,999	240,513
Money Market Mutual Funds	N/A	103,160	-	-	-	103,160
California Local Agency Investment Fund	Not Rated	-	-	225,000	-	225,000
Total pooled investments in the City Treasury		331,787	380,089	489,441	1,093,721	2,295,038
Investments with fiscal agents:						
Federal Farm Credit Banks	Aaa / AA+	-	-	-	10,184	10,184
Federal Home Loan Banks	Aaa / AA+	-	-	-	5,435	5,435
Money Market Mutual Funds	Aaa / AAA	31,606	-	-	-	31,606
California Local Agency Investment Fund	Not Rated	-	-	364,766	-	364,766
Total investments with fiscal agents		31,606	-	364,766	15,619	411,991
Total Citywide investments (excluding Retirement Systems and the SARA)		$ 363,393	$ 380,089	$ 854,207	$ 1,109,340	2,707,029
Trust Funds:						
Total investments in Retirement Systems (See page 74)						8,155,425
Total investments in the SARA (See page 176)						124,530
Total investments						$ 10,986,984

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

The City has the following recurring fair value measurements as of June 30, 2021:

	Carrying Value 6/30/21	Fair Value Measurement Using: 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	$ 16,610	$ 16,610	$ -	$ -
Treasury Discounts	104,996	104,996	-	-
Federal Home Loan Banks	51,947	-	51,947	-
Federal Home Loan Banks - Callable	29,587	-	29,587	-
Federal National Mortgage Association	144,872	-	144,872	-
Federal National Mortgage Association - Callable	44,780	-	44,780	-
Federal Farm Credit Bank Bonds	74,816	-	74,816	-
Federal Farm Credit Bank Bonds - Callable	29,731	-	29,731	-
Federal Home Loan Mortgage Corporation	91,800	-	91,800	-
Federal Home Loan Mortgage Corporation - Callable	119,892	-	119,892	-
Farmer MAC Interest Bearing	22,166	-	22,166	-
Farmer MAC Interest Bearing-Callable	9,980	-	9,980	-
Supranationals	262,402	-	207,402	55,000
Corporate Medium Term Notes	288,973	-	288,973	-
Corporate Floaters	3,481	-	3,481	-
Negotiable Certificates of Deposit	263,931	-	263,931	-
Commercial Paper	139,963	-	139,963	-
Asset Backed Securities	26,438	-	26,438	-
Municipal Bonds	240,513	-	240,513	-
Total Investments by fair value level	1,966,878	121,606	1,790,272	55,000
Investments not subject to fair value hierarchy				
California Local Agency Investment Fund	225,000	-	-	-
Money Market Mutual Funds	103,160	-	-	-
Total Investments not suject to fair value hierarchy	328,160	-	-	-
Total Pooled Investments in the City Treasury	2,295,038	121,606	1,790,272	55,000
Investments with fiscal agents:				
Investments by fair value level:				
Federal Farm Credit Banks	10,184	-	10,184	-
Federal Home Loan Banks	5,435	-	5,435	-
Total Investments by fair value level:	15,619	-	15,619	-
Investments not subject to fair value hierarchy				
California Local Agency Investment Fund	364,766	-	-	-
Money Market Mutual Funds	31,606	-	-	-
Total Investments not suject to fair value hierarchy	396,372	-	-	-
Total Investments with fiscal agents	411,991	-	15,619	-
Total Citywide investments (excluding Retirement Systems and the SARA)	2,707,029	$ 121,606	$ 1,805,891	$ 55,000
Trust Funds:				
Total investments in Retirement Systems (See page 74)	8,155,425			
Total investments in the SARA (See page 176)	124,530			
Total investments	$ 10,986,984			

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 supranationals classified in Level 2 of the fair value hierarchy are valued using evaluated pricing applications and models, which gather the information from market sources and integrate relative credit information, observed market movements, and sector news. Commercial paper classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique based upon yields and effective maturity. Municipal bonds classified in Level 2 of the fair value hierarchy are valued using JJ Kenny municipal pricing technique. Negotiable certificates of deposit classified in Level 2 of the fair value hierarchy are valued using IDC CD pricing, a Multi-dimensional relational model and/or Option Adjusted Spread (OAS).

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name. As of June 30, 2021, 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, 2021, the City’s pooled investments in the City Treasury have investments that represent 5% or more of the total pooled investments in the following:

Federal Home Loan Mortgage Corporation	9.22%
International Bank for Reconstruction & Development	8.39%
Federal National Mortgage Association	8.26%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2021, 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 collectively "Retirement Boards") to invest monies of the respective plans as provided in the Municipal Code. Each Retirement Board has adopted detailed investment guidelines consistent with the conditions and limitations set forth in the Municipal Code.

The Board of Administration of PFDRP adopted an updated asset allocation for the Defined Benefit Pension Plan on April 1, 2021. The asset allocation will transition over the next several months, with an ending period of February 2022. The Defined Benefit Pension Plan investment policy was originally approved May 7, 2020. The asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the Police and Fire Department Retirement Plan's adopted actuarial assumed rate of return as of June 30, 2020 and June 30,2019 valuations, respectively.

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

PFDRP - Pension

Asset Class	Target Asset Allocation	Asset Class	Target Asset Allocation
Public equity	46%	Long-term government bonds	3%
Investment grade bonds	12%	Private debt	3%
Private equity	6%	Emerging market bonds	3%
Core real estate	5%	Treasury inflation-protected securities	2%
Immunized cash flows	5%	High yield bonds	2%
Growth real estate	3%	Market neutral strategies	3%
Private real estate	3%	Venture capital	4%

The Board of Administration of PFDRP adopted an updated asset allocation for the Postemployment Healthcare Plan on April 1, 2021. The asset allocation will transition over the next several months, with an ending period of February 2022. The Postemployment Healthcare plan investment policy was originally approved on June 6, 2013.

PFDRP - Postemployment Healthcare

Asset Class	Target Asset Allocation
Global equity	43%
Real assets	22%
Global tactical asset allocation	20%
Global fixed income	15%

For the year ended June 30, 2021, the investment policy for the FCERS Defined Benefit Pension Plan was updated, as shown in the following table, which FCERS' Board approved on May 18, 2020. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and FCERS' adopted actuarial assumed rate of return as of June 30, 2021.

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

FCERS - Pension

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

On March 18, 2021, the FCERS' Board adopted an updated asset allocation for the 115 healthcare trust. The asset allocation will transition over three quarters, with the final transition period ending September 30, 2021. The Postemployment Healthcare Plan investment policy was originally approved on March 21, 2013. The asset classes in the healthcare policy are broad classifications which were further broken down to more specific allocation to align with the pension asset classification.

FCERS - Postemployment Healthcare

Asset Class	Target Asset Allocation
Global equity	55%
Fixed income	28%
Real assets	17%

At June 30, 2021, the Retirement Systems held the following investments (in thousands):

	PFDRP	FCERS	Total
Securities and other:			
Fixed income:			
Investment grade bonds	$ 573,897	$ 218,837	$ 792,734
Immunized cash flows	181,496	95,486	276,982
Emerging market bonds	93,748	78,835	172,583
Long-term government bonds	147,421	65,670	213,091
Private debt	137,912	76,633	214,545
Treasury inflation-protected securities	88,329	53,106	141,435
High yield bonds	87,581	52,622	140,203
Cash and cash equivalents	130,399	49,104	179,503
Short-term investment grade bonds	13,015	71,691	84,706
Total fixed income	1,453,798	761,984	2,215,782
Commodities	12,499	19,352	31,851
Core real estate	236,179	162,813	398,992
Growth real estate	161,686	91,791	253,477
Venture capital	9,188	480	9,668
Market neutral strategies	75,812	48,049	123,861
Private equity	524,040	474,984	999,024
Private real assets	159,590	39,962	199,552
Public equity	2,307,050	1,616,168	3,923,218
Total investments	$ 4,939,842	$ 3,215,583	$ 8,155,425

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:

Market Risk - General market risk factors exist that could cause depreciation or appreciation of the Retirement Systems' investment portfolio. These risks include general, economic, political and regulatory risks. The Retirement Systems' investments may be impacted by changes caused by global and domestic market conditions and industry-specific economic and regulatory conditions. With elevated valuations, continued uncertainty surrounding COVID-19 pandemic, such market risks of growing unemployment, changes in consumer behavior, volatility in various other financial market rates and general economic slowdown of all sectors may have a significant impact to the underling investments within the Retirement Systems' investment portfolio.

Interest Rate Risk – The fair value of fixed income investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest-sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Retirement Systems' does not have a policy regarding interest rate 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, 2021 (in thousands):

PFDRP

	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years	Total Fair Value	Cost
Investment grade bonds	$ (247)	$ -	$ 658	$ 499,690	$ 42,303	$ 31,493	$ 573,897	$ 568,568
Immunized cash flows	8,887	6,023	15,617	150,969	-	-	181,496	180,972
Long-term government bonds	-	-	-	-	-	147,421	147,421	161,083
Private debt	137,912	-	-	-	-	-	137,912	141,713
Cash and cash equivalents	130,399	-	-	-	-		130,399	130,399
Treasury inflation- protected securities	3,859	5,065	4,953	74,452	-	-	88,329	84,539
High yield bonds	189	251	290	31,005	51,500	4,346	87,581	85,427
Emerging market bonds	-	-	-	-	93,748	-	93,748	57,885
Short-term investment grade bonds	13,015	-	-	-	-	-	13,015	13,015
Total fixed income	$ 294,014	$ 11,339	$ 21,518	$ 756,116	$ 187,551	$ 183,260	$ 1,453,798	$ 1,423,601

FCERS

	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years	Total Fair Value	Cost
Investment grade bonds	$ 6	$ 22	$ 256	$ 190,133	$ 16,128	$ 12,292	$ 218,837	$ 215,404
Immunized cash flows	7,028	4,687	12,269	71,502	-	-	95,486	95,447
Short-term investment grade bonds	71,691	-	-	-	-	-	71,691	71,691
Private debt	76,633	-	-	-	-	-	76,633	99,699
Emerging market bonds	-	-	-	-	78,835	-	78,835	71,300
Long-term government bonds	-	-	-	-	-	65,670	65,670	70,880
Treasury inflation-protected securities	2,319	3,061	2,978	44,748	-	-	53,106	51,258
High yield bonds	-	30	290	18,891	30,866	2,545	52,622	51,360
Cash and cash equivalents	49,104	-	-	-	-		49,104	49,104
Total fixed income	$ 206,781	$ 7,800	$ 15,793	$ 325,274	$ 125,829	$ 80,507	$ 761,984	$ 776,143

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' does not have a policy regarding custodial credit risk. As of June 30, 2021, all of the Retirement Systems' investments are held in the Retirement Systems' name and / or not exposed to negligible custodial credit risk. As of October 2020, the Retirement Systems' changed custodian banks from State Street Bank & Trust Company to Bank of New York Mellon.

Credit Quality Risk – The Retirement Systems' investment policy allows for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated. Generally credit risk is managed through establishing investment guidelines for every investment manager. 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' portfolio 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 A-1 or P-1, repurchase agreements, short-term U.S. securities, and other money market investments. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

The table provides information for the portfolios as of June 30, 2021 concerning credit risk (in thousands) and reflect only securities held in the Retirement Systems' names.

S&P Quality Rating	PFDRP Fair Value	PFDRP Fair Value as a % of Total Fixed Income	FCERS Fair Value	FCERS Fair Value as a % of Total Fixed Income
AAA	$ 49,572	3.41%	$ 19,236	2.52%
AA+	392,683	26.99%	162,545	21.33%
AA	131,351	9.04%	55,873	7.33%
AA-	3,037	0.21%	1,206	0.16%
A+	2,636	0.18%	1,164	0.15%
A	9,371	0.64%	3,562	0.47%
A-	12,906	0.89%	5,036	0.66%
BBB+	12,579	0.87%	4,804	0.63%
BBB	17,965	1.24%	7,238	0.95%
BBB-	24,959	1.72%	9,544	1.25%
BB+	9,016	0.62%	5,177	0.68%
BB	17,409	1.20%	9,950	1.31%
BB-	14,908	1.03%	8,423	1.11%
B+	8,891	0.61%	5,177	0.68%
B	11,280	0.78%	6,779	0.89%
B-	17,890	1.23%	10,602	1.39%
CCC+	7,022	0.48%	4,247	0.56%
CCC	3,835	0.26%	2,298	0.30%
CCC-	523	0.04%	317	0.04%
CC	45	0.00%	27	0.00%
Not Rated	705,920	48.56%	438,779	57.59%
Total	$ 1,453,798	100.00%	$ 761,984	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, 2021, the Retirement Systems' net positions in these contracts are recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Retirement Systems' commitments relating to international currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2021, concerning the fair value of investments that are subject to foreign currency risk (in thousands):

PFDRP

Currency Name	Cash	Public Equity	Global Fixed Income	International Currency Contracts, Net	Growth Real Estate	Total Exposure
Euro member countries	-	-	-	-	11	11
Hong Kong dollar	-	2	-	-	-	2
Switzerland franc	2	-	-	-	-	2
Total	$ 2	$ 2	$ -	$ -	$ 11	$ 15

FCERS

Currency Name	Cash	Public Equity	International Currency Contracts, Net	Private Equity	Growth Real Estate	Total Exposure
Euro currency	-	-	-	133	-	133
Hong Kong dollar	-	1	-	-	-	1
Swiss franc	-	2	-	-	-	2
Taiwanese new dollar	28	-	-	-	-	28
Total	$ 28	$ 3	$ -	$ 133	$ -	$ 164

Investment Concentration Risk – The Retirement Systems' investment policies specify that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 15% of the applicable plan's assets without approval by the applicable Retirement Board, with the exception of passive management, where the applicable plan's assets are not held in the applicable plan's name at the applicable plan's custodial bank. In such cases, there is no concentration limit.

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

Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2021. 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.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offer Rates*. GASB 93 addresses upcoming changes and the eventual removal of a global reference rate called LIBOR (London Interbank Offered Rate) which is often used as a reference rate for variable and derivative instruments. GASB 93 addresses allowable exceptions to existing contracts and agreements where LIBOR can be replaced with another IBOR without needing a new contract. GASB 93 also identifies the SOFR (Secured Overnight Financing Rate) and the FFR (Federal Funds Rate) as benchmarks for evaluating interest rate swaps. Finally, GASB 93 modifies lease agreements to allow for a change in the IBOR without being considered a modification to a lease. The Retirement Systems do not expect GASB 93 to significantly impact the financial statements as the Retirement Systems do not have any direct exposure to derivative contracts tied to LIBOR as of June 30, 2021.

The fair values and notional amounts for derivative instruments outstanding as of June 30, 2021, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (in thousands):

PFDRP

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2021		Fair Value at June 30, 2021		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Fixed income futures long	Investment income	$ (1,899)	Futures	$ -	84,443
Fixed income futures short	Investment income	862	Futures	-	8,480
FX forwards	Investment income	(87)	Long-term instruments	-	$ 2
Index futures long	Investment income	5,198	Futures	-	18,433
Index futures short	Investment income	(2,749)	Futures	-	2,430
Total derivative instruments		$ 1,325		$ -	

FCERS

	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2021		Fair Value at June 30, 2021		Notional
Investment Derivative Instruments	Classification	Amount	Classification	Amount	Amount/Shares
Fixed income futures long	Investment income	$ (583)	Futures	$ -	65,499
Fixed income futures short	Investment income	274	Futures	-	1,135
FX forward	Investment income	(4)	Long-term instruments	-	$ 134
Index futures long	Investment income	1,835	Futures	-	-
Index futures short	Investment income	(1,834)	Futures	-	38,982
Total derivative instruments		$ (312)		$ -	

Derivative investments are also subject to counterparty credit risk (non-exchange traded). The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2021.

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, 2021, PFDRP had total commitments in forward currency contracts to purchase and sell international currencies were $2,000, with fair values of $2,000 and $2,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2021, FCERS had total commitments in forward currency contracts to purchase and sell international currencies were $134,000, with fair values of $134,000 and $134,000, respectively, held by counterparties with an S&P rating of AA and above.

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

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

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

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

The Retirement Systems have the following recurring fair value measurements as of June 30, 2021:

PFDRP		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by fair value level					
Public equity	$ 2,307,050	$ 552,234	$ -	$ -	$1,754,816
Investment grade bonds	573,897	194,250	99,793	-	279,854
Private equity	524,040	-	-	18,227	505,813
Core real estate	236,179	-	-	-	236,179
Immunized cash flows	181,496	89,476	92,020	-	-
Growth real estate	161,686	-	-	-	161,686
Private real assets	159,590	-	-	-	159,590
Long-term government bonds	147,421	-	-	-	147,421
Private debt	137,912	-	-	4,603	133,309
Cash and cash equivalents	130,399	130,399	-	-	-
Emerging market bonds	93,748	-	-	-	93,748
Treasury inflation-protected securities	88,329	88,329	-	-	-
High yield bonds	87,581	77,865	-	-	9,716
Market neutral strategies	75,812	-	-	-	75,812
Short-term investment grade bonds	13,015	13,015	-	-	-
Commodities	12,499	-	-	-	12,499
Venture capital	9,188	-	-	-	9,188
Total investments measured at fair value level	**$ 4,939,842**	**$ 1,145,568**	**$ 191,813**	**$ 22,830**	**$ 3,579,631**

FCERS		Fair Value Measurement Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Public equity	$ 1,616,168	$ 370,131	$ -	$ -	$1,246,037
Private equity	474,984	-	-	14,702	460,282
Investment grade bonds	218,837	75,376	39,472	-	103,989
Core real estate	162,813	-	-	-	162,813
Immunized cash flows	95,486	48,572	46,914	-	-
Growth real estate	91,791	-	-	-	91,791
Emerging market bonds	78,835	-	-	-	78,835
Private debt	76,633	-	-	8,128	68,505
Short-term investment grade bonds	71,691	71,691	-	-	-
Long-term government bonds	65,670	-	-	-	65,670
Treasury inflation-protected securities	53,106	53,106	-	-	-
High yield bonds	52,622	47,028	-	-	5,594
Cash and cash equivalents	49,104	49,104	-	-	-
Market neutral strategies	48,049	-	-	-	48,049
Private real assets	39,962	-	-	-	39,962
Commodities	19,352	-	-	-	19,352
Venture capital	480	-	-	-	480
Total investments measured at fair value	**$ 3,215,583**	**$ 715,008**	**$ 86,386**	**$ 22,830**	**$ 2,391,359**

Equity and Fixed Income Securities

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

Alternative Investments

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

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

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

The following tables present the category, fair value, unfunded commitments, redemption frequency and redemption notice period for investments for which fair value is presented using the NAV as of June 30, 2021:

PFDRP

Investments Measured at the NAV as of June 30, 2021 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity	$ 1,754,816	$ -	Daily, Weekly, Monthly	1 - 30 Days
Investment grade bonds	279,854	-	Daily	1- 3 Days
Private equity	505,813	12,300	Daily, N/A	1 Day, N/A
Core real estate	236,179	50,200	Quarterly	90 Days
Growth real estate	161,686	112,948	N/A	N/A
Private real assets	159,590	22,130	N/A	N/A
Long-term government bonds	147,421	-	Daily	3 Days
Private debt	133,309	143,856	N/A	N/A
Emerging market bonds	93,748	-	Daily, Quarterly	1 - 45 days
High yield bonds	9,716	-	Daily	3 Days
Market neutral strategies	75,812	-	Monthly, Bi-Annual	45 - 60 Days
Commodities	12,499	-	Daily	3 Days
Venture capital	9,188	19,499	N/A	N/A
Total investments measured at the NAV	**$ 3,579,631**	**$ 360,933**		

FCERS

Investments Measured at the NAV as of June 30, 2021 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Public equity	$ 1,246,037	$ -	Daily, Weekly, Monthly	1 - 30 Days
Private equity	460,282	14,500	Daily, NA	1 Day, N/A
Investment grade bonds	103,989	-	Daily	1 - 3 Days
Core real estate	162,813	41,800	Quarterly	90 Days
Growth real estate	91,791	41,970	NA	NA
Emerging market bonds	78,835	-	Daily, Quarterly	1 - 45 Days
Private debt	68,505	66,010	NA	NA
Long-term government bonds	65,670	-	Daily	3 Days
High yield bonds	5,594	-	Daily	3 Days
Market neutral strategies	48,049	-	Monthly, Bi-Annual	45 - 60 Days
Private real assets	39,962	12,509	NA	NA
Commodities	19,352		Daily	3 Days
Venture capital	480	-	NA	NA
Total investments measured at the NAV	**$ 2,391,359**	**$ 176,789**		

Public equity

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

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

Private equity

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

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

Investment grade bonds

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

Core real estate

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

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

Market neutral strategies

For PFDRP and FCERS, this type includes investments in four limited partnership hedge funds that invest both long and short in a wide array of securities, including listed and OTC derivatives, and typically use leverage and hedging to capture directional market movements or relative market mispricing. The redemption frequencies range from monthly to bi-annual with notice periods of forty-five days to sixty days. Two funds have 25% investor level redemption gates, while the remaining two funds have no gates.

Private debt

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

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

Emerging market bonds

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

Growth real estate

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

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

Commodities

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

Long-term government bonds

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

Private real assets

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

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

High yield bonds

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

Immunized cash flows (bonds)

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

Short-term investment grade bonds

For PFDRP and FCERS, this type includes investments in one commingled investment fund. Short-term investment grade bond funds typically invest in contractual cash flows of US governments and corporations with maturities less than three years and a credit rating of greater than BBB-. The commingled funds offer daily liquidity with notice periods of one to two days.

Treasury inflation-protected securities (TIPS)

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

Venture capital

For PFDRP and FCERS, this type includes investments in four and one venture capital limited partnership funds, respectively, which generally invest in early stage privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is the distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

B. Receivables, Net of Allowances

At June 30, 2021, receivables of the City's major individual funds and nonmajor funds taken in aggregate, including the applicable allowance for uncollectible accounts, are as follows (in thousands):

Receivables – Governmental Activities:	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Special Assessment Districts	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Taxes	$ 79,809	$ -	$ -	$ -	$ 9,398	$ -	$ 89,207
Accrued interest	1,615	418	1,897	67	3,420	67	7,484
Grants	5,427	10,238	-	-	32,438	-	48,103
Special assessments	-	-	-	11,515	-	-	11,515
Other	48,311	1,183	14,552	631	26,560	351	91,588
Less: allowance for uncollectibles	(32,365)	(2)	-	(4)	(3,114)	1	(35,484)
Total receivables, net	$ 102,797	$ 11,837	$ 16,449	$ 12,209	$ 68,702	$ 419	$ 212,413

Receivables – Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	San José Clean Energy	Total Business-Type Activities
Accounts	$ 15,068	$ 8,381	$ 13,149	$ 105	$ 52,409	$ 89,112
Accrued interest	622	1,336	113	147	-	2,218
Grants	4,620	-	-	-	-	4,620
Less: allowance for uncollectibles	(721)	(391)	(1,162)	(21)	(11,660)	(13,955)
Total receivables, net	$ 19,589	$ 9,326	$ 12,100	$ 231	$ 40,749	$ 81,995

Special assessment receivables in the amount of $11,515,000 are not expected to be collected within the subsequent year.

C. Loans Receivable, Net of Allowances

The composition of the City's loans receivable balance for governmental funds, net of the allowance for uncollectible accounts, as of June 30, 2021 is as follows (in thousands):

Type of Loan	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Nonmajor Governmental Funds	Total Governmental Activities
Housing Program Developer, rehabilitation, second mortgage and relocation loans	$ -	$ 37,883	$ 462,883	$ -	$ 500,766
Loans funded by federal grants	-	81,851	-	4,206	86,057
Economic development, real estate developer and other loans	1,241	-	-	-	1,241
Less: allowance for uncollectibles	-	(57,687)	(249,144)	(1,786)	(308,617)
Total loans, net	$ 1,241	$ 62,047	$ 213,739	$ 2,420	$ 279,447

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

Typical loans and related terms are summarized as follows:

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

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

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

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

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

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

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and Low and Moderate Income Housing Asset Fund loans receivable as of June 30, 2021.

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, 2021. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2021, amounts committed to extend credit under normal lending agreements totaled approximately $19,452,000.

D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the year ended June 30, 2021 (in thousands):

	Balance July 1, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 503,456	$ 38,730	$ 2	$ -	$ 542,184
Construction in progress	137,607	52,475	-	(52,206)	137,876
Total capital assets, not being depreciated	641,063	91,205	2	(52,206)	680,060
Capital assets, being depreciated:					
Buildings	1,668,576	-	-	-	1,668,576
Improvements, other than buildings	285,795	391	-	29,763	315,949
Infrastructure	11,564,664	13,179	-	20,334	11,598,177
Vehicles and equipment	175,765	17,468	15,520	2,109	179,822
Furniture and fixtures	27,809	-	26,507	-	1,302
Total capital assets, being depreciated	13,722,609	31,038	42,027	52,206	13,763,826
Less accumulated depreciation for:					
Buildings	721,397	42,780	-	-	764,177
Improvements, other than buildings	71,254	9,672	-	-	80,926
Infrastructure	8,273,258	162,295	-	-	8,435,553
Vehicles and equipment	124,703	17,369	15,368	-	126,704
Furniture and fixtures	27,349	61	26,508	-	902
Total accumulated depreciation	9,217,961	232,177	41,876	-	9,408,262
Total capital assets, being depreciated, net	4,504,648	(201,139)	151	52,206	4,355,564
Governmental activities capital assets, net	$ 5,145,711	$ (109,934)	$ 153	$ -	$ 5,035,624
Business-type Activities:					
Capital assets, not being depreciated:					
Land	$ 137,938	$ -	$ -	$ -	$ 137,938
Intangible assets	12,882	-	-	-	12,882
Construction in progress	380,817	168,701	6,450	(56,198)	486,870
Total capital assets, not being depreciated	531,637	168,701	6,450	(56,198)	637,690
Capital assets, being depreciated:					
Buildings	1,725,383	(110)	42	48,892	1,774,123
Improvements, other than buildings	1,387,273	33,418	-	6,981	1,427,672
Vehicles and equipment	335,415	3,914	3,695	325	335,959
Total capital assets, being depreciated	3,448,071	37,222	3,737	56,198	3,537,754
Less accumulated depreciation for:					
Buildings	710,340	44,230	42	-	754,528
Improvements, other than buildings	706,410	33,947	-	-	740,357
Vehicles and equipment	209,672	11,400	3,669	-	217,403
Total accumulated depreciation	1,626,422	89,577	3,711	-	1,712,288
Total capital assets, being depreciated, net	1,821,649	(52,355)	26	56,198	1,825,466
Business-type activities capital assets, net	$ 2,353,286	$ 116,346	$ 6,476	$ -	$ 2,463,156

2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the year ended June 30, 2021 is as follows (in thousands):

Governmental activities:		
General government	$	10,751
Public safety		13,098
Capital maintenance		170,683
Community services		35,873
Capital assets held by City's internal service funds		1,772
Total depreciation expense - governmental activities	$	232,177
Business-type activities:		
Norman Y. Mineta San José International Airport	$	53,134
Wastewater Treatment System		31,758
Municipal Water System		2,990
Parking System		1,695
Total depreciation expense - business-type activities	$	89,577

3. Capitalized Interest

Interest costs that are related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested taxable and tax-exempt debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. However, the City decided to early implement GASB Statement No. 89 that was issued in June 2018 for the Wastewater Treatment System Fund only. This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported under business-type activities. The City has updated the Capitalized Interest policy to no longer capitalize interest for the Wastewater Treatment System Fund which had an immaterial impact to the financial statements. Application of Statement No. 89 is effective for the City’s fiscal year ending June 30, 2022, due to implementation of GASB Statement No. 95 and will be applied to all remaining funds.

4. Construction Commitments

Commitments outstanding as of June 30, 2021, related to governmental and business-type activities construction in progress totaled approximately $30,656,000 and $362,910,000, 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 2026. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund and the Nonmajor Governmental Funds under these operating lease agreements for the year ended June 30, 2021 amounted to approximately $2,073,900 and $67,500, respectively.

The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2021, are as follows (in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
2022	$ 2,101	$ 61	$ 2,162
2023	1,627	36	1,663
2024	1,347	36	1,383
2025	1,246	36	1,282
2026	1,246	36	1,282
Totals	$ 7,567	$ 205	$ 7,772

Business-Type Activities

There are no material leases as a lessee to disclose.

2. Operating Leases as Lessor

Governmental Activities

The City leases building, office facilities, and other equipment are under operating leases. Total revenues for such leases were $671,410 for the year ended June 30, 2021. The future minimum lease payments for these leases are as follows:

Year Ending June 30	Amount
2022	$ 555,068
2023	571,165
2024	587,729
2025	604,773
2026	1,065,862
Total	$ 3,384,597

__Business-Type Activities – Airport__

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

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

For the year ended June 30, 2021, the Airport's revenues as defined in the Airline Lease Agreement exceeded its expenditures and reserve requirements by $7.7 million. The net remaining revenues for the year ended June 30, 2021 was divided by allocating the first $4.0 million to the Airport then splitting the balance 40%/60% between the Airport and the Signatory Passenger Carriers, respectively, in accordance with the revenue sharing provisions of the Airline Lease Agreement.

Other Airport Leases. In December 2013, the City entered into a ground lease and operating agreement with Signature Flight Support Corporation ("Signature"), which constructed a full-service, fixed based facility on 29-acres of the Airport's west side ("Original Master Leasehold Parcel"). The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. On July 2, 2018, the City entered into the first amendment to the ground lease and operating agreement by adding a new parcel of land containing approximately 4 acres ("Additional Premises") bringing the total lease to approximately 33 acres. The base ground rental is subject to a consumer price index adjustment annually and by appraisal every five years. The Interim rent on the Additional Premises ended effective January 2, 2020 per the First Amendment. The annual base ground rental rate as of May 1, 2020 to June 30, 2021 is $2.49135 per square foot for the entire site. Rental revenues from the ground lease with Signature were $3,619,000 for the year ended June 30, 2021.

The Airport also enters into leases with concessionaires, cargo carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. As of June 30, 2021, the remaining terms of these operating leases range from one month to 17 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount ("MAG"). The City provided temporary financial relief to some concessionaires from April 1, 2020 to June 30, 2021 by suspending the MAG and charging only the applicable percentage fee of gross revenue.

Rental revenues from the aforementioned operating leases were $91,647,000 for the year ended June 30, 2021. Revenue from these operating leases is spread among the various cost centers depending on the location of the leased space.

The future minimum rentals to be received from the Airport operating leases, as of June 30, 2021, are as follows (in thousands):

Fiscal Year Ending June 30,	
2022	$ 77,088
2023	82,690
2024	81,588
2025	78,628
2026	78,530
2027-2031	249,545
2032-2036	61,332
2037-2041	34,857
2042-2046	28,431
2047-2051	31,390
2052-2056	34,658
2057-2061	38,266
2062-2066	20,426
Total minimum lease rentals	$ 897,429

These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. As of June 30, 2021, leased assets to tenants had total historical costs of $1,095,136,000 and accumulated depreciation of $336,968,000.

Pursuant to the terms of individual agreements entered into with the City, every Non-Signatory Airline, operator, tenant or any other entity or person, which is party to an agreement with the City authorizing them to conduct business at the Airport, is required to maintain a security deposit on file with the City. The deposit shall be in a form and amount acceptable to the Director of Aviation, often in the form of irrevocable LOC, 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 LOC or surety bond, which are not recorded in the financial statements. The amount on file as of June 30, 2021 totaled $20,182,000.

The City is currently analyzing the GASB Statement No. 87, *Leases* which will be implemented effectively for the City's fiscal year ending June 30, 2022. This statement requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases in Section E Leases.

F. Long-Term Debt and Other Obligations

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the City governmental activities as of June 30, 2021 (in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments ($ millions)	Balance June 30, 2021
Governmental Activities							
City of San Jose							
General Obligation Bonds:							
Series 2019A-1 (Disaster Preparedness, Public Safety, and Infrastructure)	Community Facilities	$ 140,360	07/25/2019	09/01/2049	5.00%	7.13-12.19	$ 140,360
Series 2019B (Disaster Preparedness, Public Safety, and Infrastructure)	Community Facilities	66,500	07/25/2019	09/01/2027	2.35-2.60%	3.47-22.83	66,500
Series 2019C (Libraries, Parks, Public Safety)	Community Facilities/Refunding	158,185	07/25/2019	09/01/2035	5.00%	2.14-22.12	158,185
Series 2019D (Libraries, Parks, Public Safety)	Refunding	103,935	07/25/2019	09/01/2024	2.30-2.35%	17.08-21.87	81,415
							446,460
City of San Jose Financing Authority							
Lease Revenue Bonds:							
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	4.60-4.70%	1.48-1.61	4,630
Series 2011A (Convention Center)	Convention Center	30,985	04/12/2011	05/01/2042	4.50-5.75%	0.76-2.17	27,345
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.94-1.91	24,775
Series 2020A (Civic Center Refunding)	Civic Center/Refunding	355,620	09/24/2020	06/01/2039	0.54-2.88%	16.49-22.55	337,080
Sereis 2020B (Ice Center Expansion)	Ice Center Expansion/Refunding	146,535	10/15/2020	06/01/2051	0.76-3.52%	2.82-7.76	146,535
							540,365
Special Assessment Bonds							
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.75-5.88%	1.82-2.04	5,785
Special Tax Bonds							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.70%	0.28-0.30	575
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	6.00%	0.78-0.87	2,475
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	5.13-5.25%	0.85-0.94	2,680
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	2.40-7.71	93,420
							104,935
Total Government Activities - Bonds Payable							**$ 1,091,760**

The following is a summary of long-term debt of the City for business-type activities as of June 30, 2021 (in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Range of Principal Payments ($ millions)	Balance June 30, 2021
Business-Type Activities							
Norman Y. Mineta San Jose International Airport							
Revenue Bonds:							
Series 2014A (AMT)	Refunding	$ 57,350	10/07/2014	03/01/2026	3.38-5.00%	0.14-9.18	18,240
Series 2014B (Non-AMT)	Refunding	28,010	10/07/2014	03/01/2028	3.10-5.00%	8.0-10.37	28,010
Series 2014C (Non-AMT)	Refunding	40,285	10/07/2014	03/01/2031	5.00%	7.30-8.90	40,285
Series 2017A (AMT)	Refunding	473,595	04/11/2017	03/01/2047	4.00-5.00%	4.0-35.14	405,350
Series 2017B (Non-AMT)	Refunding	150,675	04/11/2017	03/01/2047	4.00-5.00%	1.40-11.18	128,960
Series 2021A (AMT)	Refunding	85,860	04/07/2021	03/01/2034	4.00-5.00%	1.30-15.04	85,860
Series 2021B (Non-AMT)	Refunding	48,200	04/07/2021	03/01/2034	4.00-5.00%	0.27-10.22	48,200
Series 2021C (Taxable)	Refunding	294,020	04/07/2021	03/01/2041	0.24-3.29%	1.90-29.0	294,020
							1,048,925
City of San Jose Financing Authority - SJFA (Direct Borrowings)							
Regional Wastewater Facility Notes Payable	Public Infrastructure	$ 300,000	10/01/2017	Anytime	Variable	Variable	150,368
Total Business-Type Activity - Bonds and Notes Payable							**$ 1,199,293**

2. Summary of Default Provisions for Long-Term Debt

Governmental Activities – General Obligation Bonds

The City has four series of general obligation bonds outstanding as of June 30, 2021: Series 2019A-1 Bonds, Series 2019B Bonds, Series 2019C Bonds and Series 2019D Bonds (collectively, "General Obligation Bonds"). The City issued each series of General Obligation Bonds pursuant to a fiscal agent agreement with Wilmington Trust, National Association ("Fiscal Agent Agreement"). The events of default under the Fiscal Agent Agreement for the General Obligation Bonds are as follows: (i) failure to pay principal of, or redemption premiums on, any General Obligation Bond when due; and (ii) failure to pay interest on any General Obligation Bond when due.

The Fiscal Agent Agreement provides any bondholder with the following remedies upon the occurrence of an event of default: (a) the right, by mandamus, suit, action or proceeding, to compel the City and its members, officers, agents, or employees to perform each and every term, provision and covenant contained in the Fiscal Agent Agreement for the General Obligation Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it; (b) the right, by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the bond owners' rights.

Governmental Activities – City of San José Financing Authority Lease Revenue Bonds

The Financing Authority has five series of lease revenue bonds outstanding as of June 30, 2021: Series 2003A Bonds, Series 2011A Bonds, Series 2013B Bonds, Series 2020A Bonds, and Series 2020B Bonds (collectively, "Lease Revenue Bonds"). The principal and interest payments on the Series 2003A Bonds, are insured under a financial guaranty insurance policy ("Bond Insurance"). The Financing Authority issued each series of Lease Revenue Bonds pursuant to a trust agreement or an indenture of trust ("Trust Agreement") with a trustee bank ("Trustee").

Each series of Lease Revenue Bonds is structured with the City leasing a City facility to the Financing Authority and the Financing Authority leasing it back to the City pursuant to a lease ("City Lease"). The City's lease payments under each City Lease are the Financing Authority's source of payment of debt service on the applicable series of Lease Revenue Bonds. The facilities subject to the City Leases are: (i) the City's main service yard (Series 2003A Bonds); (ii) the first floor of the Convention Center expansion (Series 2011A Bonds); (iii) the City employees' parking garage (Series 2013B Bonds) (iv) City Hall (Series 2020A Bonds); and (v) the Ice Centre (Series 2020B Bonds).

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

Except for the Series 2011A Bonds, during the continuance of an event of default under the Trust Agreement, the Trustee may declare payment of the outstanding principal of the applicable series of Lease Revenue Bonds and accrued interest to be immediately due and payable. For the Series 2003A Bonds, such acceleration is subject to the direction or consent of the Bond Insurance provider. Each Trust Agreement provides for the application of funds upon an event of default or acceleration in the order of priority set forth in the respective Trust Agreement.

Generally, the events of default under the City Leases are: (i) failure to pay a lease payment under the City Lease when due; (ii) failure to comply with covenants and conditions of the City Lease and such default shall have continued for a specified period of days following the City's receipt of written notice of the occurrence of such default from the Financing Authority, provided that such period may be extended as specified in the City Lease; (iii) assignment or transfer of the City Lease without the satisfaction of the condition(s) precedent specified in the City Lease; (iv) bankruptcy or similar debtor relief proceedings; or (v) vacation or abandonment of the facility subject to the City Lease (with respect to all lease revenue bonds except the Series 2020A Bonds and the Series 2020B Bonds).

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

The outstanding Series 2003A Bonds were refunded in full with proceeds of the Financing Authority's Lease Revenue Bonds, Series 2021A (Fire Department Training Center and Central Service Yard Projects), on November 2, 2021. See Subsequent Events section for more information on the 2021A issuance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governmental Activities – Special Hotel Tax Revenue Bonds, Convention Center

The City issued its Special Hotel Tax Revenue Bonds, Series 2011 Convention Center ("Hotel Tax Bonds") to finance expansion to its convention center pursuant to provisions of State law, the San José Municipal Code and an indenture of trust agreement ("Indenture") with a banking institution as trustee ("Trustee"). The Hotel Tax Bonds are a limited obligation of the City. Under the Indenture, the City has the obligation to collect and remit the Special Tax revenues to the Trustee for the Trustee to deposit in various funds held by the Trustee in the order of priority specified in the Indenture, including a Revenue Fund. Under certain circumstances as specified in the Indenture, the City Manager has the obligation to request the City Council to appropriate certain transient occupancy tax revenues in the City's annual budget for the following fiscal year for deposit in the Revenue Fund; provided however, that the City Council is not obligated to appropriate such funds and failure to do so is not a default under the Indenture.

The City covenants in the Indenture to monitor the collection of the Special Taxes and to engage in certain collection actions, including instituting foreclosure proceedings of a hotel property that is delinquent in the payment of the Special Hotel Tax in accordance with foreclosure procedures under State law. The principal of the Hotel Tax Bonds is not subject to acceleration under the Indenture as a result of delinquent or unpaid Special Hotel Taxes.

Business-Type Activities – Clean Water Financing Authority Revenue Bonds

The Clean Water Financing Authority Revenue Bonds, Series 2009A were fully redeemed with a final debt service payment made on November 15, 2020.

3. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions including various reporting requirements for which non-compliance could adversely affect the cost of debt service on future financings.

4. *Legal Debt Limit and Margin*

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's FY 2020-21 tax roll was $213.9 billion, which results in a total debt limit of $32.1 billion. As of June 30, 2021, the City had $519,304,000 which includes premium of General Obligation bonds outstanding which represents approximately 1.6% of the General Obligation bonds' debt limit.

5. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service ("IRS") at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the City's tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, there was no rebate liability outstanding as of June 30, 2021.

On November 12, 2019, the SARA received a Form 5701-B, Notice of Proposed Issue, and Form 886- A, Explanation of Items, from the IRS asserting a rebate liability with respect to the 1999 Bonds as of December 21, 2017, in the amount of $274,240 (inclusive of interest and penalties through December 21, 2019). On July 16, 2020, SARA made payment to the IRS in the amount of $193,478 pursuant to a closing agreement with the IRS to close out the arbitrage rebate audit on the Series 1999. The amount paid included interest but no penalties. The IRS considers the matter closed with no change in the status of the 1999 Bonds.

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

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

As of June 30, 2021, the City has recorded approximately $11,515,000 of deferred inflows of resources and related special assessments receivables in the Special Assessment Districts Fund. These balances consist primarily of property tax assessments and/or special taxes to be collected in the future by the County of Santa Clara for future debt service of the special assessment districts and the community facilities districts.

The City issued Special Hotel Tax Revenue Bonds, Series 2011 (Convention Center Expansion and Renovation Project), which are secured by a first lien on the Convention Center Facilities District No. 2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT as defined in the bond documents) that is appropriated by City Council as part of the City's annual budget process to pay debt service. The Base Special Tax and Additional Special Tax (as defined in the bond documents) are property-based taxes levied on hotel properties within the Convention Center Financing District and remitted to the City on a monthly or quarterly basis in the same manner as the City's Transient Occupancy Tax. The amount of deferred inflows and related receivables noted above does not include special taxes associated with the Special Hotel Tax Revenue Bonds because these special taxes are calculated based on occupancy and a percentage of room rent and therefore the amount is undeterminable.

7. Conduit Debt

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with IRS requirements in order to meet the tax-exempt status, the owner is required to set aside a certain percentage of all units built for very low to moderate-income households. The bonds are payable solely from payments made on the related secured loans. These tax-exempt housing bonds have maturity dates that are due at various dates through August 1, 2059. As of June 30, 2021, the total principal amount outstanding of conduit multi-family housing revenue bonds is $798,201,000.

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

8. Summary of Changes in Long-term Obligations

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2021 are as follows (in thousands):

	July 1, 2020	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2021	Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	$ 468,980	$ -	$ (22,520)	$ 446,460	$ 24,010
Issuance premiums:					
For issuance premiums	77,004	-	(4,160)	72,844	-
Lease-purchase agreements	12,431	-	(12,431)	-	-
San Jose Financing Authority					
Direct Placements					
Series 2008E-1	5,590	-	(5,590)	-	-
Series 2008E-2	5,585	-	(5,585)	-	-
Lease revenue bonds	388,465	502,155	(350,255)	540,365	19,630
Issuance premiums/discounts:					
For issuance premiums	33,613	-	(32,734)	879	-
For issuance discounts	(493)	-	22	(471)	-
Special assessment and special tax bonds with					
Limited governmental commitment	110,700	-	(5,765)	104,935	6,080
Issuance discounts:					
For issuance discounts	(1,368)	-	64	(1,304)	-
Total long-term debt payable	1,100,507	502,155	(438,954)	1,163,708	49,720
Other Long-term obligations:					
Accrued vacation, sick leave and compensatory time	85,227	65,729	(62,839)	88,117	56,711
Accrued landfill postclosure costs	3,720	-	(465)	3,255	465
Estimated liability for self-insurance	125,630	33,778	(18,891)	140,517	19,159
Pollution remediation obligation	2,092	256	(350)	1,998	-
Total other long-term obligations	216,669	99,763	(82,545)	233,887	76,335
Governmental activities long-term obligations	$ 1,317,176	$ 601,918	$ (521,499)	$ 1,397,595	$ 126,055

General Obligation Bonds are issued pursuant to a two-thirds majority voter authorization. In 2000 and 2002, San José voters approved three ballot measures (Measures O and P in 2000 and Measure O in 2002) that authorized the total issuance of $598,820,000 of general obligation (“prior GO”) bonds for library, parks and public safety projects. On November 6, 2018, voters approved the Measure T ballot measure that authorized total issuance of $650,000,000 of general obligation (“GO”) bonds for the purpose of acquiring property for and constructing improvements in order to improve emergency and disaster response, repair deteriorating bridges vulnerable to earthquakes, repave streets and potholes in the worst condition, prevent flooding and water contamination including the acquisition of land in the Coyote Valley for these purposes, and repair critical infrastructure. The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources.

On July 25, 2019, the City issued $502,020,000 of General Obligation Bonds (“2019 GO Bonds”) that included new money bonds under three separate authorizations: (1) Measure T, approved by the voters on November 6, 2018 in the not-to-exceed amount of $650,000,000 (2) Measure O (approved by the voters on November 7, 2000 in the not-to-exceed amount of $211,790,000 for library projects); and (3) Measure O (approved by the voters on March 5, 2002 in the not-to-exceed amount of $159,000,000 for public safety projects). Of the 2019 GO Bonds issued, $239.9 million was issued under the Measure T authorization for acquisition of real property and infrastructure projects as provided under Measure T; $9.2 million issued under prior and remaining Measure O authorizations (2000 and 2002) for library and public safety projects; and $252.9 million in GO refunding bonds that refunded all of the prior general obligation bonds issued under Measure O (2000), Measure P (approved by the voters on November 7, 2000 in the not-to-exceed amount of $228,030,000) and Measure O (2002).

On July 29, 2021, the City issued $200,530,000 of General Obligation Bonds, Series 2021, the second round of issuances under Measure T authorization for Disaster Preparedness, Public Safety, and Infrastructure project and are more fully described under Subsequent Events.

As of June 30, 2021, the City had remaining authorization under Measure T in the amount of $410.1 million and no remaining authorization under Measure O (2000), Measure P (2000) or Measure O (2002). Following the sale of Series 2021 GO Bonds, $209,570,000 of Measure T authorization remained available.

City of San José
General Obligation Bonds
Issuance Amounts and Outstanding Balances as of July 31, 2021

			Measure T Issuance			
Issuance	**Final Maturity**	**Series 2019 (Refunding)**	**Series 2019 (New Money)**	**Series 2021 (New Money)**	**Measure T Total Issued**	**Outstanding Balance**
Series 2019A	9/1/2049		$173,400,000		$173,400,000	$140,360,000
Series 2019B	9/1/2027		66,500,000		66,500,000	66,500,000
Series 2019C (1)	9/1/2035	$158,185,000				158,185,000
Series 2019D	9/1/2024	103,935,000				81,415,000
Series 2021A	9/1/2051			$151,210,000	151,210,000	151,210,000
Series 2021B	9/1/2022			8,450,000	8,450,000	8,450,000
Series 2021C	9/1/2021			40,870,000	40,870,000	40,870,000
Total		**$262,120,000**	**$239,900,000**	**$200,530,000**	**$440,430,000**	**$646,990,000**
				Measure T Voter Authorization	$650,000,000	
				Authorized, not yet issued	*$209,570,000*	

(1) A portion of the 2019C Bonds funded remaining projects under Measure O (2000) in the amount of $5,905,000 and under Measure O (2002) in the amount of $3,325,000.

Lease Revenue/Revenue Bonds are issued by the Financing Authority primarily to finance various capital improvements, which are leased to the City and are secured by lease payments received by the Financing Authority from by the City. Such lease payments are payable by the City from all legally available funds of the City. The City allocates such lease payments to departments in the General Fund and Nonmajor Governmental Funds. The lease revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Described below are the two lease revenue bonds issued during FY 2021.

On September 24, 2020, the Financing Authority issued $355,620,000 of Taxable Lease Revenue Bonds, Series 2020A Bonds (Civic Center Refunding Project) ("Series 2020A Bonds"). The Series 2020A Bonds were issued to (i) refund on a current basis, all of the outstanding 2006A Bonds in the outstanding principal amount of $51.7 million and prepay the related lease payment obligations of the City; (ii) refinance on an advanced basis, all of the outstanding 2013A Bonds in the outstanding principal amount of $267.8 million and the related lease payment obligations of the City; (iii) refund on a current basis all of the outstanding 2007A Bonds in the outstanding principal amount of $8.2 million and prepay the related lease payment obligations of the City; (iv) prepay the City's rental obligations under the Master Equipment Lease/Purchase Agreement in the outstanding principal amount of $12.4 million occurred on December 1, 2020; (v) finance the acquisition and construction of public improvements benefitting the City, including the build-out of existing space within the 4th and San Fernando Garage for office space to be occupied by the San José Community Energy Department and other City operations in the principal amount of $4.8 million; and (vi) pay the costs of issuing the Series 2020A Bonds. The Series 2020A Bonds received ratings of "Aa2" by Moody's Investors Service, "AA" by S&P Global Ratings, and "AA" by Fitch. The refunding and prepayment of outstanding obligations produced net present value ("NPV") savings of approximately $47.0 million, or approximately 13.8% as a percent of the refunded obligations. The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debit in the refunding transaction) and the net carrying amount of the Refunded Obligations of $4.3 million. The difference is reported as deferred outflow of resources in the statement of net position.

On October 15, 2020, the Financing Authority issued $146,535,000 of Taxable Lease Revenue Bonds, Series 2020B Bonds (Ice Centre Project) ("Series 2020B Bonds"). The Series 2020B Bonds were issued to (i) refund 2008E-1 Bonds in the amount of $5,590,000 and 2008E-2 Bonds in the amount of $5,585,000 for a total amount of $11,175,000 and thereby replace bonds that bear interest at a variable rate with bonds that bear interest at a fixed rate; (ii) finance the acquisition and construction of two additional ice rinks and related facilities (the "Project") at the Solar4America Ice at San José (the "Ice Centre") in the amount of $120,000,000; (iii) fund a deposit to the debt service reserve account and capitalized interest account for the Series 2020B Bonds; and (iv) pay the issuing costs for the Series 2020B Bonds. The Project will add two additional ice rinks to meet increase in regional demand for ice time and public skating, provide an alternate home arena for the San José Barracuda, and add approximately 204,193 square feet of space to the existing Ice Centre facility. The Series 2020B Bonds received ratings of "Aa3" by Moody's Investors Service, "AA" by S&P Global Ratings, and "AA-" by Fitch. In conjunction with the transaction, the City executed the Second Amended and Restated Ice Centre Lease and Management Agreement and the Agreement for the Fourth Expansion of the Ice Centre of San José, both between the City of San José and Sharks Ice, LLC. The refunding produced a total savings of approximately $1.7 million.

Total principal and interest remaining on lease revenue bonds as of June 30, 2021 is approximately $742,295,000, with the final payment due on June 1, 2051.

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, 2021 is approximately $184,928,000, 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") in a principal amount not to exceed $30,000,000 with the Bank or one of its affiliates, collectively the "Lessor". The City's lease payment obligations under the Agreement were outstanding in the principal amount of $12,431,000 as of June

30, 2020, were prepaid on December 1, 2020 with proceeds of the Financing Authority's Series 2020A Bonds and are no longer outstanding.

Other Long-Term Obligation payments are primarily made from general revenues recorded in the General Fund.

Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2021 are as follows (in thousands):

	July 1, 2020	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2021	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San José International Airport:					
Revenue bonds	$ 1,127,690	$ 428,080	$ (506,845)	$ 1,048,925	$ 1,900
Issuance premiums/discounts:					
For issuance premiums	71,911	35,134	(9,098)	97,947	6,186
For issuance discounts	(4,817)	-	4,817	-	-
Clean Water Financing Authority:					
Revenue bonds	5,410	-	(5,410)	-	-
Issuance premiums:					
For issuance premiums	46	-	(46)	-	-
City of San Jose Financing Authority Subordinate Wastewater Revenue Notes:					
Direct Borrowings					
Notes payable	106,920	43,448	-	150,368	-
Total long-term debt payable	1,307,160	506,662	(516,582)	1,297,240	8,086
Other Long-term obligations:					
Accrued vacation, sick leave and compensatory time	7,932	6,218	(5,981)	8,169	6,786
Estimated liability for self-insurance	13,552	496	(8,939)	5,109	1,223
Pollution remediation obligation	33,058	-	(4,871)	28,187	2,000
Total other long-term obligations	54,542	6,714	(19,791)	41,465	10,009
Business-type activities long-term obligations	$ 1,361,702	$ 513,376	$ (536,373)	$ 1,338,705	$ 18,095

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

The net revenues available to pay Debt Service (as defined in the Master Trust Agreement) in year ended June 30, 2021 totaled $142,541,000, which is comprised of $101,441,000 of Net General Airport Revenues (as defined in the Master Trust Agreement) and $41,100,000 of Other Available Funds (as defined in the Master Trust Agreement). Other Available Funds include surplus carryover of $13,226,000, rolling debt service coverage of $16,732,000, and Customer Facility Charges (CFC) Revenues of $11,142,000. The bond Debt Service paid from the General Airport Revenues and Other Available Funds amounted to $78,379,000, which is net of $14,339,000 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 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 $1,759,691,000, with the final payment due on March 1, 2047.

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

On April 7, 2021, the City issued $428,080,000 of Airport Revenue Refunding Bonds (the “2021 ARBs”) to refund certain outstanding City of San José Airport Revenue Bonds and Airport Revenue Refunding Bonds, to make a deposit into a reserve account, and to pay the costs of issuing the 2021 ARBs.

The 2021 ARBs were issued under the MTA, as supplemented by a Twelfth Supplemental Trust Agreement, dated as of April 1, 2021, between the City and The Bank of New York Mellon Trust Company, N.A., as trustee, in three series of bonds: (i) $85,860,000 of the City of San José ARBs Series 2021A (AMT) (Series 2021A Bonds) with a premium of $21,546,000; (ii) $48,200,000 of the City of San José ARBs Series 2021B (Non-AMT) (Series 2021B Bonds) with a premium of $13,588,000; and (iii) $294,020,000 of the City of San José ARBs, Series 2021C Bonds (Taxable).

The Series 2021A Bonds refunded all of the outstanding City of San José Airport Revenue Bonds, Series 2011A-1 Bonds; the Series 2021B Bonds refunded all of the outstanding City of San José Airport Revenue Bonds, Series 2011A-2 Bonds; and the Series 2021C Bonds refunded all of the outstanding Series 2011B Bonds, and a portion of the outstanding City of San José ARBs Series 2014A (AMT) (the 2014A Bonds), City of San José ARBs Series 2017A (AMT) (the 2017A Bonds) and Series 2017B (Non- AMT) (the 2017B Bonds). The City applied a portion of the proceeds of the 2021C Bonds to defease the outstanding March 1, 2022 and March 1, 2023 maturities of each of the 2014A Bonds, 2017A Bonds, and 2017B Bonds. The refunding provided debt service savings to the City of approximately $48.3 million in FY 2022 and approximately $34.4 million in FY 2023, with total net present value savings of approximately $148.7 million or approximately 31.4% of the refunded bonds.

The scheduled payment of principal of and interest on certain maturities of the 2021 ARBs when due are guaranteed under municipal bond insurance policies that were issued concurrently with the delivery of the 2021 ARBs by Build America Mutual Assurance Company, including the 2034 maturity of the 2021A Bonds, the 2034 maturity of the 2021B Bonds and the 2038 maturity bearing interest at a rate of 3.04% per annum, the 2039 maturity bearing interest at a rate of 3.14% per annum, and the 2040 maturity bearing interest at a rate of 3.17% per annum of the 2021C Bonds (collectively, the Insured 2021 ARBs).

S&P assigned its municipal bond rating of “AA” to the Insured 2021 ARBs, and a rating on the 2021 ARBs (including an underlying rating on the Insured 2021 ARBs) of “A-“ (stable outlook). The 2021 ARBs were rated “A2” (stable outlook) by Moody’s and “A” (negative outlook) by Fitch.

The table below shows the par amount of prior Airport Revenue Bonds and Airport Revenue Refunding Bonds that were refunded by the 2021 ARBs:

Airport Revenue Bonds	Principal Outstanding	Principal Refunded	Principal Outstanding after Refunding
Series 2011A-1	$ 114,865,000	$ 114,865,000	$ -
Series 2011A-2	66,115,000	66,115,000	-
Series 2011B	252,895,000	252,895,000	-
Series 2014A	34,480,000	16,240,000	18,240,000
Series 2017A	423,200,000	17,850,000	405,350,000
Series 2017B	134,635,000	5,675,000	128,960,000
	$ 1,026,190,000	$ 473,640,000	$ 552,550,000

San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds were 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 Clean Water Financing Authority Revenue Bonds, Series 2009A were fully redeemed with a final debt service payment made on November 15, 2020.

City of San José Financing Authority Subordinate Wastewater Revenue Notes (Long-Term Direct Borrowings)

On October 19, 2017, pursuant to a Credit Agreement dated as of October 1, 2017 ("Credit Agreement") and amended on October 18, 2020 by and among the City, the Financing Authority, and Wells Fargo Bank, National Association (the "Bank"), the Financing Authority issued to the Bank (i) a subordinate tax-exempt wastewater revenue note in an amount not to exceed $300 million and (ii) a subordinate taxable wastewater revenue note in an amount not to exceed $300 million outstanding at any one time. The Credit Agreement effectively established an interim financing program under a three-year contract that enables the issuance of subordinate wastewater revenue notes that can be outstanding at any one time in an amount not to exceed $300 million to finance capital improvements at the RWF. Advances on the notes will be made on a regular basis to reimburse the City for capital costs incurred at the RWF. Upon issuance of the notes, $174,500 was advanced under the tax-exempt note to pay for transactional closing costs and total advances through FY 2021 were $150,368,000. It is anticipated that the amounts outstanding on the notes will be refinanced with long-term fixed rate obligations during FY 2022 and the additional Notes will be used when the capacity is made available.

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

The source of repayment of the Notes, including associated fee and interest costs, are installment payments made to the Financing Authority from pledged net system revenues received by the City related to the wastewater treatment system, pursuant to a Subordinate Installment Purchase

Contract, dated as of October 1, 2017, by and between the City and the Financing Authority, and City Resolution No. 78382 (the "Master Resolution"), which provides for the allocation and pledge of net system revenues to secure the payment of wastewater revenue obligations. Payments on the notes will be subordinate to payments on long-term bonds issued in the future.

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

In September 2020, City staff negotiated a Second Amendment to the Credit Agreement with the Bank that extended the Credit Agreement to October 18, 2023 (which was set to expire on October 18, 2020) to continue to provide for the borrowing of up to $300 million outstanding at any one time, as needed, to finance RWF CIP improvements. Fee increases in the agreement, reflected the disruption in the municipal credit market due to the pandemic, namely: an increase in the undrawn fee (from 0.25% to 0.35%); an increase in the tax-exempt drawn rate (from 80% of the 1-month LIBOR Index plus 0.39% to 80% of 1-month LIBOR Index plus 0.95%), with the LIBOR rate having a minimum (or floor) of 0.50%; an increase in the taxable drawn rate (from 100% of 1-month LIBOR plus 0.45% to 100% of 1-month LIBOR plus 1.10%). The revised Credit Agreement also contemplated the transition from the LIBOR index (which is expected to be phased out in December 2021 during the proposed three-year Credit Agreement extension term) to a new benchmark index as determined by the Bank and procedures for the Calculation Agent (the Bank) to institute the index to replace the LIBOR index. Other changes in the Second Amendment include: changes to various definitions, including to accommodate potential transition of the benchmark index from LIBOR to another index as the LIBOR index is proposed to be replaced and to establish a LIBOR Floor of 0.50%. Upon termination, the Second Amendment requires the Authority to repay unpaid balances within 30 days of the Termination Date or to request repayment to the Bank over a 3-year amortization period assuming there are no defaults or event of defaults and the representations and warranties of the City and the Authority remain true. If the Bank does not grant the request to repay the outstanding balance over a three year amortization period, then the unpaid balances must be repaid within 30 days. The City expects to refinance the balance with long-term debt before the expiration of the term or negotiate an extension or replacement of the facility.

The San José-Santa Clara Clean Water Financing Authority ("CWFA") 2009A Bonds matured on November 15, 2020, which resulted in the credit ratings to be withdrawn. Since the City did not secure a private rating from Moody's or S&P, the Commitment Fee and the Applicable Spread are now subject to an alternate pricing methodology, which is based on the debt service coverage ratio levels from the adjusted Net System Revenues.

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

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

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

July 1, 2020	Additions	Deletions	June 30, 2021	Interest Rate
$106,920	$43,448	$ -	$150,368	1.35%

9. Annual Requirements to Maturity

The annual requirements to amortize all bonds and leases outstanding as of June 30, 2021 are as follows (in thousands):

	Governmental Activities					
	City of San Jose General Obligation Bonds		City of San Jose Financing Authority Bonds [1]		Special Assessment & Tax Bonds with Limited Governmental Commitment	
Fiscal Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2022	$ 24,010	$ 18,164	$ 19,630	$ 13,965	$ 6,080	$ 6,412
2023	23,705	17,550	22,685	13,726	6,415	6,076
2024	23,375	16,947	23,025	13,441	6,440	5,722
2025	23,025	16,347	22,090	13,155	2,740	5,469
2026	22,830	15,768	22,650	12,851	2,890	5,318
2027 - 2031	110,090	67,646	119,765	57,750	17,240	23,810
2032 - 2036	87,050	42,839	135,305	42,273	23,385	17,669
2037 - 2041	41,435	27,568	106,190	21,041	32,035	9,015
2042 - 2046	45,575	17,260	32,710	9,807	7,710	501
2047 - 2050	45,365	4,675	36,315	3,920	-	-
Total	$ 446,460	$ 244,763	$ 540,365	$ 201,930	$ 104,935	$ 79,993

	Business-Type Activities	
	Airport Revenue Bonds [1]	
Fiscal Year Ending June 30,	Principal	Interest
2022	$ 1,900	$ 43,805
2023	2,225	45,257
2024	24,155	45,250
2025	27,225	44,184
2026	29,965	43,022
2027 - 2031	176,795	194,720
2032 - 2036	244,620	151,778
2037 - 2041	294,830	98,104
2042 - 2046	200,885	42,329
2047	46,325	2,316
Total	$ 1,048,925	$ 710,766

[1] Does not include commercial paper notes.

10. New Debt Issuances for Short-Term Debt Activities

Governmental Activities

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

The City's Commercial Paper ("CP") Program utilizes a lease revenue financing structure. Under this program, the Financing Authority is able to issue commercial paper notes ("CP Notes") on a tax-exempt and federally taxable basis at prevailing interest rates for a term not to exceed 270 days. As of June 30, 2021, the CP Notes are secured by a pledge of lease revenues from various City assets and as of June 30, 2021 were supported by two direct-pay letters of credit (collectively, "LOCs" and each an "LOC") provided by State Street Bank and Trust Company ("State Street") and U.S. Bank National Association ("U.S. Bank") (together, the "Banks") pursuant to Letter of Credit and Reimbursement Agreements by and among the Financing Authority, the City, and each Bank, as amended (together, the "Reimbursement Agreements"). See Subsequent Events section for more information on the increase to CP program, the termination of the LOC of State Street Bank at the

City's election, and the increase in the stated amount and extension of the stated expiration date of the LOC of U.S. Bank effective on September 23, 2021.

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

The CP 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 CP Notes in an amount not to exceed $98,000,000. Since 2004, the City Council and the Financing Authority have taken actions to modify the program, including increasing and decreasing the program's capacity and authorizing the issuance of taxable lease revenue CP Notes. As of June 30, 2021, the maximum principal amount of CP Notes authorized to be issued is $125 million. See Subsequent Events section for a discussion regarding the increase in the maximum principal amount of CP Notes authorized to be issued to $175 million effective on September 23, 2021.

The Financing Authority issues the CP Notes under State law pursuant to an Amended and Restated Trust Agreement, between the Financing Authority and Wells Fargo Bank, National Association, as trustee, as amended and supplemented from time to time (as so amended and supplemented, the "Trust Agreement") and a Second Amended and Restated Issuing and Paying Agent Agreement between the Financing Authority and Wells Fargo Bank, National Association, as paying agent ("Issuing and Paying Agent Agreement"). Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The City has leased to the Financing Authority various City-owned facilities pursuant to a Site Lease, as amended (the "Site Lease"). The Financing Authority subleased these same facilities back to the City pursuant to a Sublease, as amended (the "Sublease") in exchange for the rental payments, which support repayment of the CP Notes. The facilities subject to the Site Lease and Sublease are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, the South San José Police Substation, and the Tech Museum (the "Pledged Properties").

The annual commitment fee payable to each Bank was 0.42% per annum of the daily average Stated Amount of the Letter of Credit during FY 2021.

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

Interest on any Term Loan draws that are not reimbursed by the City one hundred eighty-one days after a Principal Advance or the Letter of Credit Expiration Date, whichever comes first (such date the "Term Loan Conversion Date") are payable at the Term Loan Rate from the date of such Term Loan Conversion Date, payable monthly in arrears on the first day of each calendar month and on the date on which the final installment of the principal of the Term Loan is payable. The principal amount of each Term Loan is amortized over such a three-year period; provided, however, that the unpaid amount of each Term Loan shall be paid by the City in each year only to the extent of the then fair rental value with respect to the Pledged Property subject to the Sublease for such Base Rental Period, and to the extent not so repaid, such Term Loan shall be paid by the City during each subsequent Base Rental Period, to the extent owed, to the extent of the then fair rental value with respect to the Pledged Property subject to the Sublease for each such Base Rental Period, and such

Term Loan shall continue to be an obligation of the City pursuant to the Sublease to be paid on or before the expiration of the three-year amortization period. Per the terms of the Reimbursement Agreements, the Banks have the right to require that the rent payable for any of the Pledged Properties be re-determined in order to increase the amount of the rent payable.

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

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

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

As of June 30, 2021, $2,474,000 of tax-exempt CP Notes was outstanding at an interest rate of 0.10% and $73,885,000 of taxable CP Notes was outstanding at an interest rate of 0.12%.

The remaining amount of principal available under both LOCs as of June 30, 2021 is $48,641,000. The changes in commercial paper notes during the year ended June 30, 2021 are as follows (in thousands):

July 1, 2020	Additions	Deletions	June 30, 2021
$72,526	$15,912	$12,079	$76,359

2020 Tax and Revenue Anticipation Notes

The City issued short-term notes (the “2020 Notes”) to facilitate the prefunding of employer retirement contributions in FY 2021. The City issued $130,000,000 in the form of two short-term notes for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. Bank of America, N.A. (“Bank of America”) and by U.S. Bank National Association (“U.S. Bank” and together with Bank of America, the “Banks”), each purchased a City Note in the amount of $65 million on July 1, 2020 for a total borrowing of $130 million. Security for repayment of the 2020 Notes was a pledge of the City’s FY 2020-21 secured property tax and all other legally available General Fund revenues of the City including sales tax revenues, if required. The 2020 Notes were fully repaid on May 3, 2021.

Business-Type Activities

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

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

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

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

On September 12, 2018, the City substituted the LOC supporting the Subordinated CP Notes initially issued by Barclays Bank PLC in February 2014 with a LOC issued by Bank of America, N.A (BofA) and the Barclays Reimbursement Agreement and associated fee letter and LOC were terminated. Pursuant to a LOC and Reimbursement Agreement between the City and BofA (BofA Reimbursement Agreement), BofA issued its irrevocable transferrable LOC (BofA LOC) in the initial stated amount of $81.7 million (to cover principal of $75.0 million and interest on the Subordinated CP Notes accruing calculated at a rate of 12% for 270 days based on a 365-day year) that as of June 30, 2021, was scheduled to expire on September 10, 2021 unless sooner terminated or extended pursuant to its terms. The $75.0 million principal amount of the LOC was secured to provide additional capacity for the issuance of the Subordinated CP Notes to finance proposed terminal area projects. The Interim Facility project with the extension of the six new gates at Terminal B was completed in November 2019. An extension to the BofA LOC and BofA Reimbursement Agreement was executed on August 19, 2021. See Subsequent Events section for more information on the extension of the Airport LOC.

In connection with BofA's issuance of its LOC in 2018, other agreements governing the Subordinated CP Notes were executed, including the First Amendment to the Third Amended and Restated Issuing and Paying Agent Agreement between the City and US Bank and the Fourth Amended and Restated Dealer Agreement between the City and each of the dealers of the Subordinated CP Notes, a fee letter between the City and BofA and a promissory note payable to BofA in the amount of $81.7 million under which the City promises to pay principal and interest on the unpaid principal amount of all Unreimbursed Drawings (as defined in the BofA Reimbursement Agreement) and Term Loans (as defined in the BofA Reimbursement Agreement) evidenced by the note on the dates and at the rates provided for in the BofA Reimbursement Agreement (Bank Note).

The ratings of the outstanding Airport Subordinated CP Notes, are "A-1", "P-1", and "F1+" by S&P, Moody's, and Fitch, respectively, based on the credit support provided by BofA pursuant to its LOC, as of June 30, 2021.

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

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

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

In connection with the LOC issued by Barclays and BofA, the City entered into a fee letter with each bank to specify the facility fee rate and other charges payable by the Airport with respect to the respective LOCs. The facility fee rate under each fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the associated LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the respective Reimbursement Agreements. The facility fee rate in effect under the LOC issued by BofA was 0.35% as of June 30, 2021.

The change in Subordinated CP Notes payable during FY 2021 was as shown in the table below. The principal amount available under the LOC issued by BofA as of June 30, 2021 is $75 million.

July 1, 2020	Additions	Deletions	June 30, 2021	Interest Rates
$51,930	$0	$0	$51,930	0.15%

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

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

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

On April 30, 2019, the City Council authorized the City Manager, the Director of Finance, the Assistant Director of Finance or their authorized designees to negotiate, execute and deliver the First Amendment to the Revolving Credit Agreement with the Bank to increase the sublimit for the Revolving Line of Credit Facility thereunder from an aggregate principal amount not to exceed

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

As of June 30, 2021, the remaining balances for the Revolving Line of Credit Facility and Standby Letter of Credit Facility were as follows:

Credit Facility	Available Credit Sublimit	Less: Drawdown of Line[1] or Letters of Credit Commitments[2]	Remaining Available Credit as of 6/30/2021
Revolving Line of Credit Facility	$ 30,000,000	$ -	$ 30,000,000
Standby Letter of Credit Facility	$ 65,000,000	$ (24,644,520)	$ 40,355,480
Subtotal	***$ 95,000,000***	***$ (24,644,520)***	***$ 70,355,480***
Less: Adjustment to Reflect Aggregate Credit Limit			*$ (15,000,000)*
Remaining Aggregate Credit as of 6/30/2021[3]			**$ 55,355,480**

[1]Drawdowns against the Line of Credit are cash draws that SJCE can use to cover operating expenses.

[2]Letters of Credit are issued by Barclays as a commitment to pay collateral calls in the event of an SJCE default. The commitment does not become a liability of SJCE unless and until a collateral call is paid by Barclays on behalf of SJCE, which has not yet occurred.

[3]Aggregate Principal Commitment for the Revolving Line of Credit Facility and Standby Letter of Credit Facility cannot exceed $80,000,000 at any one time.

On June 22, 2021, the City Council authorized the City Manager and the Director of Finance, or their authorized designees, to negotiate, execute and deliver a Second Amendment to the Revolving Credit Agreement with Barclays Bank PLC amending certain terms and provisions of the Revolving Credit Agreement in connection with the issuance of CP Notes secured by General Fund lease payments to finance the purchase of power and other operating costs of SJCE. The Second Amendment to the Revolving Credit Agreement was entered into on June 24, 2021.

Under the Credit Agreement, as amended by the First Amendment to the Revolving Credit Agreement and the Second Amendment to the Revolving Credit Agreement, the City agreed, among other things, that, so long as the Bank has any commitment thereunder or any amount payable thereunder remains unpaid from and including: (a) August 31, 2019, to but excluding November 15, 2019, to maintain not less than $10,000,000 in the Operating Reserve Account at all times during such period; (b) November 15, 2019, to but excluding June 24, 2021, to maintain not less than $15,000,000 in the Operating Reserve Account at all times during such period; and (c) from and after June 24, 2021, to maintain at all times $20,000,000 in the Operating Reserve Account (collectively, the "Operating Reserve Requirement"). The City has complied with the Operating Reserve Requirement. The City has maintained not less than $20,000,000 in the Operating Reserve commencing December 31, 2019.

In addition, the Credit Agreement, as amended, permits the City to make loans from any fund, including the General Fund, to SJCE, including from proceeds of CP issued by the Authority in an amount not to exceed $100 million (previously limited to $10 million solely for the payment of start-up costs of SJCE). The City acknowledges and agrees that any such loans are subordinated to the City's obligations to Barclays under the Credit Agreement, as amended. Loans from the Authority to SJCE are not permitted unless the City first delivers to Barclays evidence that the Authority has agreed that such loans are subordinate to the City's obligations to Barclays under the Credit Agreement.

The Credit Agreement, as amended, prohibits repayment of loans and other debt payable from Revenues or Net Revenues of SJCE to the City or the Authority, if any, unless, among other things,: (i) the amount held in the Operating Reserve Account, together with the unrestricted cash of SJCE, as of the last day for the month immediately preceding the date of such payment and as of the last day of the month for at least three of the four months immediately preceding such month, has been, and after such payment will remain, equal to or in excess of $50 million (inclusive of the $20 million required to be on deposit in the Operating Reserve Account); and (ii) the Debt Service Coverage Ratio is not less than 1.25 to 1.00 as of the last day of the fiscal quarter most recently ended.

Under the Credit Agreement, as amended, the City is required to maintain a Debt Service Coverage Ratio of not less than 1.25 to 1 as follows: (i) commencing on September 30, 2021, for the period of one fiscal quarter ending September 30, 2021; (ii) as of December 31, 2021, for the period of two consecutive fiscal quarters ending December 31, 2021; (iii) as of March 31, 2022, for the period of three consecutive fiscal quarters ending March 31, 2022; and (iv) as of the last day of each fiscal quarter thereafter for the period of four consecutive fiscal quarters ended on such day.

Events of default under the Credit Agreement include, among others: (i) default under any of the underlying Financing Documents (as defined in the Credit Agreement); (ii) non-payment; (iii) breach of various covenants; (iv) bankruptcy; (v) breach of representations and warranties; (vi) failure to maintain the required debt service coverage ratio; (vii) failure to maintain the required amounts in the Operating Reserve Account, as discussed above; (viii) the long-term, unenhanced ratings by any of Moody's, S&P, or Fitch on any general-obligation bonded indebtedness of the City is withdrawn or suspended (but excluding withdrawals or suspensions if the rating agency stipulates in writing that the rating action is being taken for non-credit related reasons) or reduced below "A1" (or its equivalent) by Moody's, "A+" (or its equivalent) by S&P, or "A+" (or its equivalent) by Fitch; (ix) the dissolution or termination of SJCE; (x) one or more final, unappealable judgments or orders for the payment of money in excess of certain threshold amounts (i.e., $2 million through December 30, 2019, and $5 million thereafter) where such judgment or order remains unsatisfied and unstayed for a period of 60 days and which is payable from revenues of SJCE; (xi) PG&E defaults in the performance of its agreement with the City for billing services related to charges for the cost of energy provided by SJCE; (xii) any event of default under any Other Credit Agreement (as defined in the Credit Agreement) secured by revenues of SJCE; (xiii) a Material Adverse Effect (as defined in the Credit Agreement) occurs with respect to SJCE or the City's ability to repay its obligations under the Credit Agreement; (xiv) failure to pay when due any principal of or interest on any Debt (as defined in the Credit Agreement) secured by revenues of SJCE; (xv) failure to pay when due any amount owing under any power purchase agreement, unless the City disputes payment in good faith; or (xvi) if Debt secured by revenues of SJCE has been accelerated or required to be prepaid prior to its maturity.

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

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

11. Landfill Postclosure Costs

The City has five closed landfills for which postclosure and monitoring services may be required for approximately a 30-year period, which began in fiscal year 1996, coinciding with the closure of the last landfill. An estimated liability of $3,255,000 related to the closed landfills is recorded in the government-wide statement of net position as of June 30, 2021. The City's Environmental Compliance group within the Environmental Services Department performs an annual evaluation of the 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.

12. Insurance

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees, unemployment claims, and employee health and dental insurance.

During FY 2021, 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, 2020 to October 1, 2021 is provided below:

City of San José
Summary of Citywide Property Insurance Coverage
(For Policy period October 1, 2020 – October 1, 2021)

	Limits Per Occurrence[1]	Deductible Per Occurrence[2]
Property[3]	$1,000,000,000	$100,000
Business Interruption	300,000,000	$100,000
Flood Locations – Low Hazard[4]	$100,000,000 Annual Aggregate	$100,000 per Location
Flood Zones (Other)[5][6]	$10,000,000 Annual Aggregate	$500,000 per Location

(1) Other sub-limits apply.
(2) Other deductibles apply.
(3) Covers "Certified Act of Terrorism" under the Terrorism Risk Insurance Act of 2002, as amended.
(4) Refers to Flood Locations – Low Hazard as defined in the City's insurance policy.
(5) The Airport and McEnery Convention Center are subject to a $10,000,000 per Location deductible for flood.
(6) The San José – Santa Clara Regional Wastewater Facility is subject to a $5,000,000 per Location deductible for flood.
Source: City of San José, Finance Department - Risk & Insurance Management.

The policy starting October 1, 2020, reduced per occurrence policy limits applicable to business interruption coverage from $1,000,000,000 to $300,000,000; reduced policy limits available for Communicable Disease Response and Interruption by Communicable Disease coverage from $1,000,000 to $10,000; and reduced policy limits available to cover the cost of replacement power at the San José-Santa Clara Regional Wastewater Facility should the cogeneration facility experience a covered property loss from $1,000,000,000 to $11,000,000. To mitigate the impact of reduction to the base flood coverage from $25,000,000 to $10,000,000 as of October 1, 2019, the City has obtained an excess policy for locations not in low hazard flood zones. The excess policy provides $15,000,000 in limits excess of the primary property policy on a 50/50 quota share basis, where the City and excess insurers share the financing of losses on a 50/50 basis.

For the policy period of October 1, 2020 to October 1, 2021, the City maintained an Airport General Liability policy covering the Airport including Control Tower Operators, which provides a $200,000,000 combined single limit for bodily injury and property damage subject to a deductible of $0 each occurrence and annual aggregate, with a sublimit of $50,000,000 each occurrence and in the annual aggregate for personal injury, and a limit of $200,000,000 each occurrence and in the annual aggregate with respect to war liability. The policy incepting on October 1, 2020, reduced the coverage for garagekeepers liability from $200,000,000 to $5,000,000 each person and in the aggregate. During the past five fiscal years, there have not been any instances that the amount of claim settlements exceeded the insurance coverage.

In addition, the Airport Liability policy also provides excess auto liability coverage with a limit of $5,000,000 in excess of the underlying auto liability limit of $1,000,000, which is provided by a separate automobile policy issued to provide coverage for the off-premise operations of scheduled Airport vehicles including shuttle bus fleets with a limit of $1,000,000 per occurrence, combined single limit for bodily injury and property damage and subject to a $250,000 per accident retention. Physical damage coverage is obtained for the Airport Shuttle Bus Fleet and is subject to a $10,000 comprehensive and $10,000 collision deductible. Settled claims have not exceeded the City's commercial insurance coverage in any of the past five fiscal years.

For the policy period of October 1, 2020, to October 1, 2021, the City maintained an automobile liability policy covering scheduled vehicles at the San José – Santa Clara Regional Wastewater Facility with a limit of $1,000,000 per occurrence, combined single limit for bodily injury and property damage and subject to a $250,000 per accident retention.

For the policy period of October 1, 2020 to October 1, 2021, the City maintained an aircraft policy covering physical damage to City aircraft used by the San José Police Department's Air Support Unit as well as liability coverage for bodily injury and property damage arising from the use of covered aircraft. The aircraft policy provides up to $50,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage caused by war and other perils and is subject to a deductible of $0 per occurrence. For the policy period of June 17, 2020, to June 17, 2021, the City maintained a separate aircraft policy to include liability and physical damage coverage for the unmanned aerial systems (UAS) programs in place at the San José Police Department and San José Fire Department ("Drone Coverage"). The Drone Coverage provides up to $2,000,000 in aggregate liability coverage for bodily injury, personal injury, or property damage.

For the policy period of October 1, 2020 to October 1, 2021, the City maintained a law enforcement liability policy that provides coverage for third party bodily injury, property damage, or personal injury arising from the law enforcement activities conducted on behalf of approved third party employers by City police officers who have been approved to participate in the Secondary Employment program. The law enforcement liability policy provides $2,000,000 in aggregate limits and is subject to a $100,000 per occurrence deductible.

The City also maintained fiduciary liability insurance policies covering the City's defined contribution employee benefit plans: the Deferred Compensation Plans, the Voluntary Employees' Beneficiary Association ("VEBA") Plans; and the Defined Contribution 401(a) Plan. The policies protect the City and the members of the applicable governing board from legal liability arising from fiduciary obligations to plan beneficiaries. For the policy period from June 30, 2020, to June 30, 2021, the City purchased a fiduciary liability policy covering the Deferred Compensation Plans that provided $5,000,000 in aggregate limits subject to a $25,000 per claim retention except for a $100,000 per claim retention for Class Action Claims as defined in the policy. For the policy period from June 30, 2020, to June 30, 2021, the City purchased a fiduciary liability policy covering the VEBA Plans that provided $5,000,000 in aggregate limits subject to a $25,000 per claim retention. For the policy period from June 30, 2020, to June 20, 2021, the City purchased a fiduciary liability policy covering the Defined Contribution 401(a) Plan that provided $1,000,000 in aggregate limits subject to a $250,000 per claim retention.

For the policy period of October 22, 2020 to October 22, 2021, the City purchased liability insurance covering cyber risks to complement the City's cybersecurity efforts. For the policy period of October 1, 2020 to October 1, 2021, the City purchased government fidelity/crime coverage for City losses arising from employee dishonesty. 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 are subject to a $100,000 per occurrence deductible.

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 approximately 1.5% for the amounts recorded.

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2021. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City is self-insured and has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated.

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

Liability as of June 30, 2019	$ 140,884
Claims and changes in estimates during 2020	18,824
Claims payments	(20,526)
Liability as of June 30, 2020	139,182
Claims and changes in estimates during 2021	34,274
Claims payments and other adjustments	(27,830)
Liability as of June 30, 2021	$ 145,626

Owner Controlled Insurance Programs - On March 15, 2007, the City bound certain liability insurance coverage for the major components of the Airport's Terminal Airport Improvement Project through an owner-controlled insurance program ("TAIP OCIP") with National Union Fire Insurance Company of Pittsburgh, PA ("AIG"), formerly known as Chartis Insurance. The OCIP is a single insurance program that provides commercial general liability, excess liability and worker's compensation insurance coverage for construction job site risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

The coverage for this program is as follows:

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

The liability under the TAIP OCIP is based upon an estimated payroll of $92,500,000 for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP required the City to fund a claims loss reserve fund with AIG in the amount of $8,900,000. The claims loss reserve fund is available to AIG to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of $8,900,000. The City 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 AIG in FY 2009 and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. Since August 2013, as part of the annual loss reserve analysis by AIG, a total amount of $2,889,000 has been returned to the Airport as of June 30, 2021. The balance of the TAIP reserve fund as of June 30, 2021 was approximately $1,180,000.

The City was obligated to maintain the TAIP OCIP through final acceptance of the TAIP, pursuant to the terms of its design-build contract with Hensel Phelps. The TAIP Project has been completed and the policies expired on June 30, 2011. AIG will continue to hold the remaining funds in the claims loss reserve until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

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

	RWF Capital Improvement Projects	
Coverages	**Limits**	**Deductible Per Occurrence**
General Liability	$2 million per occurrence/ $4 million aggregate	$250,000
Workers' Compensation	Statutory	$250,000
Employers' Liability	$1 million per accident	$250,000
Excess Liability	$100 million	None

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

13. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including Las Plumas Warehouse and San José Fire Training Facility. In June 2021, the fuel leak at the former San José Family Shelter was resolved and there are no longer any liabilities. 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, 2021, the government-wide statement of net position reported a net pollution remediation obligation in the amount of $1,998,500 in governmental activities.

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

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

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

The City received approval from the Water Board to consolidate the biosolids in smaller footprint (about 25-acres) and cap with clean soil. The City has decided to do the work in two phases. Phase 1 was completed in late 2020 at cost of about $6.2 million. The remaining biosolids will be placed in the consolidated area in a second phase implemented over several years at a schedule yet to be determined. The estimated cost for the Phase 2 removal is currently $28.2 million.

For any City related real estate transaction, the City's Environmental Services Department performs an internal Phase 1 assessment to evaluate potential environmental risk and liability. If an environmental condition is discovered in Phase 1, then a Phase 2 is typically performed by the City or by a consultant retained by the City. Once the environmental investigations are completed, the City evaluates whether the property is suitable for purchase without further investigation or if the property is contaminated and needs to be remediated. If the City decides to purchase a contaminated property, the cost of remediation is deducted from the purchase price or the remediation is performed by the owner to the City's satisfaction prior to purchase. In special cases, such as the San José Family Shelter, a reimbursement program was transferred to the City to pay for the cleanup so the City did not take in additional financial liability. With respect to environmental insurance, the City is self-insured in this area and has not obtained additional insurance with respect to environmental issues.

G. Interfund Transactions

The composition of interfund balances as of June 30, 2021, with explanations of transactions, is as follows (in thousands):

1. Due from/Due to other funds

Receivable Fund	Payable Fund		Amount	
General Fund	Nonmajor Governmental Funds	$	2,932	(1)
General Fund	San Jose Financing Authority Debt Service		513	(2)
Nonmajor Governmental Funds	Nonmajor Governmental Funds		2,825	(3)
San Jose Financing Authority Debt Service	San Jose Clean Energy		15,000	(4)
		$	21,270	

(1) $1,531 represents accrual of gas tax transfers, $694 represents accrual of construction and conveyance tax transfer, and $707 represents short-term borrowing for working capital.
(2) Represents loan interest for the Rancho Del Pueblo golf course.
(3) Represents short-term borrowing for working capital.
(4) Represents loan for commercial paper issuance.

2. Advances to/Advances from other funds

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

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

3. Long-term Advances from SARA

The City has a payable and SARA has a receivable related to an Agency advance of a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has a long-term receivable in the amount of $733,000 due from the City as of June 30, 2021.

4. 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, 2021 with explanations of transactions (in thousands):

Between governmental and business-type activities:

Transfer from	Transfer to	Amount	
Norman Y. Mineta San José International Airport	General Fund	$ 66	(1)
Wastewater Treatment System	Nonmajor Governmental Funds	1,836	(2)
	General Fund	151	(3)
Municipal Water System	General Fund	347	(4)
	Nonmajor Governmental Funds	165	(5)
Parking System	General Fund	730	(6)
	Nonmajor Governmental Funds	184	(7)
San José Clean Energy	General Fund	7	(8)
	Nonmajor Governmental Funds	206	(9)
	San José Financing Authority	33	(9)
General Fund	Norman Y. Mineta San José International Airport	463	(10)

(1) Transfer of overpaid interest allocation back to General Fund.
(2) Transfer for City Hall debt service payments.
(3) Transfer of overpaid interest allocation back to General Fund.
(4) Transfer of overpaid interest allocation back to General Fund and late fee collections from water utility customers.
(5) Transfer for City Hall debt service payments.
(6) Transfer of $218 for San José Downtown Association, $497 for strategic support, and $15 for interest income due to General Fund.
(7) Transfer of $107 for City Hall debt service payments and $77 for strategic support.
(8) Transfer of overpaid interest allocation back to General Fund.
(9) Transfer for City Hall debt service payments.
(10) Transfer for local sales taxes for jet fuel.

Between governmental activities:

Transfer from	Transfer to	Amount	
General Fund	Nonmajor Governmental Funds	$ 76,677	(1)
	Internal Service Funds	1,390	(2)
	San José Financing Authority	544	(3)
Housing Activities	General Fund	33	(4)
	Nonmajor Governmental Funds	29	(5)
Low & Moderate Income Housing Asset	General Fund	54	(6)
	Nonmajor Governmental Funds	355	(7)
Special Assessment Districts	General Fund	123	(8)
	San José Financing Authority	2,499	(9)
Nonmajor Governmental Funds	General Fund	13,762	(10)
	Nonmajor Governmental Funds	9,398	(11)
	San José Financing Authority	29,602	(12)
Internal Service Funds	General Fund	1,044	(13)
	Nonmajor Governmental Funds	151	(14)
San José Financing Authority	General Fund	50	(15)
	Nonmajor Governmental Funds	912	(16)
		$ 136,623	

(1) Transfer of $16,850 for debt service payments and $59,827 for operations and subsidies.
(2) Transfer to fund vehicle and fleet replacement purchases.
(3) Transfer for City Hall debt service payments.
(4) Transfer of overpaid interest allocation back to General Fund.
(5) Transfer for City Hall debt service payments.
(6) Transfer of overpaid interest allocation back to General Fund.
(7) Transfer for City Hall debt service payments.
(8) Transfer for administrative expenses.
(9) Transfer for interest, principal and fees for the Series 2011 Convention Center bonds payments.
(10) Various transfers for operations, interest earnings, and capital projects.
(11) Transfer of $4,727 for City Hall debt service payments and $4,672 for operations, capital projects, and project savings.
(12) Transfer for fee disbursements and debt service payments.
(13) Transfer of overpaid interest allocation back to General Fund.
(14) Transfer for City Hall debt service payments.
(15) Transfer of overpaid interest allocation back to General Fund.
(16) Transfer for commercial paper issuance

H. Deferred Inflows of Resources

As of June 30, 2021, total deferred inflows of resources in the governmental funds related to the following unavailable resources (in thousands):

Description		
General Fund receivables	$	6,644
Housing Activities includes $15.975 million of loans receivable and $7.296 million of deferred grant revenue		23,271
Low and Moderate Income Housing Asset loans receivable		4,805
Special Assessments receivables		11,515
Community Development Block Grant (CDBG) includes $2.36 million of deferred grant revenue and $1.3 million of deferred interest revenue		3,660
Total deferred inflows of resources	$	49,895

I. Governmental Fund Balances

As of June 30, 2021, total fund balances for the City's major and nonmajor governmental funds are as follows (in thousands):

	General Fund	Housing Activities	Low & Moderate Income Housing Asset	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Advances & Deposits	$ 104	$ -	$ -	$ -	$ -	$ 4	$ 108
Subtotal	104	-	-	-	-	4	108
Restricted for:							
Affordable Housing	-	144,691	437,801	-	-	-	582,492
Capital Projects & Improvements	-	-	-	41,205	-	477,932	519,137
Emplyoment/ Training Services	-	-	-	-	-	1,285	1,285
Drug Abuse Prevention & Control	300	-	-	-	-	565	865
Community Development Services	-	-	-	-	-	1,905	1,905
Library Services & Facilities	-	-	-	-	-	6,749	6,749
Small Business Loans	-	-	-	-	-	7	7
Parks, Recreation, & Neighborhood Development	7	-	-	-	-	90,554	90,561
Underground Utility Projects	-	-	-	-	-	9,922	9,922
Storm Drainage Projects	-	-	-	-	-	43,957	43,957
Supplemental Law Enforcement Services	-	-	-	-	-	176	176
Convention Center, Auditorium, Theaters	-	-	-	-	-	137	137
Debt Service	-	-	-	-	-	42,069	42,069
Subtotal	307	144,691	437,801	41,205	-	675,258	1,299,262
Committed to:							
Capital Projects and Improvements	27,838	-	-	-	-	1,812	29,650
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	3,696	3,696
Development Enhancement	-	-	-	-	-	489	489
Convention Center, Auditorium, Theaters	-	-	-	-	-	3,315	3,315
Employee Compensation Planning	5,337	-	-	-	-	-	5,337
Development Fee Program Technology	235	-	-	-	-	-	235
Residential Program Administration	-	-	-	-	-	2,741	2,741
Government Functions/Services	15,342	-	-	-	-	-	15,342
Police Department Staffing	7,000	-	-	-	-	-	7,000
Public Safety	6,276	-	-	-	-	-	6,276
Community Development Services	7,256	-	-	-	-	58,400	65,656
Salaries & Benefits	4,000	-	-	-	-	-	4,000
Sanitation Projects	296	-	-	-	-	23,264	23,560
Debt Service	-	-	-	-	-	4	4
Subtotal	73,580	-	-	-	-	93,721	167,301
Assigned to:							
Financing Authority Debt Service	3,297	-	-	-	-	-	3,297
Development Enhancement	-	-	-	-	-	20	20
Community & Culture Projects	-	-	-	-	-	4,261	4,261
Hayes Mansion and Ice Center Operations	-	-	-	-	-	188	188
Capital Projects & Improvements	-	-	-	-	-	94,599	94,599
Government Functions/Services	328,013	-	-	-	-	-	328,013
Subtotal	331,310	-	-	-	-	99,068	430,378
Unassigned	8,041	-	-	-	(44,375)	(20)	(36,354)
Total Fund Balance	**$ 413,342**	**$ 144,691**	**$ 437,801**	**$ 41,205**	**$ (44,375)**	**$ 868,031**	**$ 1,860,695**

City Reserves Policy. The City Council-approved Operating Budget and Capital Improvement Program Policy (Policy Number 1-18) incorporates direction on contingency funding, including general purpose reserves, the Cash Reserve Fund and the Emergency Reserve Fund. Within the General Fund, general purpose reserves are to be set aside as a safety net for general city operations. Currently, the General Fund Contingency Reserve, the General Fund Budget Stabilization Reserve, and the General Fund Workers' Compensation/General Liability Catastrophic Reserve are available for general purposes. Each of these reserves is described below. With the exception of the General Fund Contingency Reserve Fund, use of these reserves requires a majority vote of the City Council.

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

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

The ***General Fund Contingency Reserve Fund*** was created to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. The policy established a minimum of three percent of the General Fund operating budget as the reserve balance. Any use of the General Fund Contingency Reserve shall require a two-thirds vote of approval by the City Council. As of June 30, 2021, the contingency amount accounts for $40,000,000 of the unassigned fund balance.

The ***General Fund Budget Stabilization Reserve*** may be maintained at a level as determined by the City Council to be adequate. The purpose of this reserve is to provide budget stability when there are fluctuations that result in lower than projected revenues and/or higher than projected expenditures that cannot be re-balanced within existing budget resources in any given year. This reserve is intended to provide a buffer, or bridge funding, to protect against reducing service levels when these fluctuations occur. As of June 30, 2021, the budget stabilization reserve accounts for $33,563,000 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, 2021, 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, 2021, 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, 2021, the emergency reserve amount accounts for $413,000 of the unassigned fund balance.

IV. Other Information

A. Defined Benefit Retirement Plans

A. 1. City Sponsored Defined Benefit Pension Plans

1. General Information about the Pension Plans

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

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

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

Benefits

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

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

FCERS Membership Tiers

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Tier 1	• On or before September 29, 2012 • Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental(2)(4)
Tier 1 Rehire	• Former Tier 1 rehired on or after September 30, 2012 through June 17, 2017	Tier 1(1)	Medical/Dental(2)(4)(5)
Tier 1 Classic	• "Classic" membership with California Public Employees' Retirement System ("CalPERS")/reciprocal agency hired on or after September 30, 2012, but before September 27, 2013	Tier 1(6)	Medical/Dental
	• "Classic" membership with CalPERS/reciprocal agency hired on or after September 27, 2013	Tier 1(6)	Not Eligible(3)(4)
Tier 2 (or Tier 2A)	• Hired/rehired/reinstated on or after September 30, 2012, but before September 27, 2013	Tier 2	Medical/Dental(2)(4)
Tier 2B	• Hired/rehired/reinstated after September 27, 2013 and have not met City's eligibility for retiree healthcare	Tier 2	Not Eligible(3)(4)

(1) Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

(2) Employees in these tiers were provided a one-time irrevocable election to remain in the Federated Healthcare Plan or opt into the Federated VEBA. Employees that opted into the Federated VEBA are not eligible for Federated Healthcare Plan. The Federated VEBA was implemented on March 25, 2018.

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

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

(5) All Tier 1 rehires formerly in Tier 2B and Tier 2C who opted to remain in the Federated Healthcare Plan began contributing to the Federated Healthcare Plan on March 25, 2018.

(6) Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.

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

PFDRP Membership Tiers

Tier	Hire Date	Pension	Defined Benefit Retiree Healthcare (Medical/Dental)
Police Tier 1	• Before August 4, 2013 • Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental[(2)(4)]
Police Tier 1 Rehire	• Tier 1 employee rehired between August 4, 2013 through June 17, 2017	Tier 1[(1)]	Medical/Dental[(2)(4)]
Fire Tier 1	• Before January 2, 2015 • Former Tier 1 rehired on or after June 18, 2017 who did not take a return of contributions	Tier 1	Medical/Dental[(2)(4)]
Fire Tier 1 Rehire	• Tier 1 employee rehired between January 2, 2015 through June 17, 2017	Tier 1[(1)]	Medical/Dental[(2)(4)]
Tier 1 Classic	• "Classic" membership with CalPERS/reciprocal agency hired on or after August 4, 2013 for Police and January 2, 2015 for Fire	Tier 1[(5)]	Not Eligible
Police Tier 2	• On or after August 4, 2013	Tier 2	Not Eligible[(3)(4)]
Fire Tier 2	• On or after January 2, 2015	Tier 2	Not Eligible[(3)(4)]

(1) Employees in these tiers are responsible for 50% of the amortization costs for having any prior years of service in Tier 2 changed to Tier 1.

(2) Employees in these Tiers were provided a one-time irrevocable election to remain in the Police and Fire Healthcare Plan or opt into the Police and Fire VEBA. Employees that opted into the Police and Fire VEBA are not eligible for the Police and Fire Healthcare Plan. The Police and Fire VEBA was implemented on March 25, 2018.

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

(4) Unrepresented employees were eligible to opt into a Police and Fire VEBA but are not eligible to make ongoing contributions to the Police and Fire VEBA.

(5) Employees in these tiers are responsible for 50% of the amortization costs for any prior years of service in Tier 2 changed to Tier 1 for all employees in the "Classic" tier regardless of start date.

The following tables summarize the pension benefits for the members:

	PFDRP		
	Police Tier 1 (1)	**Police Tier 1 Classic (2)**	**Police Tier 2 (3)**
Pension			
Service required to leave contributions in retirement plan	10 years of service (20 years must have elapsed from date of entry into Retirement System to collect pension)	10 years of service	5 years service with the City in the Police and Fire Department Plan (Years of Service = 2080 hours worked within applicable 12-month period)
Service Retirement			
Age/Years of Service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Plan 50 with 5 years of service with the City in the Plan (A reduction factor of 7.0% per year for each year between age 57 and Tier 2 member's age at retirement, prorated to the closest month)
Early Retirement	50-54 with 20 years of service (Discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (Discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred Vested Retirement	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with least 25 years of service.)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with at least 25 years of service.)	At least 5 years of service with the City in the Plan (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7.0% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month.
Allowance	First 20 years of City service: 50% of Final Compensation (2.5% per year) Next 21-30 years City service: 4% per year of service x Final Compensation (90% max)	First 20 years of City service: 50% of Final Compensation (2.5% per year) Next 21-30 years City service: 4% per year of service x Final Compensation (90% max)	First 20 years of service: 2.4% per year of service x Final Compensation Beginning of 21st year of service: 3.0% per year of service x Final Compensation Beginning of 26th year of service: 3.4% per year of service x Final Compensation Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service (SJMC 3.36.020.05) Maximum benefit is 80% of Final Compensation

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

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

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

	PFDRP (Continued)		
	Police Tier 1 [(1)]	Police Tier 1 Classic [(2)]	Police Tier 2 [(3)]
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between CalPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between CalPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between CalPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement.
Cost-of-Living Adjustments			
Cost-of-Living Adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per fiscal year. The first COLA will be prorated based on the number of months retired.

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

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

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

	PFDRP		
	Fire Tier 1 [(1)]	**Fire Tier 1 Classic[(2)]**	**Fire Tier 2 [(3)]**
Pension			
Service required to leave contributions in retirement system	10 years of service (20 years must have elapsed from date of entry into Retirement System to collect pension)	10 years of service	5 years of service with the City in the Retirement System (Year of Service = 2080 hours worked in the applicable 12-month period)
Service Retirement			
Age/Years of Service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	57 with 5 years of service with the City in the Retirement System 50 with 5 years of service with the City in the Retirement System A reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month
Early Retirement	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	50-54 with 20 years of service (discounted pension) Allowance reduced pursuant to Municipal Code Section 3.36.810	N/A
Deferred Vested Retirement	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	At least 5 years of service with the City in the Retirement System. (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 50 with reduction factor of 7% per year for each year between age 57 and the Tier 2 member's age at retirement, prorated to the closest month
Allowance	First 20 years of service: 50% of Final Compensation (2.5% per year) >20 years of service - all years convert to 3% for each full year x Final Compensation (90% max)	First 20 years of service: 50% of Final Compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service x Final Compensation (90% max) – All years convert to 3% after 20 years of service	First 20 years of service: 2.4% per year of service x Final Compensation Beginning of 21st year of service: 3.0% per year of service x Final Compensation Beginning of 26th year of service: 3.4% per year of service x Final Compensation Final Compensation is the average annual base pay plus any premium pays authorized by ordinance for the highest 3 consecutive years of service (SJMC 3.36.020.05) Maximum benefit is 80% of Final Compensation

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

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

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

	PFDRP (Continued)		
	Fire Tier 1 [1]	Fire Tier 1 Classic[2]	Fire Tier 2 [3]
Reciprocity			
Reciprocity	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between CalPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between CalPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement	As of September 30, 1994, the City of San José adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between CalPERS and this retirement plan. Final eligibility for reciprocity is determined at the time of retirement
Cost-of-Living Adjustments			
Cost-of-Living Adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), capped at 2.0% per year. The first COLA will be prorated based on the number of months retired.

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

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

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

	FCERS			
	Tier 1 (1)	Tier 1 Classic (2)	Tier 2A (3)	Tier 2B (4)
Pension				
Service required to leave contributions in retirement system	5 years		5 years Federated City Service (Year of Service = 2080 hours worked in the applicable 12-month period)	
Service Retirement:				
Age/Years of Service	55 with 5 years service 30 years service at any age		62 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age fifty-five (55) and the Tier 2 member's age at retirement before age 62, prorated to the closest month	
Deferred Vested retirement	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)		May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction factor of 5% per year for each year between age 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) Final Compensation is the highest average monthly earnable pensionable salary during 12 consecutive months, capped at 108% of the second highest 12 comsecutive months. If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months		2.0% x Years of Federated City Service x Final Compensation (70.0% max) Final Compensation is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service Excludes premium pay or any other forms of additional compensation	
Disability Retirement (Service Connected)				
Minimum Service	None		None	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation (Minimum of 40% and maximum of 70% of Final Compensation)	

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

(2) Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San José, on or after June 18, 2017. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San José after a break in service of less than six months 3. AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan/employees.

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

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

	FCERS (Continued)			
	Tier 1 (1)	Tier 1 Classic (2)	Tier 2A (3)	Tier 2B (4)
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years		5 years	
Allowance	20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of services. (Maximum 75% of Final Compensation) For those who entered the Retirement System on 8/31/98 or before, the calculation is as follows: 40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55		2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70.0% of Final Compensation)	
Reciprocity				
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Please call the Retirement Department or CalPERS for more information. Final eligibility for reciprocity is determined at the time of retirement.			
Cost-of-Living Adjustments (COLA)				
Cost-of-Living adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular 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 José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back loaded 2.0% COLA per fiscal year. The back loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year The first COLA will be prorated based on the number of months retired.	

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

(2) Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San José, on or after June 18, 2017. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San José after a break in service of less than six months 3. AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan/employees.

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

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

Employees Covered - The current membership in the Defined Benefit Pension Plans as of June 30, 2021, is as follows:

FCERS	Tier 1 Pension Only[(2)]	Tier 1 Pension & Medical[(3)]	Tier 2 Pension Only[(2)]	Tier 2 Pension & Medical[(3)]	Totals
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits[(1)]	741	3,752	18	-	4,511
Terminated vested members entitled to future benefits	781	153	729	-	1,663
Active members	147	1,266	2,283	79	3,775
Total	1,669	5,171	3,030	79	9,949

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

	Retirees and Beneficiaries [(1)]		Terminated Vested Members Entitled to Future Benefits		Active Members		
PFDRP	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2	Totals
Police							
Pension & Medical [(2)]	1,424	-	10	-	517	-	1,951
Pension only [(3)]	116	-	175	105	37	527	960
Police Total	1,540	-	185	105	554	527	2,911
Fire							
Pension & Medical [(2)]	849	-	3	-	469	-	1,321
Pension only [(3)]	54	-	33	6	30	158	281
Fire Total	903	-	36	6	499	158	1,602
Total	2,443	-	221	111	1,053	685	4,513

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

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

2. Contributions

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plans are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution ("ADC") sufficient to provide adequate assets to pay benefits when due. The contribution requirements are established by City Charter Articles XV and XV-A, and Title 3 of the San José Municipal Code.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the year ended June 30, 2021 were based on the actuarial valuations performed as of June 30, 2019. The contribution rates in effect and the amounts contributed to the pension plans for the year ended June 30, 2021 are as follows (in thousands):

	PFDRP									
	City						Participants [2]			
Defined Benefit Pension Plan	Police Tier 1	Minimum Dollar Amount[3]	Police Tier 2	Fire Tier 1	Minimum Dollar Amount[3]	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Actuarial Rate:										
06/27/21-06/30/21	32.47%		14.43%	33.70%		15.28%	10.85%	14.43%	11.91%	15.28%
07/01/20-06/26/21 [1]	31.80%	$ 79,984,000	14.18%	33.18%	$ 61,213,000	15.53%	10.72%	14.18%	11.72%	15.53%

(1) The actual contribution rates paid by the City for year ended June 30, 2021 differed from what is above for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

(2) Under Measure F, certain Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30145, which became effective October 12, 2018, amended the Municipal Code to reflect these changes. Effective 3/24/2019, reclassified Tier 1 members paid an additional 1.96% in contributions, members with prior Federated Service, reclassified Tier 1 paid an additional 0.87% in contributions, and Classic Tier 1 members paid an additional 0.47% in contributions for the year ended June 30, 2021.

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

	FCERS				
	City			Participants [2]	
Defined Benefit Pension Plan	Tier 1	Minimum Dollar Amount[3]	Tier 2	Tier 1	Tier 2
Actuarial Rate:					
06/27/21-06/30/21	20.25%		8.17%	7.39%	8.17%
07/01/20-06/26/21 [1]	19.82%	$ 148,460,000	7.92%	7.22%	7.92%

(1) The actual contribution rates paid by the City for year ended June 30, 2021 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

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

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

	Annual Pension Contribution for the Year Ended 06/30/21		
Defined Benefit Pension Plan	City	Participants	Total
PFDRP	$ 201,370	$ 29,033	$ 230,403
FCERS	$ 183,964	$ 25,724	$ 209,688

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, 2020. The City's net pension liability as of June 30, 2021 of each of the Defined Pension Plan is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019 and rolled forward to June 30, 2020 using standard update procedures by the actuary for the respective plans. In summary, the City's net pension liability at June 30, 2021 is as follows (in thousands):

PFDRP	$	1,474,996
FCERS		2,115,353
CalPERS		1,448
Total net pension liability	$	3,591,797

The General Fund and Enterprise Funds have historically been used to liquidate the pension liabilities.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions states that when a significant change in the net pension liability has occurred between the measurement date (i.e. June 30, 2020) and the City's reporting date (i.e. June 30, 2021), a disclosure of that significant change should be made. Accordingly, the following significant changes to the net pension liability have occurred after the City's measurement date of June 30, 2020:

PFDRP

As of the measurement date June 30, 2021, the Plan's fiduciary net position increased approximately $1.03 billion from approximately $3.70 billion to $4.73 billion due to significant increases in fair value of the Plan's investments. Overall, the increase in the fiduciary net position resulted in a decrease in net pension liability from approximately $1.48 billion to $700 million, a change of approximately $780 million.

FCERS

As of the measurement date June 30, 2021, the Plan's fiduciary net position increased approximately $670 million from approximately $2.21 billion to $2.88 billion due to significant increases in fair value of the Plan's investments. Overall, the increase in the fiduciary net position resulted in a decrease in net pension liability from $2.12 billion to $1.64 billion, a change of approximately $480 million.

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, 2020, were as follows[1] (in thousands):

	Increase (Decrease)		
PFDRP	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2019	$ 4,872,791	$ 3,588,422	$ 1,284,369
Changes for the Year:			
Service costs	87,641	-	87,641
Interest	329,612	-	329,612
Changes of benefit terms	-	-	-
Contributions-employer	-	188,481	(188,481)
Contributions-employees	-	27,645	(27,645)
Net investment income	-	134,085	(134,085)
Difference between expected and actual experience	37,127	-	37,127
Changes of assumptions	80,852	-	80,852
Benefit payments, including refunds of member contributions	(231,007)	(231,008)	1
Administrative expenses	-	(5,605)	5,605
Net changes	304,225	113,598	190,627
Balance at 6/30/2020	$ 5,177,016	$ 3,702,020	$ 1,474,996

	Increase (Decrease)		
FCERS	**Total Pension Liability (a)**	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at 6/30/2019	$ 4,229,613	$ 2,132,152	$ 2,097,461
Changes for the Year:			
Service costs	61,014	-	61,014
Interest	280,131	-	280,131
Changes of benefit terms	-	-	-
Contributions-employer	-	181,327	(181,327)
Contributions-employees	-	25,082	(25,082)
Net investment income	-	90,909	(90,909)
Difference between expected and actual experience	(27,723)	-	(27,723)
Changes of assumptions	(2,937)	-	(2,937)
Benefit payments, including refunds of member contributions	(216,728)	(216,728)	-
Administrative expenses	-	(4,725)	4,725
Net changes	93,757	75,865	17,892
Balance at 6/30/2020	$ 4,323,370	$ 2,208,017	$ 2,115,353

[1] *The schedules of changes in the net pension liability as of June 30, 2021 are presented in the Required Supplementary Information.*

Sensitivity of the Net Pension Liabilities to Changes in Discount Rates - The discount rates used to measure the total pension liabilities were 6.75%, for both the PFDRP and FCERS plans for the valuations dated June 30, 2019. It is assumed that PFDRP and FCERS members' contributions and City's contributions will be made based on the actuarially determined rates based on the funding policy of each board. Based on those assumptions, the PFDRP's and FCERS's fiduciary net positions are expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liabilities.

The following presents the net pension liabilities, calculated using the discount rates of 6.75% in effect as of the measurement date, as well as what the net pension liabilities would be if they were calculated using discount rates that are one percentage point lower (5.750%) or one percentage point higher (7.750%) than the rates used, for the PFDRP and FCERS plans, respectively (in thousands):

PFDRP - Sensitivity Analysis	1% Decrease (5.75%)	Measurement Date Rate (6.75%)	1% Increase (7.75%)
Total pension liability	$ 5,933,919	$ 5,177,016	$ 4,565,907
PFDRP fiduciary net position	3,702,020	3,702,020	3,702,020
Net pension liabiltiy	$ 2,231,899	$ 1,474,996	$ 863,887
PFDRP fiduciary net position as a percentage of the total pension liability	62.4%	71.5%	81.1%

FCERS - Sensitivity Analysis	1% Decrease (5.75%)	Measurement Date Rate (6.75%)	1% Increase (7.75%)
Total pension liability	$ 4,918,402	$ 4,323,370	$ 3,838,213
FCERS fiduciary net position	2,208,017	2,208,017	2,208,017
Net pension liabiltiy	$ 2,710,385	$ 2,115,353	$ 1,630,196
FCERS fiduciary net position as a percentage of the total pension liability	44.9%	51.1%	57.5%

Pension Expense and Deferrals – For the year ended June 30, 2021, the City recognized pension expense and reported deferred outflows and inflows of resources related to pensions as follows (in thousands):

	PFDRP	FCERS	Total
Pension Expense	$ 286,895	$ 235,350	$ 522,245

Schedule of Deferred Outflows and Inflows of Resources - PFDRP

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 201,370	$ -
Differences between expected and actual experience	27,844	8,506
Changes in assumptions	98,851	-
Net difference between projected and actual earnings on pension plan investments	138,387	-
Total	**$ 466,452**	**$ 8,506**

As of June 30, 2021, $201,370,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the PFDRP will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized as pension expense as follows (in thousands):

Fiscal Year Ending June 30:		Deferred Outflows/(Inflows) of Resources
2022	$	71,448
2023		88,436
2024		75,201
2025		21,491
	$	**256,576**

Schedule of Deferred Outflows and Inflows of Resources - FCERS

		Deferred Outflows of Resources		Deferred Inflows of Resources
Contributions subsequent to measurement date	$	183,964	$	-
Differences between expected and actual experience		4,365		26,623
Changes in assumptions		27,199		6,098
Net difference between projected and actual earnings on pension plan investments		82,537		-
Total	**$**	**298,065**	**$**	**32,721**

As of June 30, 2021, $183,964,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the FCERS will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized as pension expense as follows (in thousands):

Fiscal Year Ending June 30:		Deferred Outflows/(Inflows) of Resources
2022	$	26,089
2023		29,479
2024		15,309
2025		10,503
	$	**81,380**

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

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

One fifth of the net earnings is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on pension plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension and are to be recognized in future pension expense.

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

Net difference between projected and actual earnings on pension plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (5.0 Years at June 30, 2020 measurement date)

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rates of return on PFDRP and FCERS investments of 6.75% for the valuations dated June 30, 2019 was selected by estimating the median nominal rates of return based on long-term capital market assumptions adopted by the respective Boards, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns.

Best estimates of geometric real rates of return for each major asset class included in the target asset allocation for each plan as of the measurement date of June 30, 2020, are summarized in the following tables:

	PFDRP	
	Target Asset Allocation	**Long-Term Expected Real Rate of Return**
Public equity	46%	5.4%
Investment grade bonds	12%	-0.1%
Private equity	6%	6.8%
Core real estate	5%	3.5%
Immunized cash flows	5%	-0.9%
Venture / growth capital	4%	6.6%
Emerging market bonds	3%	2.0%
Growth real estate	3%	6.1%
Long-term government bonds	3%	0.2%
Market neutral strategies	3%	2.1%
Private debt	3%	4.4%
Private real assets	3%	5.0%
High yield bonds	2%	2.6%
Treasury inflation - protected securities	2%	-0.1%

	FCERS	
	Target Asset Allocation	**Long-Term Expected Real Rate of Return**
Public equity	49%	5.4%
Private equity	8%	6.8%
Investment grade bonds	8%	-0.1%
Core real estate	5%	3.5%
Immunized cash flows	5%	-0.9%
Venture / growth capital	4%	6.6%
Growth real estate	3%	6.1%
Emerging market bonds	3%	2.0%
Private debt	3%	4.4%
Market neutral strategies	3%	2.1%
Private real assets	3%	5.0%
Long-term government bonds	2%	0.2%
Treasury inflation-protected securities	2%	-0.1%
High yield bonds	2%	2.6%
Cash and cash equivalents	N/A	N/A

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

4. Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability measured as of June 30, 2020 are from the actuarial valuation report with a valuation date of June 30, 2019.

	PFDRP	FCERS
Description	**Method/Assumption**	**Method/Assumption**
Measurement date	June 30, 2020	June 30, 2020
Valuation date	June 30, 2019	June 30, 2019
Inflation rate	2.50%	2.50%
Discount rate	6.75% per annum (net of investment expenses) The long-term expected return on assets based on Meketa's capital market assumptions for a 10-year time horizon is 7.2%. The Board applied a margin for adverses deviation to improve the probabity of achieving the discount rate	6.75% per annum (net of investment expenses) The Board expects a long-term rate of return of 7.6% based on Meketa's 2019 20-year capital market assumptions and the Retirement System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate
Post-retirement mortality		
(a) Healthy retirees:	1.002 times the 2010 Public Safety Above Median Income Mortality Table (Pub(s)- for 2010(A)) for healthy male and female on a retirees projected using SOA MP-2019 on a generational basis from the base year of 2010	0.995 for males and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010)
(b) Disabled retirees:	0.915 times the Public Safety Mortality Table (PubS-2010) for disabled males and female retirees projected using SOA MP-2019 on a generational basis from the base year of 2010	1.051 for males and 0.991 for females, times the CalPERS 2009 Ordinary Disability Mortality Table
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2019 actuarial experience analysis	Mortality is projected on a generational basis using the MP-2019 scale
Salary increases		
Wage Inflation	3.25% per annum (0.75% real wage growth).	The base wage inflation assumption of 3.00%
Merit Increase	Merit component added based on an individual years of service ranging from 6.50% to 0.50%.	Merit/longevity increase based on years of service ranging from 3.75% at hire to 0.10% for members with 15 or more years of service
Cost-of-Living Adjustment	Tier 1 – 3% per year Tier 2 – 2% per year	Tier 1 – 3% per year Tier 2 - 1.25% to 2.0% depending on years of service

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

Plan Description. The Mayor and members of the City Council are eligible to participate in the State of California's Public Employees' Retirement System ("CalPERS") Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the "Plan"). Effective July 26, 2020, any officer or employee, who is first hired on or after November 4, 2014 in the Unit 99 positions of Chief Executive Officer, Chief Investment Officer and certain Investment Professional staff in the Office of Retirement Services is eligible to participate in CalPERS. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Plan provides retirement, disability and death benefits based on the employee's years of service, age and Final Compensation. Benefit provisions and other requirements are established by the California Public Employees' Retirement Law, employer contract with CalPERS and by City resolution. Retiree health benefits are not provided to Mayor/Councilmembers. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information. Reports can be found on CalPERS' website at http://www.calpers.ca.gov/page/home.

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

The CalPERS Plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Classic Rate Plan	**PEPRA Rate Plan**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	10.484% + $153,787 for unfunded liability	7.732% + $11,741 for unfunded liability

As of June 30, 2021, there were two current San José City Council members enrolled in the Classic rate plan and ten current members, consisting of five City Council members and five Office of Retirement Services investment staff, in the PEPRA rate plan.

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

For the year ended June 30, 2021, the amount contributed to the CalPERS plan was as follows (in thousands):

	Classic Rate Plan	PEPRA Rate Plan	Total
Contributions - employer	$ 182	$ 111	$ 293
Contributions - employee	19	97	116
Total	$ 201	$ 208	$ 409

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

Information in this section is derived from the GASB Statement No. 68 Accounting Valuation Report for the miscellaneous risk pool at the measurement date of June 30, 2020 prepared by CalPERS. As of June 30, 2021, the City reported a net pension liability of $1,448,000 for its proportionate share of the net pension liability of the Plan. The proportion was determined based on the City's shares of actuarial accrued liability and market value of assets as of June 30, 2019.

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2020, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures by CalPERS' actuary. The City's proportion of the net pension liability was actuarially determined at the valuation date.

The following information is related to the City's proportionate share of the net pension liability and pension expense (in thousands):

	Plan		
Proportion of the net pension liability prior measurement date	$	1,395	0.03485%
Proportion of the net pension liability current measurement date		1,448	0.03434%
Change - Increase (Decrease)	$	53	(0.00051%)
Pension Expense	$	275	

The City reported deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2021 from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 293	$ -
Differences between actual and expected experience	69	-
Changes in assumptions	-	10
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	12	12
Net differences between projected and actual earnings on plan investments	34	-
Total	$ 408	$ 22

As of June 30, 2021, $293,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized as pension expense as follows (in thousands):

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2022	$ 8
2023	35
2024	32
2025	18
	$ 93

Actuarial Assumptions – The collective total pension liability for the June 30, 2020 measurement period was determined by an actuarial valuation as of June 30, 2019, with update procedures used to roll forward the total pension liability to June 30, 2020. The collective total pension liability was based on the following assumptions:

Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2020 prepared by CalPERS.

	Plan
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Method
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies, 2.5% thereafter

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

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

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

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

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

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

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

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

Sensitivity Analysis	1% Decrease (6.15%)	Measurement Date Discount Rate (7.15%)	1% Increase (8.15%)
Net pension liabiltiy	$ 2,313	$ 1,448	$ 734

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

A. 3. Defined Contribution Retirement Plans

1. 401(a) Plan

In December 2012, the City adopted Ordinance No. 29184 amending Title 3 of the San José Municipal Code to amend various Sections of Chapter 3.28 and to add a new Chapter 3.49 for the purpose of establishing an option between the Tier 2 defined benefit plan and a defined contribution 401(a) plan that excludes participation in retiree healthcare, for Unclassified Executive Management and Professional Employees (Unit 99) who are hired on or after January 20, 2013. An employee is eligible to participate in the 401(a) plan if the employee is hired directly into Unit 99 on or after January

20, 2013 and must not have previously been a member of either of the City's defined benefit plans. An eligible employee must sign an irrevocable election form on his or her first day of employment with the City electing to participate in the 401(a) plan. If no irrevocable election form is signed, the employee will be automatically placed into the Tier 2 defined benefit plan.

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

There were 135 participants in the 401(a) plan as of June 30, 2021. In FY 2021, the City and the participating employees contributed $425,000 to the 401(a) plan. As of June 30, 2021, the balance of the 401(a) plan was $3,014,000.

2. PTC Deferred Compensation Plan

The City's PTC Deferred Compensation Plan ("PTC Plan") is described in Chapter 3.5 of the City's Municipal Code. The PTC Plan is a mandatory in lieu of Social Security for those employees who are not eligible for membership in either the FCERS or PFDRP. The participants defer 3.75% of salary and the City makes a matching contribution (with the total capped by the maximum allowed under IRC 457). The PTC Plan currently utilizes VRIAC as its investment administrator. PTC Plan participants can only make contributions on a pre-tax basis.

Benefited part-time employees who were hired before October 1, 2006 were given the option to invest PTC contributions in the same investment options as the 457 Plan participants based on their Participation Agreements. After October 1, 2006 when the City transitioned the investment administrator services to VRIAC, those part-time employees' PTC accounts were transferred to the 457 Plan in order for them to continue having the ability to invest in various investment options, instead of only the Stable Value Fund offered in the PTC Plan.

For new part-time employees hired on or after October 1, 2006, their PTC contributions are deposited and invested in the Stable Value Fund in the PTC Plan. There are 148 PTC participants as of June 30, 2021 which is 7.27% of all part-time employees. The participating part-time employees contributed $656,000 to their plan. As of June 30, 2021, the balance of the plan was $27,137,000.

A. 4. Postemployment Benefit Plans Other than Pension Plans

1. General Information about the Postemployment Healthcare Plans

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

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

Per the terms of the Frameworks discussed in Note IV A.1, the City established two separate Voluntary Employee Beneficiary Associations ("VEBA") for retiree healthcare for the members of the PFDRP and FCERS in FY 2018. The City does not make contributions into the VEBAs and the VEBAs are not subject to the jurisdiction of the Retirement Boards.

The Internal Revenue Service approved allowing eligible employees who are rehired by the City during calendars years 2018 through 2022 to opt into the applicable VEBA and transfer the retiree healthcare contributions from the applicable Postemployment Healthcare Plan to their individual VEBA accounts.

The current membership in the Postemployment Healthcare Plans as of June 30, 2021, is as follows:

PFDRP	**Police Tier 1**	**Fire Tier 1**	**Totals**
Postemployment Healthcare Plan:			
Retirees and beneficiaries currently receiving benefits*	1,424	849	2,273
Terminated vested members not yet receiving benefits	10	3	13
Active members	517	469	986
Total	1,951	1,321	3,272

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

FCERS	**Tier 1**	**Tier 2A****	**Totals**
Postemployment Healthcare Plan:			
Retirees and beneficiaries currently receiving benefits*	3,752	-	3,752
Terminated vested members not yet receiving benefits	153	-	153
Active members	1,266	79	1,345
Total	5,171	79	5,250

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

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

2. Contributions

Contribution amounts to the Postemployment Healthcare Plans for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, Actuarially Determined Contributions ("ADC") were calculated beginning with the year ended June 30, 2019.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to PFDRP and FCERS.

Subsequently, in October 2014, the Boards of Administration for PFDRP and FCERS approved implementing an incremental reduction approach to determining the "actuarial equivalence" for the City's prefunding of its contribution when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach was undertaken to ensure that as business expansions and/or market valuations mature and exceed historic norms, the Retirement Systems reduce the City's incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction to be applied to the discount rate to the City's prefunding of its contribution is 15% per year, up to a maximum of 45%, which was the reduction to the discount rate that was applied to calculate the actuarially determined prepayment amount for the participating members to be paid by the City at the beginning of the fiscal year ended June 30, 2020. However, the City elected to not prefund its actuarially determined contribution for Tier 1 members for the year ended June 30, 2020.

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

Funding Policy

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

The annual contribution costs for the Postemployment Healthcare Plans' benefits are allocated to both the City and the active employee members. Contributions to the Postemployment Healthcare Plans for both the City and the participating members are based upon agreements between the City and the bargaining units. With the implementation of Measure F, member contributions are fixed as a percentage of pay and the City's contribution toward the explicit subsidy (premium subsidy) is an

ADC determined by the Postemployment Healthcare Plans. The ADC for the Postemployment Healthcare Plans is the normal cost plus the amortization payment on the unfunded actuarial liability, less expected member contributions. The City has an option to limit its ADC for each Postemployment Healthcare Plan to a fixed percentage of the payroll of all active members of the respective pension plan. The ADC for each Postemployment Healthcare Plan is calculated beginning with FY 2019.

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

Effective March 25, 2018, members remaining in the PFDRP Postemployment Healthcare Plan make contributions fixed at 8.0% of pay.

Also, as of March 25, 2018, members remaining in the FCERS Postemployment Healthcare Plan contribute 7.5% of pay.

The contribution rates/amount in effect in FY 2021 are shown below:

PFDRP	City - Board Adopted		Member			
	Police Tier 1	Fire Tier 1	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Actuarial Rate:						
Postemployment Healthcare Plan**:						
07/01/2020 - 06/30/2021	$15,320,000*	$10.062,000*	8.00%	-	8.00%	-

**Throughout the year, explicit subsidy amount*

*** In March 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dolloar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment Healthcare Plan during the year ended June 30, 2021, was $28,397,000, $25,382,000 in City contributions, $3,015,000 in implicit subsidy.*

FCERS	City - Board Adopted		Member with Healthcare
	Tier 1	Tier 2	Tier 1 and Tier 2
Actuarial Rate:			
Postemployment Healthcare Plan:			
07/01/2020 - 06/30/2021	$20,949,000*		7.50%

** In February 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment Health Plan during the year ended June 30, 2021 was $26,236,000, $20,949,000 in regular contributions and $5,287,000 in implicit subsidy.*

3. Net OPEB Liability

The City's net OPEB liability for each Postemployment Healthcare Plan is measured as the total OPEB liability, less the plans' fiduciary net position as of the June 30, 2020 measurement date. The City's net OPEB liability as of June 30, 2021 for each of the Postemployment Healthcare Plans is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019 and rolled forward to June 30, 2020 using standard update procedures by the actuary for the respective plans. In summary, the City's net OPEB asset and liability at June 30, 2021 is as follows (in thousands):

Summary of OPEB liability and expense

	PFDRP	FCERS	Total
Net OPEB Liability	$ 517,256	$ 347,618	$ 864,874
Net OPEB Asset		(1,062)	(1,062)
	$ 517,256	$ 346,556	$ 863,812
OPEB Expense	$ (4,216)	$ (46,009)	$ (50,225)

The General Fund and Enterprise Funds have historically been used to liquidate the OPEB liabilities.

GASB Statement No. 75, Accountiing and Financial Reporting for Postemployment Benefits Other Than Pensions states that when a significant change in the net OPEB liability has occurred between the measurement date (i.e., June 30, 2020) and the City's reporting data (i.e., June 30, 2021), a disclosure of that significant change should be made. Accordngly, the following significant changes to the net OPEB liability have occurred after the City's measurement data of June 30, 2020:

PFDRP

As of the measurement date June 30, 2021, the plan's fiduciary net position increased approximately $67.8 million from $208.5 million to $276.3 million due to significant increases in fair value of the Plan's investments. Overall, the increase in the fiduciary net position resulted in a decrease in net OPEB liability from approximately $517.3 million to $495.5 million, a change of approximately $21.8 million.

FCERS

As of the measurement date June 30, 2021, the plan's fiduciary net position increased approximately $81.3 million from $303.3 million to $384.6 million due to significant increases in fair value of the Plan's investments. Overall, the increase in the fiduciary net position resulted in a decrease in net OPEB liability from approximately $346.6 million to $280.8 million, a change of approximately $65.8 million.

Actuarial Methods and Assumptions

	PFDRP
Measurement Date	June 30, 2020
Valuation Date	June 30, 2019
Actuarial Cost Method:	Entry Age Normal, level of percentage of pay
Actuarial Assumptions:	
Discount Rate	6.5%
Inflation Rate	2.50%
Merit Increase	Merit component added based on an individual's years of service ranging from 6.50% to 0.50%.
Wage Inflation Rate	3.25% for FY 2020 and for all years
Rate of Mortality*	Mortality is projected from 2010 on a generational basis using the SOA MP-2019.
Pre-Retirement Turnover**	Please see below table
Healthcare Trend Rate - Medical	The valuation assumes that future medical inflation will be at a rate of 7.66% to 3.94% per annum graded down over a 55 year period for medical pre-age 65 and 4.11% to 3.94% per annum for medical post-age 65.
Healthcare Trend Rate - Dental	Dental inflation is assumed to be 3.5%

*Actuarial Methods and Assumptions – PDFRP Mortality Rates

Category	Male	Female
Healthy Annuitant	1.002 times the 2010 Public Safety Above Median Income Mortality Table [Pub(s) - 2010 (A)] for Healthy Retirees	1.002 times the 2010 Public Safety Above Median Income Mortality Table [(Pub(s) - 2010 (A)] for Healthy Retirees
Healthy Non-Annuitant	0.979 times the 2010 Public Safety Above Median Income Mortality Table [(Pub(s) - 2010(A)] for Healthy Employees	0.979 times the 2010 Public Safety Above Median Income Mortality Table [(Pub(s) - 2010(A)] for Healthy Employees
Beneficiaries	0.948 times the CalPERS 2009 Healthy Annuitant Mortality Table	1.048 times the CalPERS 2009 Healthy Annuitant Mortality Table
Disabled Annuitant	0.915 times the Public Safety Mortality Table (PubS-2010) for Disabled Retirees	0.915 times the Public Safety Mortality Table (PubS-2010) for Disabled Retirees

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

	Rate of Termination	
Service	Police	Fire
0	13.75%	8.50%
1	11.75	4.00
2	10.00	2.75
3	8.50	1.75
4	7.50	1.25
5	6.75	1.00
6	6.00	0.90
7	5.50	0.80
8	5.00	0.70
9	4.75	0.60
10	4.50	0.50
11	4.25	0.50
12	3.75	0.50
13	3.25	0.50
14	2.75	0.50
15	2.25	0.50
16	1.75	0.50
17	1.50	0.50
18	1.20	0.50
19+	1.00	0.50

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

The assumption for the long-term expected rate of return on Postemployment Healthcare Plan investments of 6.5% for the valuation year ended June 30, 2019 was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the PFDRP Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the PFDRP's target asset allocation as of June 30, 2020 measurement date are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	56.0%	5.4%
Short-term investment grade bonds	29.0%	-0.5%
Core real estate	10.0%	4.7%
Commodities	5.0%	1.7%
Cash and cash equivalents	0.0%	-0.9%

Discount Rate for PFDRP

The discount rate used to measure the total OPEB liability was 6.5% for the measurement year ended June 30, 2020 and is based on the long-term expected rate of return on investments. It is assumed that PFDRP member contributions are 8% of pay for employees eligible to participate in the Postemployment Healthcare Plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 11% of the total payroll of the employees in PFDRP and that the City also contributes the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the PFDRP's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments for PFDRP was applied to all periods of projected benefit payments to determine the total OPEB liability.

	FCERS
Measurement Date	June 30, 2020
Valuation Date	June 30, 2019
Actuarial Cost Method:	Entry Age Normal, level of percentage of pay
Actuarial Assumptions:	
Discount Rate	6.75% per year. The Board expects a long-term rate of return of 7.6% based on Meketa's 2019 20-year capital market assumptions and the System's current investment policy.
Inflation Rate	2.50%
Merit Increase	Merit component added based on an individual's years of service ranging from 3.75% at hire to 0.10% for members with 15 or more years of service
Wage Inflation Rate	3.00%
Rate of Mortality*	Mortality is projected on a generational basis using the MP-2019 scale
Pre-Retirement Turnover**	Please see below table
Healthcare Trend Rate - Medical	The valuation assumes that future medical inflation will be at a rate of 7.66% to 3.94% per annum graded down over a 55 year period for medical pre-age 65 and 4.11% to 3.94% per annum for medical post-age 65.
Healthcare Trend Rate - Dental	Dental inflation is assumed to be 3.5%

* Actuarial Methods and Assumptions – FCERS Mortality Rates

Category	Male	Female
Healthy Annuitant	0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table	0.991 times the CalPERS 2009 Ordinary Disability Mortality Table

Sample rates of termination are shown in the following table.

	Rate of Termination
0	15.00%
1	12.75%
2	11.75%
3	10.75%
4	9.75%
5	8.75%
6	7.75%
7	6.50%
8	5.50%
9	4.75%
10	4.25%
11	4.00%
12	3.75%
13	3.50%
14	3.25%
15+	3.25%

Terminations do not apply once a member is eligible for retirement.

The assumption for the long-term expected rate of return on OPEB plan investments of 6.75% for the valuation year ended June 30, 2019, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the FCERS Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in FCERS's target asset allocation as of June 30, 2020 measurement date are summarized in the following table. The assets were invested in a 115 trust account because the 401(h) account within the pension fund was depleted during FY 2019.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	56.0%	5.40%
Short-term investment grade bonds	29.0%	-0.50%
Core real estate	10.0%	4.70%
Commodities	5.0%	1.70%
Cash	0.0%	-0.90%

Discount Rate for FCERS

The discount rate used to measure the total OPEB liability was 6.75% for the measurement year ended June 30, 2020 and is based on the long-term expected rate of return on investments. It is assumed that FCERS member contributions remain fixed at 7.5% of pay for employees eligible to participate in the Postemployment Healthcare Plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of the total payroll. In addition, the City pays the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the FCERS's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments for FCERS was applied to all periods of projected benefit payments to determine the total OPEB liability.

Change in the Net OPEB Liability

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

PFDRP (Consolidated with Police and Fire)	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2020 (Measurement Date June 30, 2019)	$ 784,082	$ 185,957	$ 598,125
Changes recognized for the measurement period:			
Service cost	12,813	-	12,813
Interest	44,676	-	44,676
Changes of benefits	-	-	-
Differences between expected and actual experience	(99,319)	-	(99,319)
Changes of assumptions	8,567	-	8,567
Contributions - employer	-	27,350	(27,350)
Contributions - employee	-	13,135	(13,135)
Net investment income	-	7,243	(7,243)
Benefit payments including refunds	(25,031)	(25,031)	-
Administrative expense	-	(122)	122
Net changes	(58,294)	22,575	(80,869)
Balance at June 30, 2021 (Measurement Date June 30, 2020)	$ 725,788	$ 208,532	$ 517,256

FCERS	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at June 30, 2020 (Measurement Date June 30, 2019)	$ 672,195	$ 294,488	$ 377,707
Changes recognized for the measurement period:			
Service cost	7,040	-	7,040
Interest	41,855	-	41,855
Change of benefits	-	(13)	13
Differences between expected and actual experience	(25,639)	-	(25,639)
Changes of assumptions	(14,804)	-	(14,804)
Contributions - employer	-	26,533	(26,533)
Contributions - employee	-	10,692	(10,692)
Net investment income	-	3,077	(3,077)
Benefit payments including refunds	(30,779)	(30,779)	-
Administrative expense	-	(686)	686
Net changes	(22,327)	8,824	(31,151)
Balance at June 30, 2021 (Measurement Date June 30, 2020)	$ 649,868	$ 303,312	$ 346,556

Sensitivity of the Net OPEB Liability to Changes in Discount Rates

The following presents the net OPEB liability of the City would be if it were calculated using discount rates that were one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2020:

PFDRP (consolidated with Police and Fire)

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Total OPEB Liability	$ 838,341	$ 725,788	$ 635,556
Plan Fiduciary Net Position	208,532	208,532	208,532
Net OPEB Liability	$ 629,809	$ 517,256	$ 427,024
PFDRP plan fiduciary net position as a percentage of the Total OPEB Liability	24.9%	28.7%	32.8%

FCERS

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Total OPEB Liability	$ 741,089	$ 649,868	$ 575,677
Plan Fiduciary Net Position	303,312	303,312	303,312
Net OPEB Liability	$ 437,777	$ 346,556	$ 272,365
FCERS plan fiduciary net position as a percentage of the Total OPEB Liability	40.9%	46.7%	52.7%

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

The following presents the net OPEB liability of the City would be if it were calculated using health care cost trend rates that were one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2020:

PFDRP (consolidated with Police and Fire)

	1% Decrease	Health Care Cost Trend Rates	1% Increase
Total OPEB Liability	$ 625,628	$ 725,788	$ 851,131
Plan Fiduciary Net Position	208,532	208,532	208,532
Net OPEB Liability	$ 417,096	$ 517,256	$ 642,599
PFDRP plan fiduciary net position as a percentage of the Total OPEB Liability	33.3%	28.7%	24.5%

FCERS

	1% Decrease	Health Care Cost Trend Rates	1% Increase
Total OPEB Liability	$ 567,211	$ 649,868	$ 751,879
Plan Fiduciary Net Position	303,312	303,312	303,312
Net OPEB Liability	$ 263,899	$ 346,556	$ 448,567
FCERS plan fiduciary net position as a percentage of the Total OPEB Liability	53.5%	46.7%	40.3%

OPEB Fiduciary Net Position

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

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

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

One fifth of the net earnings is recognized in the first year when the gain or loss occurred for the difference between projected and actual earnings on OPEB plan investments. The other deferred amounts are amortized over the expected average remaining service lifetime. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

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

Net difference between projected and actual earnings on OPEB plan investments	5 Years
All other amounts	Expected average remaining service lifetime (EARSL) (5.0 Years at June 30, 2020 measurement date)

PFDRP

For the year ended June 30, 2021, the City recognized a negative OPEB expense of $4,216,000. As of June 30, 2021, the City reported deferred outflows and inflows of resources related to OPEB from the following sources (dollar amounts in thousands):

PFDRP (consolidated with Police and Fire)	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 28,397	$ -
Difference between expected and actual experience	1,905	70,350
Changes in assumptions	23,056	-
Net difference between projected and actual earnings on OPEB plan investments	6,825	-
Total	$ 60,183	$ 70,350

The $28,397,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2020 measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2022.

The City's contribution for the Postemployment Healthcare Plan during the year ended June 30, 2021, was $28,397,000. This consisted of City contributions in the amount of $25,382,000, and $3,015,000 in implicit subsidy.

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

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2022	$ (11,478)
2023	(21,583)
2024	(6,569)
2025	1,066
	$ (38,564)

FCERS

For the year ended June 30, 2021, the City recognized a negative OPEB expense of $46,009,000. As of June 30, 2021, the City reported deferred outflows and inflows of resources related to OPEB from the following sources (dollar amounts in thousands):

FCERS	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 26,236	$ -
Difference between expected and actual experience	-	20,556
Changes in assumptions	3,103	9,869
Net difference between projected and actual earnings on OPEB plan investments	21,396	-
Total	$ 50,735	$ 30,425

The $26,236,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2020 measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2022.

The City's contributions for the Postemployment Healthcare Plan during the year ended June 30, 2021, was $26,236,000. This consisted of City contributions in the amount of $20,949,000, and $5,287,000 in adjustments and accruals.

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

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources
2022	$ (7,588)
2023	(7,034)
2024	5,298
2025	3,398
	$ (5,926)

B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments and Capital Outlay Projections. As of June 30, 2021, the Airport was obligated for purchase commitments of approximately $23.5 million primarily for the parking revenue control system upgrade, Aircraft Rescue and Fire Fighting (ARFF) Facility, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber approximately $221.3 million on construction related capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, CP proceeds, and other Airport revenues.

Master Plan. In 1997, after extensive planning and environmental studies, the San José City Council approved a comprehensive update to the previous 1980 Master Plan. In turn, the FAA in 1999 conditionally approved a new Airport Layout Plan (ALP) displaying the proposed Master Plan projects and unconditionally approved all the near-term projects. Both the Master Plan and the ALP, which identify facility improvements needed to accommodate forecast demand for commercial passenger service, air cargo, and general aviation, have been kept up to date through periodic amendments. Implementation of the Master Plan has been ongoing, and since 1997 has included major runway extensions, new taxiways, new terminal buildings, parking garages, roadways, and environmental mitigation programs.

The most recent amendment to the Master Plan was approved by the City Council in April 2020. This amendment extended the planning horizon year out to 2037, incorporated the airfield reconfiguration improvements recommended in an FAA-funded Runway Incursion Mitigation/Design Standards Analysis Study, modified the passenger, cargo, and general aviation facility improvement program to serve projected 2037 demand, and added a proposed business hotel to the passenger terminal complex. The Master Plan is currently intended to serve a projected 2037 demand of 22.5 million annual passengers and a total of 184,000 annual aircraft operations, and includes up to 42 airline terminal gates in 1.8 million square feet of passenger terminal facilities. The FAA conditionally approved a new ALP in June 2020 displaying the amended Master Plan development program.

Phase I of the Master Plan's Terminal Area Improvement Program (TAIP) was substantially completed in 2010. The Phase I improvements included nine new airline gates and approximately 366,000 square feet of terminal space in a new Terminal B; improvements to existing Terminal A, including new ticketing facilities, in-line baggage system, security checkpoint, and concession space; the demolition of the original Terminal C; design and construction of a Consolidated Rental Car Facility (ConRAC); and realignment and improvement of existing terminal roadways and parking facilities. The Phase I program also included preliminary design of certain TAIP Phase II projects. On the airfield, the build-out of the Airport's two commercial runways (12R/30L and 12L/30R) to 11,000 x 150 feet was completed in 2004, allowing the Airport to regularly serve takeoffs and landings by all domestic and most international commercial airline aircraft. Airfield project construction since 2004 has consisted of improvements to taxiways, aircraft parking aprons, and navigational aids to increase efficiency and compliance with current FAA airfield design standards.

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

The only Master Plan construction project underway at the time of this report is a new larger ARFF Facility, partially funded by the FAA, on an existing vacant site on the southwest side of the Airport (to replace the smaller, 1960s-era ARFF Facility located on the southeast side of the Airport). A landside fire station component was added to the project to meet the needs of the local community. In November of 2018, the City received a voter authorization of up to $650 million of general obligation bonds for various public improvements (“Measure T”), intended to address some of the City’s most critical infrastructure needs. This portion of the project is funded by Measure T.

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

Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City’s indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for FY 2005-2010 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 $5.6 million that would be applied equally to the Airport cost allocation plan over a seven year period beginning in FY 2013 and ending in FY 2019. The City has adjusted its indirect cost allocation methodology in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base started in FY 2016, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA disagrees with the City’s inclusion of capital expenditures in the allocation of indirect costs.

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

Potential Claim from FAA Regarding Reuse of Guadalupe Gardens. In early 2002, the City Council approved a Master Plan for Guadalupe Gardens, consisting of approximately 120 acres of mostly vacant, City-owned property located south of the Airport, much of which falls within an FAA-established safety zone. The City acquired the Guadalupe Gardens properties using FAA grants for airport approach protection and noise compatibility, and the FAA grant agreements consequently required FAA approval of any planned City-use of the properties acquired with grant proceeds. By letter dated August 9, 2002, addressed to the City's Director of Aviation, the FAA San Francisco Airport District Office (ADO) approved the City's Master Plan for reuse of Guadalupe Gardens for runway and approach protection, and the City finalized the Master Plan in reliance upon the FAA approval.

During discussions regarding proposals to develop certain portions of the Guadalupe Gardens, the FAA has taken the position that the City must dispose of any portion of the Guadalupe Gardens that is no longer needed for noise compatibility purposes. Citing provisions of federal law that require recipients of FAA grants for acquisition of land for noise compatibility purposes to dispose of any such acquired land when no longer needed by the airport owner for noise compatibility purposes, the FAA contends that the FAA ADO erred in its 2002 approval of the Guadalupe Gardens Master Plan and that the City is obligated to prepare an inventory of the Guadalupe Gardens to identify those parcels that were acquired by the City with noise compatibility grant proceeds. This inventory would then be used to prepare for FAA review and approval of a disposition plan for those parcels no longer needed by the City for noise compatibility. Proceeds of the sale of the parcels proportionate to the FAA grant share of the original purchase price would be required to be used for other approved noise compatibility projects at the Airport or returned to the FAA.

The City believes that it has viable defenses to any potential claim by the FAA with regard to Guadalupe Gardens. The FAA ADO's 2002 approval of the Guadalupe Gardens Master Plan constituted an official FAA approval of the City's reuse of the parcels acquired with proceeds from FAA noise compatibility grants, and the approval expressly provides that the entire Guadalupe Gardens is necessary for the continuing aeronautical purpose of runway and approach protection. Having received official FAA approval of its reuse of the parcels, the City believes it is under no obligation to take any further action to secure further FAA approval of its continuing use of the Guadalupe Gardens. However, the City cannot predict the final outcome of any such potential claim by the FAA.

FAA Inquiry Regarding Encampments in Guadalupe Gardens. On February 1, 2021, the Director of Aviation received a letter from the FAA Western-Pacific Region Office of Airports regarding encampments of homeless persons in the Guadalupe Gardens. Guadalupe Gardens is 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 these FAA grants include certain restrictions ("Grant Assurances") on the City's use of the Guadalupe Gardens properties.

In its letter, the FAA asserts that the presence of encampments of homeless persons in the Guadalupe Gardens is: (a) inconsistent with the Grant Assurances that were a condition of the FAA grants that the City received to acquire the Guadalupe Gardens properties; and (b) contrary to the City's Airport Noise Compatibility Plan ("ANCP"), both of which prohibit transient and permanent residential uses in the Guadalupe Gardens.

The City does not dispute that encampments of homeless persons in the Guadalupe Gardens is a use of the Guadalupe Gardens properties that is incompatible with the FAA Grant Assurances and with the City's ANCP. The FAA requested and the City provided a Corrective Action Plan to remove and relocate the encampments of homeless persons from the Guadalupe Gardens on March 11, 2021. Additional information can be found in the Subsequent Events section.

Federal Aviation Administration Inquiry Regarding Chick-fil-A. The City Council approved a Chick-fil-A subconcession at the Airport on March 6, 2018, as part of its approval of the Fourth Amendment to the Host Food and Beverage Agreement. Chick-fil-A does not have a direct contractual relationship with the City. Rather, Host operates the Chick-fil-A concept at the Airport as a licensee. On April 9, 2019, the City Council approved an amendment to the Host Food and Beverage Agreement that extended the termination date from June 30, 2026 to June 30, 2028. However, the City Council limited the additional two-year extension term only to those Airport concession locations operated by Host that are open 7-days each week. All owned and licensed Chick-fil-A locations, including the Airport location, are closed on Sundays. The City Council approved this limitation after hearing concerns from community members that the owners of Chick-fil-A have made donations to and supported certain organizations that oppose equal rights and protections for the LGBTQ+ communities. The City Council also directed Airport staff to display the Rainbow and Transgender flags at the Airport terminals to show the City's support for those communities.

On January 22, 2020, the Director of Aviation received a Notice of Investigation from the FAA Office of Civil Rights. The FAA is investigating a complaint received by the FAA that alleges discrimination against Chick-fil-A, "because of the expression of religious beliefs by the owner of the company." The complainant, whose identity has been withheld by the FAA, contends that the City has discriminated against Chick-fil-A for its "perceived religious and ideological convictions" and that this "discrimination" is in violation of federal law. The complainant is requesting that the FAA withhold further grant funding to the City pending its investigation.

The City responded to the FAA Notice of Investigation by letter dated May 21, 2020. In addition to responding to specific questions from the FAA regarding this matter, the City requested the FAA to find that there is no basis for the complaint and to close its investigation. The City believes that it has viable defenses to any potential enforcement action by the FAA regarding this complaint. Additional information can be found in Subsequent Events section.

2. San José – Santa Clara Regional Wastewater Facility

Plant Master Plan. In November 2013, the City Council approved the Plant Master Plan ("PMP"), a 30-year planning-level document focused on long-term rehabilitation and modernization of the Plant. The PMP recommends more than 114 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately $2 billion. On September 24, 2013, the City Council approved a consultant agreement with MWH Americas, Inc. to assist and support the City in developing and implementing this Capital Improvement Program ("CIP"). On June 2, 2015, a funding strategy was recommended to and approved by the City Council. An update to the strategy was approved by the City Council on January 12, 2016. For the next five years, the City's portion of the funding for the San José-Santa Clara Regional Wastewater Facility ("Plant") Adopted CIP is programmed into the City's 2021-2025 CIP budget. The City's FY 2021 approved operating budget did not require a rate increase in the Sewer Service and Use Charge rate for FY 2021.

Revenues for the 2021-2025 Adopted CIP are derived from several sources: utilization of available resources from the City of San José Sewer Service and Use Charge and Sewage Treatment Plant Connection Fee; 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 issuance of notes from credit facility.

Pursuant to an agreement executed between San José and Santa Clara in 1959 (the "1959 Agreement"), San José is co-owner and administering agency of the Plant. The Plant also provides wastewater treatment services to other neighboring agencies through five outside user agreements ("Master Agreements") with City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District, and CSD 2-3 (the "Tributary Agencies"). Contributions from the City of Santa Clara and the Tributary Agencies are made pursuant to agreements with each agency based on the anticipated operation and maintenance, and capital budget. The Tributary Agencies' proportional contribution for the operation and maintenance cost is based on the amount and characteristics of the sewage discharged into the Plant. Each Tributary Agency's capital contribution is based on each agency's contractual 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 2021-2025 Adopted CIP, contributions from the City of Santa Clara and other agencies are approximately $241,500,000.

Currently, a short-term financing has been put into place (see Note III.F.10) and staff has developed a long-term bond financing plan for San José's share of the CIP's cost. The City plans to gradually build required operating reserves in anticipation of securing long-term bonds independently. The 2021-2025 Adopted CIP assumes the issuance of long-term bonds in 2022-2023 and the establishment of a second interim financing facility in 2023-2024. In addition, the City continues to build the operating reserves needed for issuing long-term bonds. Refunding may occur in FY 2022 depending on new CIP projections and market conditions.

On January 22, 2016 and September 7, 2016, the City, as the administering agency, received claims from all Tributary Agencies alleging a breach of contract and inequity under the Master Agreements. 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 the City, Santa Clara and three of the Tributary Agencies that was established by the Master Agreements to provide policy and budget guidance to the City, as the Plant's administering agency. TPAC conducted two administrative hearings, on March 24, 2016 and September 7, 2016, regarding each claim and issued reports as required by the Master Agreements. The Tributary Agencies disagreed with the reports and the parties attempted the mediate the Claims but were unable to reach a resolution. All parties agreed to waive the hearings before the joint legislative bodies.

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

The City filed and served a cross-complaint against each Tributary Agency seeking declaratory relief from the court as to each of the causes of action alleged by the Tributary Agencies in their complaint. The Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Plant to date. The City cannot predict the outcome or the timeline for resolution of this litigation. Discovery in the case is ongoing, and a trial date has been set for January 2023.

South Bay Water Recycling Program**.** The South Bay Water Recycling ("SBWR") project is a regional water reclamation program to recycle highly treated wastewater for irrigation and industrial uses in the cities of San José, Santa Clara, and Milpitas, California. This program is part of an action plan, developed by the City and other agencies tributary to the Plant and adopted by the Regional Water Quality Control Board ("RWQCB"), to control the amount of effluent discharged by the Plant into San Francisco Bay.

The SBWR distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately $140,000,000 funded by the tributary agencies, grants, and bond proceeds.

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which described the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 million gallons per day and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I non-potable reuse system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated cost for implementing these projects was $127,500,000. These costs were funded by the City, Santa Clara, and the Tributary Agencies using the Plant through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

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

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

SCVWD and the City agreed to capital investment towards the construction of the SVWTF in the amount of $70,000,000 and $11,000,000, respectively, as of the date of the signed agreement on March 2, 2010. SCVWD determines the operational and maintenance budget for the SVWTF and operates the facility. Separate formulas were established to determine each party's respective share of the annual operation and maintenance cost for the SVWTF following the first full fiscal year the SVWTF becomes operational, which was FY 2015. The formula provides that for each fiscal year when the SBWR is operating at a net loss, the City would pay to the SCVWD an amount to support SCVWD's operational cost up to $2,000,000. In the event that the SBWR operates at net revenue, the City would share its revenue with the SCVWD with the first 50% towards the SCVWD's costs and the second 50% divided between the two agencies based on their respective capital investment in the recycled water infrastructure. As of June 30, 2021, the City's investment in capitalized expenditures for the SBWR system is $248,676,000 with another $11,000,000 in contributions toward the SVWTF for a total investment of $259,676,000; and the SCVWD's estimated investment in SVWTF as of June 30, 2021 is $65,535,000. During the most recent SBWR operating year ended June 30, 2020, an operating profit of $5,437,000 was realized. This amount was shared with the SCVWD, City of San Jose, City of Santa Clara, and the Tributary Agencies per the terms of the Integration Agreement.

Under the Integration Agreement, commencing in January 2016, the City and SCVWD are to provide the other agency with audited financial statements for the prior fiscal years for the operation of the SBWR and the SVWTF. Since the definition of net operating cost and revenue under the Integration Agreement excludes certain costs and revenues that might otherwise be considered in either party's overall budget, each party must prepare a separate statement following the publication of each party's annual audited financial statements, to establish each party's respective cost share for the operation of the SVWTF. The City and SCVWD have each provided the other with its audited financial statements for the operations of the SBWR and the SVWTF, respectively, for the FY 2016, FY 2017, and FY 2018, FY 2019, and FY 2020 with no adjustment to share cost. In January 2022, the audit report for the sixth year of full operations for the year ended June 30, 2021 will be completed and issued as per the terms of the Integration Agreement.

3. Bay Area Water Supply and Conservation Agency

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

The BAWSCA issued revenue bonds are secured by a surcharge on BAWSCA member agencies for the term of the bonds through 2034. BAWSCA's annual debt service amount for FY 2021 is $24,693,000. San Francisco will collect the surcharge and send the amount to BAWSCA for payment to bond holders. The annual surcharge for each agency is based upon the actual wholesale water purchase percentage from the last full year for which date is available with an annual reconciliation based upon the actual water purchased. A true-up adjustment based on the actual year ended June 30, 2019 water use is included in the FY 2021 bond surcharge.

The City's annual bond surcharge for FY 2021 was estimated to be $820,000 based the City's actual wholesale water use in the year ended June 30, 2019. The surcharge is on the San Francisco wholesale water bill and is accounted for by the City as operational costs.

The current best projection on the City's annual surcharge for FY 2022 is $720,000, based upon wholesale water use in the year ended June 30, 2020.

4. Retirement Systems – Unfunded Commitments

As of June 30, 2021, PFDRP had unfunded commitments to contribute capital for investments in the amount of $360,933,000. FCERS had unfunded commitments to contribute capital for investments in the amount of $176,789,000.

5. Federal Financial Assistance Programs

The City participates in a number of federally assisted grant programs, primarily with the U.S. Department of Housing and Urban Development ("HUD"), the Federal Aviation Administration ("FAA"), the U.S. Department of Transportation, U.S. Department of Justice, U.S. Department of the Treasury, U.S. Department of Homeland Security, and the U.S. Department of Labor. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City's grant programs are audited in accordance with the provisions of the Single Audit Act of 1996, and the related U.S. Office of Management and Budget 2 CFR 200 Uniform Guidance, for the year ended June 30, 2021, these programs are still subject to financial and compliance audits by Federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

6. State Tax Revenue

The City was recently informed by the State of California that a portion of the City's previous and current tax revenues could be significantly lower. While the City disputes and will appeal the State's initial determination, this action could negatively impact the City's General Fund outlook in the short and long-term. Although the appeal process is likely to extend beyond next fiscal year, the City is planning to budget for the potential loss in the ongoing revenue for 2021-2022 and begin to put resources in place over the next year to be in a better position to absorb any loss.

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, 2021, total governmental fund encumbrance balances for the City are as follows (in thousands):

General Fund	$	70,542
Housing Activities		22,405
Low and Moderate Income Housing Asset		22,491
Special Assessment Districts		415
San José Financing Authority Debt Service		1
Nonmajor Governmental Funds		93,324
Total governmental funds	$	209,178

8. Curb Ramp Consent Decree

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

Fairness Hearing on September 2, 2020, the Court granted final approval of the consent decree. The City is in compliance with the terms of this consent decree.

9. Consent Decree with San Francisco Baykeeper

San Francisco Baykeeper ("Baykeeper") filed a lawsuit in federal district court against the City in February 2015. Baykeeper's complaint alleged violations of the Clean Water Act ("CWA") and the Stormwater Permit. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements, and that there were CWA violations resulting from the discharge of sewage from the City's Sanitary Sewer System that infiltrated into the City's municipal separate storm sewer systems ("MS4").

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

- Comply with trash provisions of the current Stormwater Permit including installing full trash capture devices, supporting additional creek cleanup efforts, and monitoring of trash in receiving waters;
- Rehabilitate, replace, or repair 65 miles of high-risk sanitary sewer system pipes at an average of 6.5 miles per year, based on the City's existing program with some changes in the priority of segments of this work;
- Monitor and report fecal indicator bacteria ("FIB") in receiving waters for a five-year period;
- Comply with green infrastructure planning as required in the Stormwater Permit, adding FIB as a pollutant for planning purposes;
- Bring forward new revenue measure options for Council consideration by December 31, 2017;
- Appropriate, contingent upon the receipt of sufficient new revenues, $100,000,000 over a ten-year period for acquisition of land, review, design, construction, maintenance, and operation of 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; and
  - Identify and design an additional $15,000,000 ($50,000,000 aggregate) in total projects by the termination date of the consent decree.

In addition to the expenditures outlined above, the City has incurred or will incur the following expenditures during the Consent Decree's term: (1) lump sum payment of attorney's fees and costs to Baykeeper in the amount of $425,000, which payment has been made; (2) ongoing oversight costs payable to Baykeeper in the amount of $10,000 per year for a total of $100,000; and (3) $200,000 per year for five years (a total of $1,000,000) for supplemental environmental mitigation for trash clean up grants, habitat restoration, or projects that generally improve the water quality in the Guadalupe and Coyote creeks and associated watershed areas. The City is in compliance with these payments under the Consent Decree.

The City and Baykeeper entered into a First Amendment and Second Amendment to the Consent Decree in 2017 and 2019, respectively. Both Amendments were approved by the Court and made technical changes to the terms of the Consent Decree but did not modify the substantive requirements itemized above.

Identification of Funds. The Consent Decree requires that by December 31, 2020, the City identify funding sufficient to implement the green infrastructure projects and meet the FIB load reduction standard. If it did not meet this deadline, the parties were required to meet and confer to discuss what measures the City will take to insure funding. Also, by December 31, 2020, the City was required to obtain funding to implement the green infrastructure projects. If not, Baykeeper may terminate the Consent Decree and resume litigation against the City. The Consent Decree provides for ongoing oversight by Baykeeper and a dispute resolution process. The Consent Decree specifies limits on Baykeeper's ability to pursue additional litigation against the City during its 10-year term and caps Baykeeper litigation fees for dispute resolution at $200,000.

On December 19, 2017, the City Council considered a report from City staff concerning potential new revenue sources to fund the green infrastructure requirements specified in the Baykeeper Consent Decree described above. The City identified potential revenues of general obligation bonds and a parcel tax, both of which would require voter approval by a two-thirds margin. On August 10, 2018, the City Council placed Measure T on the ballot, which authorized up to $650 million of general obligation bonds for various public improvements, including those that would prevent flooding and water contamination. At the November 2018 election, voters approved Measure T by more than two-thirds margin. Some of the green infrastructure improvements required by the Baykeeper Consent Decree are eligible for funding under Measure T. However, there are a number of different types of improvements that are eligible for funding under Measure T, including an allocation of at least $300 million for street improvements. The City Council approved $25 million of the potential Measure T funds to be allocated for clean water projects, including green infrastructure improvements, but is unable to predict the amount of Measure T funding that will be appropriated to the green infrastructure improvements. In any event, there are Consent Decree obligations that would be ineligible for funding from general obligation bond proceeds and staff continues to assess additional mechanisms.

Potential projects identified in the Green Infrastructure Plan (the "GIP") require further review and approval. The total construction and maintenance costs will be dependent on several factors including, among others, future costs of construction, whether the project will be on City-owned property or required as part of a future private development.

Green Stormwater Infrastructure Projects. The City's GIP forecasts green stormwater projects and goals through 2050, and contains a $1.49 billion estimate for illustrative purposes to demonstrate the proportional costs among project types. However, the City further estimates that complete implementation and maintenance of the potential projects over the course of the thirty-year plan may be on the magnitude of $6.85 billion. On September 10, 2019, City Council approved the GIP, outlining green infrastructure projects, including regional and green street projects. The preparation of the GIP met both obligations under the Consent Decree and the City's Stormwater Permit. The current Stormwater Permit does not require construction of any projects. However, the tentative order for the new Stormwater Permit (effective July 1, 2022) includes requirements for green infrastructure sufficient to treat 10 acres, which the City likely will be able to meet based on the existing projects and the schedule in the Consent Decree.

The City is not able to predict the projects that will ultimately be approved or whether they will be funded for the GIP.

10. San José Clean Energy

San José Clean Energy – CPUC Citation. The California Public Utilities Commission ("CPUC") adopted a Resource Adequacy ("RA") policy framework in 2004 in an effort to ensure the reliability of electric service in the State. In particular, the RA policy framework is designed to ensure that CPUC jurisdictional Load Serving Entities, such as SJCE, have sufficient capacity to meet their peak load with a 15% reserve margin. The City has paid two CPUC citations assessed against the City for failing to procure RA in amounts sufficient to satisfy the 2019 ($6.8 million) and 2020 ($1.1 million) RA requirement. See Subsequent Events section for more information on a third citation issued in October 2021. Other than the third citation issued in October 2021, the City cannot predict if the CPUC will issue future citations.

11. Workers' Compensation Program

The City is self-insured for workers' compensation, with all claims administered by third party administrator Intercare Holdings Services, Inc. ("Intercare"). Every year, the City reviews a five-year forecast for worker's compensation expenditures based on the prior year payout. Based on this review, the City's budget for 2020-2021 is $21.0 million and the budget for 2021-2022 is $21.2 million.

The City entered a three-year agreement with Intercare beginning July 1, 2019, to provide comprehensive workers' compensation services including claims administration services, bill review, utilization review, medical case management, and other ancillary services at a total compensation not to exceed $15,964,000 based on an estimated caseload of 2,330 to 2,850 claims. As of June 30, 2021, the open claims inventory handled by Intercare was 2,489.

As of June 30, 2021, open claims data for Intercare were at 2,489. The total number of open claims has been reduced (by approximately 1%) since June 30, 2020 when the open claim inventory was 2,508.

The City is required to submit to the State a Public Annual Report. The Public Annual Report completed jointly with Intercare describes: (1) claims paid in indemnity and medical, (2) future liability on open claims, and (3) a list of all open indemnity claims. The annual report for FY 2021 was submitted by the September 30, 2021 deadline.

12. Tax Abatement

As of June 30, 2021, the City provides two tax abatement programs - the Storefronts Assistance Grant Program and the Downtown High-rise Incentive Program:

Storefronts Assistance Grant Program is an incentive program designed to enhance or enliven storefronts in the City. There are two types of grants: Vacant Storefront Grants reimburse businesses for City permit fees and taxes; Existing Storefront Grants reimburse businesses for City fees and permits, plus furnishings, fixtures, equipment and materials related to exterior improvements (no labor is eligible). The City Council approved the implementation of the program in 2013, and through the budget process, City Council allocated up to $215,000 to reimburse eligible businesses for City permit fees and taxes in FY 2020-2021.

Downtown High-Rise Residential Incentive Program

The City has had several iterations of a program designed to spur high-rise development in downtown. As of September 30, 2020, the Downtown High-Rise Residential Incentive Program suspends 50% of construction taxes on high-rise developments in the Downtown Area and allows for payment of the taxes to be delayed until the issuance of the Certificate of Occupancy. It also provides a reduction or exemption of affordable housing in-lieu fees. This program is available for new construction of residential buildings of at least twelve (12) stories in height in the Downtown Planned Growth Area.

Tax Abatement Program	Amount of Taxes Abated (in thousands)
Storefronts Assistance Grant Program	$ 48
Downtown High-Rise Residential Incentive Program	848

13. COVID-19

General. The spread of the novel strains of coronavirus that causes the disease known as COVID-19 ("COVID-19") and local, state, and federal actions in response to COVID-19, is having a significant impact on the economy and on the City's operations and finances. On February 11, 2020, the World Health Organization ("WHO") announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The COVID-19 pandemic has had an adverse effect on, among other things, the world economy, global supply chain, international travel, and a number of travel-related industries. The temporary and permanent business closures caused by the COVID-19 pandemic have led to a stark increase in unemployment across the County and the nation. Depending on the length and the breadth of the impacts of the COVID-19 pandemic, the economic costs may be significant for the City and the region's economy. On June 8, 2020, the National Bureau of Economic Research announced that the United States of America (the "U.S.") officially entered into a recession in February 2020. In addition, capital markets in the United States and globally have been volatile.

The COVID-19 pandemic has materially adversely impacted the financial condition of the City. Previous, existing, and potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, reductions in tourism and disruption of the regional and local economy, widespread business closures, and significantly higher levels of unemployment, with corresponding decreases in City revenues, as described below.

Since mid-March 2020, based on guidance and directives from the State and public health agencies, all counties in the Bay Area (including the County) implemented and revised Shelter-in-Place ("Shelter-in-Place") emergency orders or directives, which directed individuals to stay home, except for limited travel for the conduct of essential services. Most retail establishments (including restaurants, bars and nightclubs, entertainment venues and gyms) were closed in response to the Shelter-in-Place orders or directives. The Governor of the State announced similar Shelter-in-Place emergency orders effective for the entire State. On August 28, 2020, the State released guidance (referred to as the "Blueprint for a Safer Economy") regarding re-opening certain types of businesses based on a county-by-county approach where each county is assigned a tier based on COVID-19 case rates within each county.

In December 2020, two vaccines were approved for emergency use in the United States and vaccinations began in California. A third vaccine was approved for emergency use in February 2021. On June 15, 2021, the State moved beyond the Blueprint for a Safer Economy and all Shelter-in-Place orders or directives in the State were terminated. As a result, effective June 15, 2021, capacity limits, physical distancing requirements, and certain mask requirements for individuals who are fully vaccinated were terminated. Certain public health measures, including but not limited to mask, testing and/or vaccination requirements, have remained in certain business settings and for certain industries.

On June 21, 2021, the Health Officer and Director of Public Health for the County announced that, unless they show symptoms, fully vaccinated employees did not need to be offered testing for COVID-19 or be excluded from work after close contact with a COVID-19 person. The announcement was made considering newly adopted workplace regulations issued by the California Department of Industrial Relations, Division of Occupational Safety and Health ("Cal/OSHA"). Under the new Cal/OSHA regulations, an employee was considered "fully vaccinated" if the employer has documentation reflecting that the employee completed their vaccination series at least 14 days prior.

Financial Impact on City. As of June 30, 2021, the City was awarded and/or appropriated $801.6 million in federal, state and local grants and relief funding, including approximately $178.3 million of Coronavirus Relief Fund ("CRF") money under the Coronavirus Aid, Relief, and Economic Stabilization Act (the "CARES Act") and $212.3 million of American Rescue Plan funding, to address the impact of the COVID-19 pandemic.

On March 11, 2021, the President of the United States signed the American Rescue Plan, a $1.9 trillion economic stimulus package designed to help the United States' economy recover from the adverse impacts of the COVID-19 pandemic. The American Rescue Plan includes $350 billion in unrestricted economic relief to states, counties, and local governments. On May 10, 2021, the U.S. Treasury Department released interim guidance for use of the American Rescue Plan funds, and specifically authorized, among other things, the use of funds to help offset revenue shortfalls caused by the pandemic. The City estimates it will receive a total of approximately $212.3 million in funding under the American Rescue Plan. On May 19, 2021, the City received $106.1 million ($1.7 million and $104.4 million were recognized as grant revenue and unearned revenue, respectively) of such funds and anticipates receiving the second installment in 2022 approximately one year after the first.

The COVID-19 pandemic is ongoing, and its dynamic nature leads to uncertainties. There are many variables that will continue to contribute to the economic impact of the COVID-19 pandemic and the recovery, including the length of time social distancing measures are in place, the effectiveness of state and federal governments' relief programs and the timing for the containment and treatment of COVID-19. The ultimate impact of COVID-19 on the City's operations and finances is not fully known, and it may be some time before the full impact of the COVID-19 pandemic is known.

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, 2021 (in thousands):

Cash & Investments	Amount
Cash and Investments	$ 4,470
Restricted Cash and Investments	120,346
Total Cash and Investments	$ 124,816

A summary of SARA's cash and investments at June 30, 2021 is as follows:

	Moody's Credit Rating	Maturity (in Days) Under 30	31-180	181-365	Balance at June 30
Investments:					
LAIF	Not rated	$ -	$ -	$ 4,184	$ 4,184
Money Market Mutual Fund	Aaa	120,346	-	-	120,346
Subtotal Investments					124,530
Bank Deposits					286
Total Cash and Investments					$ 124,816

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

The SARA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The Money Market Mutual Funds and LAIF are valued by net asset value. The inputs and techniques used for securities are not necessarily an indication of risk associated with investing in these securities. The SARA's investments in Money Market Mutual Funds and LAIF are not subject to the fair value hierarchy.

2. Capital Assets Held by SARA

The following is a summary of capital assets activity for the year ended June 30, 2021 (in thousands):

	July 1, 2020	Addition	Disposal	Transfer	June 30, 2021
Capital Assets, Not Being Depreciated:					
Land	$ 2,077	$ -	$ -	$ -	$ 2,077
Total Capital Assets, Not Being Depreciated	2,077	-	-	-	2,077
Capital Assets, Being Depreciated:					
Buildings	1,071	-	-	-	1,071
Less Accumulated Depreciation:					
Buildings	375	27	-	-	402
Total Capital Assets, Being Depreciated, net	696	(27)	-	-	669
Total Capital Assets, net	$ 2,773	$ (27)	$ -	$ -	$ 2,746

On August 27, 2015, the Oversight Board approved a revised Asset Disposition Schedule for the non-governmental purpose properties listed on the Long Range Property Management Plan ("LRPMP"), and approved the Disposition Process For Sale of Properties, which requires the sale of assets either through an open and competitive solicitation process or through a direct sale to the affected taxing entities or a non-profit organization. Additional amendments to the Asset Disposition Schedule were approved by the Oversight Board on January 14, 2016, April 28, 2016, October 27, 2016, and April 13, 2017.

3. Summary of SARA's Long-Term Debt

The following is a summary of long-term debt of the SARA as of June 30, 2021 (in thousands):

Type of Indebtedness	Purpose	Original Issue Amount	Issue Date	Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2021 Balance
Senior Tax Allocation Bonds:							
2017 Refunding Bonds Series A	Refunding - merged area projects	$ 79,825	12/21/2017	8/1/2035	5.00%	$0 - 53,810	$ 79,825
2017 Refunding Boonds Series A-T	Refunding - merged area projects	1,333,325	12/21/2017	8/1/2034	1.90-3.38%	$32,910 - 93,735	1,104,980
Total Senior Tax Allocation Bonds							1,184,805
Subordinate Tax Allocation Bonds:							
2017 Refunding Bonds Series B	Refunding - merged area projects	264,390	12/21/2017	8/1/2029	2.00-5.00%	$7,820 - 29,835	198,765
Total Subordinate Tax Allocation Bonds							198,765
Total Long-Term Debt							$ 1,383,570

A summary of the changes in long-term debt and other obligations for the year ended June 30, 2021 follows (in thousands):

	June 30, 2020	Additions	Reductions	June 30, 2021	Amount Due Within One Year
Senior Tax Allocation Bonds:					
2017 Refunding Bonds Series A	$ 79,825	$ -	$ -	$ 79,825	$ -
2017 Refunding Bonds Series A-T	1,177,030	-	(72,050)	1,104,980	73,675
Subtotal Senior Tax Allocation Bonds	1,256,855	-	(72,050)	1,184,805	73,675
Subordinate Tax Allocation Bonds:					
2017 Refunding Bonds Series B	219,965	-	(21,200)	198,765	22,265
Subtotal Subordinate Tax Allocation Bonds	219,965	-	(21,200)	198,765	22,265
Subtotal Long-Term Debt before Unamortized	1,476,820	-	(93,250)	1,383,570	95,940
Issuance Premium (Discount), Net	40,616	-	(4,205)	36,411	4,204
Total Long-Term Obligations	$ 1,517,436	$ -	$ (97,455)	$ 1,419,981	$ 100,144

RPTTF revenue distributed by the County to the SARA in FY 2021 was $142,333,000 which was assigned to pay recognized payment obligations, including debt service and debt related expenses on the Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds, SARA administrative costs, and other enforceable obligations. During FY 2021, total RPTTF revenue collected by the County was $377,216,000. After payment of County Administrative fees totaling $3,138,000, the balance is distributed based on the Health and Safety Code unless such payments have been subordinated to payments on the 2017 Bonds, as in the case with all agencies except for the senior pass-through payments due to San Jose Unified School District ($10,011,000). After meeting obligations to make debt service payments on the 2017 Bonds, subordinated pass-through payments are made to the County ($47,093,000), Basic Aid ($449,000) and other taxing entities ($33,837,000). With the residual balance ($140,355,000) distributed to taxing entities.

All summaries of documents related to debt contained in this Note 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 Note is qualified in its entirety by reference to such document, which is on file with the SARA's Chief Financial Officer.

2017 Tax Allocation Refunding Bonds

On December 21, 2017, the SARA issued the 2017 Refunding Bonds pursuant to an Indenture of Trust dated as of December 1, 2017 ("2017 Indenture"), by and between the SARA and Wilmington Trust, National Association, as trustee ("Trustee"). The 2017 Refunding Bonds were issued in the aggregate principal amount of $1,677,540,000, in two senior series and one subordinate series. The senior series bonds, collectively known as 2017 Senior Tax Allocation Refunding Bonds, consist of $79,825,000 of the tax-exempt senior lien 2017 Series A Bonds ("2017A Bonds") and $1,333,325,000 of taxable senior lien 2017 Series A-T Bonds ("2017A-T Bonds"). The subordinate series bonds, described as 2017 Subordinate Tax Allocation Refunding Bonds, consist of $264,390,000 of tax-exempt subordinate lien 2017 Series B Bonds.

Proceeds of the 2017 Refunding Bonds were used to (i) redeem and defease or prepay 23 series of Successor Agency Senior and Subordinate Tax Allocation Refunding Bonds, the 4th and San Fernando Parking Facility Pledge Agreement entered into in connection with the Financing Authority's Series 2001A Bonds and the Second Amended and Restated Reimbursement Agreement entered into in connection with the Financing Authority's Series 2001F and 2001G Bonds (paid in full in September 2018), and (ii) pay the costs of issuing the 2017 Refunding Bonds, including the cost of debt service reserve insurance policies. The refunding resulted in a difference between the reacquisition price (the amount required to repay previously issued debt in a refunding transaction) and the net carrying amount of the Refunded Obligations. This difference was reported as deferred outflows of resources in the statement of fiduciary net position and is being amortized over the next 15 years.

The 2017 Refunding Bonds are secured and payable from Tax Revenues and certain funds and accounts held by the Trustee. Tax Revenues are generally defined in the 2017 Indenture as the portion of property tax revenues collected in the Merged Project Area derived from incremental growth in assessed property values over the initial base year values in each of 17 component areas, less certain County administrative fees and the AB1290 statutory pass-through payment to the San José Unified School District and excluding the amounts collected pursuant to the pension override or State Water Project override provisions of the Redevelopment Dissolution Law. All other AB1290 statutory pass-through payments and the negotiated pass-through payments to Santa Clara County are subordinate to the payment of debt service on the 2017 Refunding Bonds and other debt service related obligations under the 2017 Indenture. Under the distribution provisions of the Redevelopment Dissolution Law, AB1290 statutory pass-through payments and negotiated pass-through payments are made from funds on deposit in the RPTTF before funds are transferred to the SARA for the payment of enforceable obligations (including payment of debt service on the 2017 Refunding Bonds unless there are insufficient funds to pay such debt service and other payment obligations under the 2017 Indenture and certain other conditions are satisfied). Such conditions include the timely filing of a Notice of Insufficiency by the SARA in accordance with the Redevelopment Dissolution Law and the concurrence by the State Controller that there are insufficient funds for such purpose. The SARA has covenanted in the 2017 Indenture to comply with the provisions of the Redevelopment Dissolution Law related to placing its obligations under the 2017 Indenture on the recognized obligations under the 2017 Indenture throughout the term of the 2017 Refunding Bonds and, if applicable, file a Notice of Insufficiency in the event that are insufficient Tax Revenue to make payment of debt service or other payment obligations under the 2017 Indenture.

The SARA has covenanted in the 2017 Indenture to take such actions as required under the Redevelopment Dissolution Law to include in each annual Recognized Obligation Payment Schedule the amount of debt service on the 2017 Refunding Bonds so as to enable the County Auditor-Controller to distribute from the RPTTF to SARA on each January 2 and June 1 the amounts required for the SARA to pay principal of, and interest on, the 2017 Refunding Bonds coming due in the respective six-month period. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and State Department of Finance the amounts to be held by the SARA as a reserve until the next six-month period, as contemplated by the Redevelopment Dissolution Law, that are necessary to comply with the 2017 Indenture.

A separate municipal bond debt service reserve policy issued by Build America Mutual Assurance Company ("BAM") was deposited in the Senior Bonds Reserve Account of the Bond Reserve Fund for the 2017 Senior Tax Allocation Refunding Bonds ("2017 Senior Bonds Reserve Policy") and in the Subordinate Bonds Reserve account of the Bond Reserve Fund for the 2017 Subordinate Tax Allocation Bonds ("2017 Subordinate Bonds Reserve Policy"). The 2017 Senior Bonds Reserve Policy is in the amount of $112,102,000, which is equal to the Senior Bonds Reserve Requirement under the 2017 Indenture. The 2017 Subordinate Bonds Reserve Policy is in the amount of $30,978,000, which is equal to the Subordinate Bonds Reserve Requirement under the 2017 Indenture.

The 2017 Senior Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Senior Tax Allocation Refunding Bonds are no longer outstanding under the 2017 Indenture and (ii) August 1, 2035. The 2017 Subordinate Bonds Reserve Policy will terminate the earlier to occur of (i) the date on which the 2017 Subordinate Tax Allocation Refunding Bonds are no longer outstanding under the Indenture and (ii) August 1, 2029. Per the terms of the 2017 Indenture, the SARA is not obligated to replace either reserve policy or to fund either reserve account with cash if, at any time that the 2017 Senior Tax Allocation Refunding Bonds or 2017 Subordinate Tax Allocation Refunding Bonds are outstanding, amounts are not available under such policy or if the rating of the claims-paying ability of BAM is downgraded, suspended or withdrawn.

The 2017 Senior Tax Allocation Refunding Bonds are rated "AA" by S&P and Fitch and the 2017 Subordinate Tax Allocation Refunding Bonds were rated "AA-" by S&P and Fitch.

2017 Senior Tax Allocation Refunding Bonds - The 2017 Senior Tax Allocation Refunding Bonds were issued in two series – the tax-exempt 2017A Bonds and the taxable 2017A-T Bonds, with a parity senior lien on Tax Revenues. The 2017A Bonds are structured as two serial maturities in 2034 and 2035; both maturities bear interest at 5% per annum. The 2017A-T Bonds are structured as serial maturities in 2018 through and including 2029 and a term bond of $361,845,000 maturing in 2034 with mandatory payment of principal beginning on August 1, 2030 through final maturity on August 1, 2034. The 2017A-T Bonds bear interest at rates ranging from 1.898% to 3.375% per annum. The 2017A and 2017A-T Bonds are subject to call on or after August 1, 2027 at par. The 2017A Bonds have $79,825,000 in principal subject to call and the 2017A-T Bonds have nearly $544,790,000 in principal subject to call. The total debt service payments on the 2017 Senior Tax Allocation Refunding Bonds was $111,285,000 for the year ended June 30, 2021. The principal and interest remaining on the 2017 Senior Tax Allocation Refunding Bonds as of June 30, 2021 is $1,485,794,000.

2017 Subordinate Tax Allocation Refunding Bonds - The 2017 Subordinate Tax Allocation Refunding Bonds are structured as serial tax-exempt bonds with maturities in 2018 through 2029; and bear interest at rates ranging from 2% to 5% per annum. The 2017 Subordinate Tax Allocation Refunding Bonds are callable on or after August 1, 2027 at par. In total, nearly $17,490,000 in principal is subject to this ten-year par call. The 2017 Subordinate Tax Allocation Refunding Bonds are payable from Tax Revenues on a subordinate basis to the 2017 Senior Tax Allocation Refunding Bonds. The debt service payment on the 2017 Subordinate Tax Allocation Refunding Bonds was $31,668,000 for the year ended June 30, 2021. The principal and interest remaining on the 2017 Subordinate Tax Allocation Refunding Bonds as of June 30, 2021 is $239,296,000.

2017 Refunding Bonds - Events of Default - The events of default under the 2017 Indenture for the 2017 Refunding Bonds are : (i) failure to pay debt service when due; (ii) failure to comply with covenants and conditions of the 2017 Indenture or the 2017 Refunding Bonds or any Senior Parity Debt Instrument or Subordinate Parity Debt Instrument (as those terms are defined in the 2017 Indenture) and such default shall have continued for a period of 30 days following SARA's receipt from the Trustee or any bond owner of written notice of the occurrence of such default, provided that if in SARA's reasonable opinion the failure stated in the notice can be corrected, but not within such 30 day period, such failure will not constitute an event of default if corrective action is instituted by the SARA within such 30 day period and SARA thereafter diligently and in good faith cures such failure in a reasonable period of time; (iii) bankruptcy or similar debtor relief proceedings. In the event of default, the Trustee may or if requested by the owners of a majority of the principal amount of the outstanding 2017 Senior Tax Allocation Refunding Bonds or the 2017 Subordinate Tax Allocation Refunding Bonds, as applicable, shall, subject to the provisions of the 2017 Indenture, exercise any remedies available to the Trustee in law or at equity. The 2017 Indenture does not provide for acceleration of payment of the 2017 Refunding Bonds. The 2017 Indenture, however, provides for application of Tax Revenues upon an event of default in the order of priority set forth in the 2017 Indenture.

Tax Sharing Agreement with the County of Santa Clara - Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement ("Original Agreement") under which the Agency would pay a portion of tax increment revenue generated in the Merged Area ("County Pass-Through Payment"). On December 16, 1993, the Agency, the County, and the City entered into a settlement agreement, which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement ("Amended Agreement"), which amended and restated the Original Agreement in its entirety. In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and required the Agency to transfer funds to the County to pay for such projects ("Delegated Payment"). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency's Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

Debt Service Requirements - The debt service requirements for all debt are based upon a fixed rate of interest.

The annual requirements to amortize outstanding tax allocation bonds outstanding at June 30, 2021, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Principal	Interest
2022	$ 95,940	$ 46,890
2023	98,880	43,842
2024	102,035	40,555
2025	105,455	37,023
2026	109,100	33,262
2027-2031	518,155	108,322
2032-2036	354,005	31,626
Total	$ 1,383,570	$ 341,520

4. Commitments and Contingencies Related to SARA

Risk Management

The SARA is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities for which the SARA carries a property 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, 2021.

Contractual Commitments

At June 30, 2021, the SARA had $2,622,000 for contractual obligations and commitments.

Leases

The total rent expense for operating leases during the year ended June 30, 2021 was $30,000.

D. Subsequent Events

1. 2021 Tax and Revenue Anticipation Notes

On July 1, 2021, the City issued a $285,000,000 short-term note (the “2021 Note”) to facilitate the prefunding of employer retirement contributions in FY 2022. Initially, $142,500,000 in principal amount of the 2021 Note will bear interest at a fixed rate of 0.370% per annum, and the remaining $142,500,000 in principal amount of the 2021 Note will bear interest at a variable rate. The 2021 Note was sold in a direct placement to Bank of America, N.A. Security for repayment of the 2021 Note is a pledge of the City’s FY 2022 secured property tax plus all other legally available General Fund revenues available to the City, if required. The interest expense for the 2021 Note is estimated to be $981,000, and costs associated with the financing were $105,000, resulting in a total projected cost of borrowing at approximately $1,086,000. The 2021 Note matures and is payable in full on June 30, 2022.

2. City of San José General Obligation Bonds

On July 29, 2021, the City issued $200,530,000 of General Obligation Bonds, consisting of Series 2021A (in the principal amount of $151,210,000), Series 2021B (federally taxable, in the principal amount of $8,450,000) and Series 2021C (federally taxable, in the principal amount of $40,870,000) (collectively, the “2021 GO Bonds”). The 2021 GO Bonds constitute the second round of general obligation bonds issued under the Measure T authorization of $650,000,000 for Disaster Preparedness, Public Safety, and Infrastructure, approved by the voters in November 2018. The 2021 GO Bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount (except certain personal property which is taxable at limited rates). The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources.

The events of default under the Fiscal Agent Agreement for the 2021 GO Bonds are as follows: (i) failure to pay principal of, or redemption premiums on, any 2021 GO Bond when due; and (ii) failure to pay interest on any 2021 GO Bond when due.

The Fiscal Agent Agreement for the 2021 GO Bonds provides any bondholder with the following remedies upon the occurrence of an event of default: (a) the right, by mandamus, suit, action or proceeding, to compel the City and its members, officers, agents, or employees to perform each and every term, provision and covenant contained in the Fiscal Agent Agreement for the 2021 GO Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it; (b) the right, by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the bond owners’ rights.

The 2021 GO Bonds were rated Aa1 from Moody’s, AA+ from S&P, and AAA from Fitch with stable outlook. The Fitch rating on the outstanding 2019 GO Bonds was upgraded from AA+ to AAA in connection with Fitch’s rating of the 2021 GO Bonds.

3. City of San José Financing Authority Commercial Paper Program

Expansion of CP Program. On August 31, 2021, the City adopted Resolution No. 80208 authorizing the execution and delivery of amendments to certain financing documents, including an amendment to a Letter of Credit and Reimbursement Agreement, and authorizing other related actions in connection with the City of San José Financing Authority’s Lease Revenue Commercial Paper Notes in order to increase the not-to-exceed aggregate principal amount thereof to $175 million and to extend the expiration date and commitment available under such Letter of Credit and Reimbursement Agreement to March 2025; and the negotiation, execution and delivery of one or more additional extensions to the Letter of Credit issued under the Letter of Credit and Reimbursement Agreement or the commitment available under such Letter of Credit and Reimbursement Agreement based on substantially the same terms and conditions for a duration of time that the City Designated Officers deem necessary, advisable or prudent, provided that no such extension shall require an annual fee in excess of 1.00% of the commitment available thereunder.

The amendments to the Amended and Restated Trust Agreement and the Sublease increased the maximum principal amount of Series 2 Notes and Series 2-T Notes that may be outstanding to $175 million in each case supported solely by the U.S. Bank LOC and reduced the maximum principal amount of Series 1 Notes and Series 1- T Notes that may be outstanding to zero dollars. The amendment to the Reimbursement Agreement with U.S. Bank increased the commitment from U.S. Bank to the aggregate principal amount of $175 million, extended the stated expiration date of the U.S. Bank's LOC to March 24, 2025. The LOC of U.S. Bank supports only the payment of principal and interest on the Series 2 Notes and Series 2-T Notes. The State Street Letter of Credit was terminated at the election of the City on September 23, 2021. The U.S. Bank's current Commitment Fee was decreased from 0.42% to 0.38%, paid quarterly in arrears. The dealer fee remains at 0.045%. The events of default and remedies remained substantially the same as of the date the State Street LOC was terminated.

San José Clean Energy ("SJCE") Commercial Paper Notes. SJCE's financial condition and cash balances have been adversely impacted by recent market conditions. Such conditions include (i) delays in increases of electricity rates by PG&E (on which SJCE bases its rates), (ii) an increase of 41% in fees assessed by PG&E on SJCE's customers to cover above-market generation costs for legacy energy resources, (iii) an increase in bad debt expense (of three to five times compared to pre-March 2020) due to customer nonpayment as a result of the COVID-19 pandemic, and regulatory changes. The market price of electricity has been adversely impacted as demand for power has outpaced supply as a result of volatility in weather conditions, operational issues experienced by certain nuclear plants that serve the State, and regional drought conditions. As a result of such conditions, as of June 22, 2021, SJCE projected an ending cash shortfall of approximately $14.7 million for FY 2021 (excluding $20.0 million cash on deposit in a restricted reserve account pledged as security for the City's obligations under the Credit Agreement). To ensure cash reserves were not fully depleted, the City Council approved in June 2021, SJCE's participation in the City of San José Financing Authority's Commercial Paper program wherein SJCE borrowed $15.0 million. Participation in the program assisted SJCE to maintain a positive cash balance at the end of a very challenging fiscal year.

On June 22, 2021, the City Council and the Board of Directors of the City of San José Financing Authority ("CSJFA") approved the issuance of the CSJFA's Lease Revenue Commercial Paper Notes ("CP Notes") in an amount not to exceed $95 million, subject to the satisfaction of certain conditions. The proceeds of the Lease Revenue Commercial Paper Notes are authorized to finance the costs of purchasing power and other operating costs of SJCE. On June 28, 2021, CP Notes were issued in the amount of $15.0 million to cover the SJCE shortfall. In July, September, and October CP Notes were issued for $15.0 million, $6.2 million, and $5.0 million. As of October 31, 2021, the total amount CSJFA issued in Lease Revenue Commercial Paper Notes for SJCE is $41.2 million. The City anticipates requesting the CSJFA to issue an additional $33.8 million in CP Notes potentially totaling $60.0 million in FY 2022 and $75.0 million overall.

It is important to note that the projected need for issuances of CP Notes are based on projections that include assumptions regarding market energy prices, regional weather, anticipated changes in PG&E's electricity rates and PCIA. Potential relief from the state CAPP program could have a beneficial impact on SJCE cash balances and reduce the amount of CP Notes issued by the Authority.

4. Financing Authority – Lease Revenue Bonds

On October 5, 2021, the City conducted a Public Hearing for the approval of the issuance by the City of San José Financing Authority Lease Revenue Bonds, Series 2021A (Fire Department Training Center and Central Service Yard Projects) (the "2021A Bonds"), to finance the acquisition and construction of the public improvements of the City of San José consisting of the Fire Department Training Center and Central Service Yard projects and made a finding of significant public benefit accruing from such financing. The City adopted Resolution No. 80254 approving and authorizing the execution of documents and approving related actions in connection with the issuance by the 2021A, Bonds in the principal amount not to exceed $30,000,000 and amending Resolution No. 80125 relating to the City of San José Financing Authority Lease Revenue Commercial Paper Notes. The 2021A Bonds, in the amount of $22,825,000, were issued on November 2, 2021. The proceeds of the 2021A Bonds were used to (i) refinance on a current basis the outstanding Series 2003A Bonds and the related lease payment obligation of the City, (ii) refinance on a current basis certain CP Notes issued to finance and refinance improvements to the Central Service Yard, and (iii) pay the costs of issuing the 2021A Bonds.

The 2021A Bonds received credit ratings of Aa2, AA, and AA from Moody's, S&P, and Fitch, respectively with stable outlook.

The 2021A Bonds are structured the same as the Financing Authority's Lease Revenue Bonds with the City leasing a City facility to the Financing Authority and the Financing Authority leasing it back to the City pursuant to a lease. The events of default under the Indenture of Trust of the 2021A Bonds and the related lease agreement, and the rights and remedies upon the occurrence and during the continuation thereof under such Indenture and lease are substantially the same as for the Lease Revenue Bonds.

5. Rating Changes

Special Hotel Tax Revenue Bonds – Series 2011 - On July 29, 2021, S&P lowered the rating of the Special Hotel Tax Bonds to A from A+, with a negative outlook due to the impact of COVID-19 on revenues. Moody's rates Special Hotel Tax Bonds A2, with a stable outlook. The Special Hotel Tax Bonds are not rated by Fitch.

6. Norman Y. Mineta San José International Airport

On July 1, 2021, the Airport opened the Economy Lot 1 parking garage. It added 2,524 available parking spaces, which nearly doubled the spaces available to the public.

On July 28, 2021, the FAA requested and the City provided a revised Corrective Action Plan to remove and relocate encampments of homeless persons from the Guadalupe Gardens, with a schedule for incremental relocation of the encampment inhabitants to alternative sites. The FAA accepted the revised Corrective Action Plan. However, the City cannot predict the actual timing of the encampment's relocation or the final resolution of this matter with the FAA.

On July 28, 2021, the Director of Aviation met with the FAA to further discuss the issues related to the FAA's investigation of a complaint that alleges discrimination against Chick-fil-A. The City cannot predict the outcome of any potential enforcement action by the FAA.

On August 3, 2021, Fitch upgraded the ARBs outlook from negative to stable while the rating remained at "A".

On August 19, 2021, the City extended the BofA Reimbursement Agreement through September 10, 2024. BofA extended the issuance of its irrevocable transferable LOC in the stated amount of $81.7

million (to cover principal of $75 million and interest on the Subordinated CP Notes accruing calculated at a rate of 12% for 270 days based on a 365 day year) that was scheduled to expire on September 10, 2021, unless sooner terminated or extended pursuant to its terms. The facility fee rate in effect changed from 0.35% to 0.40%.

On August 31, 2021, the City conducted a Tax Equity and Fiscal Responsibility Act (“TEFRA”) hearing with respect to the proposed issuance by the City of one or more issues of tax-exempt Series B subordinated commercial paper notes (“Series B Notes”) in an aggregate principal amount not to exceed $600,000,000 pursuant to a plan of finance in order to provide proceeds to pay or reimburse all or a portion of the costs of acquisition, construction, equipping, financing, reconstruction, development, and modification of airport terminal and ancillary facilities that are included in or are consistent with the Airport Master Plan for the Airport. The City Council adopted Resolution No. 80201 approving, for purposes of Section 147(f) of the Internal Revenue Code of 1986, the issuance of Series B Notes, in an aggregate principal amount together with certain other commercial paper notes not to exceed $600,000,000 to be issued from time to time, to finance and refinance the facilities at the Airport.

The Airport 2021 ARBs were rated A2 from Moody’s (Stable Outlook), A- from S&P (Stable Outlook), and A from Fitch (Negative Outlook). In August 2021, Fitch revised its outlook from negative to stable on all of the outstanding Airport ARBs, including the Series 2021 ARBs.

The City received an Information Document Request from the Department of the Treasury Internal Revenue Service (the “IRS”) dated September 3, 2021 regarding the San José International Airport Subordinated Commercial Paper Notes, Series A-2 (Non-AMT/Private Activity). The outstanding notes were defeased in October 2018 and the City submitted documentation on October 21, 2021 requesting the IRS close out the inquiry.

On September 14, 2021, the City approved an amendment for All Nippon Airways Co., LTD. ("ANA") to terminate their Signatory Airline-Airport Lease and Operating Agreement, effective March 31, 2021. ANA will pay the Airport $458,000, which represents all rents, fees and charges owed by ANA, calculated as though ANA had been operating as a Non-Signatory carrier with the 25% premium from July 1, 2019 through March 31, 2021. A new Airline-Airport Non-Signatory Operating Agreement with ANA will be executed retroactive to April 1, 2021. If ANA resumes service at the Airport under the new Airline-Airport Non-Signatory Operating Agreement prior to July 1, 2022, the City will refund to ANA $241,000 of the settlement amount paid to the City.

On September 30, 2021, Frontier Airlines discontinued service from the Airport. The passengers that took flights on Frontier Airlines represented 0.7% of the total passengers that traveled through the Airport during FY 2021. The Airport does not believe that the departure of this carrier will have a material impact on the operations or financial results of the Airport.

7. San José Clean Energy

San José Clean Energy – CPUC Citation. On October 13, 2021, SJCE received a citation from the CPUC for failure in satisfying certain State of California month-ahead resource adequacy obligations in the month of September 2021 due to unfavorable market conditions. The City complied and paid the fine in the amount of $758,000 on November 5, 2021.

8. Insurance Coverage

Citywide Property Policy

Effective October 1, 2021, the City obtained a new all-risk property policy. Key changes to insurance coverage for the policy period commencing October 1, 2021 include:

- Addition of a Representation of Risk clause which describes the carrier's expectations for the reporting of total insured values

Airport Liability

Effective October 1, 2021, the City obtained a new airport liability policy that enhanced coverage to increase the excess auto liability limits from $5 million to $25 million.

Fidelity/Crime Coverage

Effective October 1, 2021, the City obtained a new fidelity/crime policy that enhanced coverage to increase the limits from $100,000 to $250,000 for losses covered under the Government Fraud Deception section of the policy.

9. Pension Obligation Bonds

On October 5, 2021, the City Council adopted a resolution authorizing the issuance of bonds to refund and repay certain pension obligations, approving the form and authorizing the execution of a Trust Agreement and Bond Purchase Agreement; authorizing judicial validation proceedings relating to the issuance of such bonds and approving additional actions related thereto. The pension obligations include the unfunded liability for both the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System Plan ("Unfunded Liability"), and the annually required retirement contribution that are due and payable within 12 months of the issuance of the bonds ("Current Obligation"). The proposed final aggregate principal amount of the bonds may not be greater than $3.5 billion or the sum of the City's unfunded liability and current obligation as calculated by the actuary for both Retirement Plans, together with the costs of issuing the Bonds. The Trust Agreement will not constitute an obligation for which the City is obligated or permitted to levy or pledge any form of taxation or for which the City has levied or pledged or will levy or pledge any form of taxation. The validation complaint must be filed within 60 days of the City Council's authorizing resolution, and a judgment is not anticipated for at least seven months barring an answer to the complaint or appeal of the judgment. If the City obtains a favorable judgment, the size and timing of the actual bond issuance would require the City Council's approval of offering documents including disclosures and would be contingent on favorable market conditions. Prior to actual issuance of the pension obligation bonds, the City Council will consider adoption of a pension funding policy.

10. Tier 1 Pension Employee Contributions

On June 29, 2021, the City Council introduced an ordinance amending the Municipal Code to cease the Normal Cost contribution of Tier 1 members of the FCERS Pension Plan with 30 or more years of service credit as of the effective date of the ordinance. Eligible members are those employees who are in positions assigned to an unrepresented employee unit or a represented bargaining unit that has agreed to the Ordinance and has been approved by the City Council. As of June 30, 2021, Unit 99, the Association of Legal Professionals, and Association of Building, Mechanical, and Electrical Inspectors have agreed to the provisions. The change is intended by the City to incentivize such members to continue working for the City by increasing their take-home pay. Such members will not be eligible for any return of the amount of Normal Cost contributions made between obtaining 30 years of service credit and the effective date of the ordinance. The ordinance was approved on August 3, 2021 and became effective on September 2, 2021.

11. PTC Plan and Tier 3 Plan

On August 10, 2021, the City Council approved amendments to the PTC Plan and Tier 3 Plan that would require all councilmembers enrolled in the PTC Plan to be moved to the Tier 3 Plan and future incoming councilmembers offered the choice of CalPERS or the Tier 3 Plan as retirement options effective October 3, 2021. Any funds in a councilmember's PTC Plan account remain in such account and participation in the Tier 3 Plan commenced prospectively on October 3, 2021. Upon commencement of office with the City, councilmembers are offered a choice between the CalPERS defined benefit pension plan and the City's defined contribution PTC Plan for retirement options. Most participants of the PTC Plan are required to contribute 3.75% of their salary into the Plan and the City makes a matching contribution of 3.75%.

As of January 2016, councilmembers who elect to participate in the PTC plan are required to contribute 3.75% of their salary and the City makes a 6.55% contribution into the Plan. Since the PTC plan's inception in 1992, the only investment option is a stability of principal investment vehicle; the current offering is called the Stable Value fund. By design this investment option is low risk thus producing a relatively low rate of return.

In 2013, the City began offering a 401(a) defined contribution plan, known as the Tier 3 Plan, to all new executive management or professional employees in Unit 99 who elect to opt out of the City's defined benefit Federated Employees Retirement Plan. Similar to the PTC Plan, participants in the Tier 3 plan are required to contribute 3.75% of their salary and the City matches their contribution. Unlike the PTC plan, the Tier 3 plan provides over thirty investment options for participants to choose from; the investments offered provide a range of levels of risk and potentially better rates of return than the PTC plan.

12. COVID-19 Public Health Update

On August 2, 2021, the County issued a new public health order encouraging mandatory vaccination requirements for all personnel in the County. Pursuant to the City's COVID-19 Mandatory Vaccination Policy, all City employees commencing on October 4, 2021 are required to provide evidence of vaccination absent an approved medical or religious exemption ("Exemption"). Those with approved Exemptions are required to test two (2) times per week. Failure to comply with the Policy may result in disciplinary action, including termination.

As of September 21, 2021, there were over 140,223 confirmed cases of COVID-19 in the County, and health officials expect the number of confirmed cases to continue to grow. The County reports that, as of September 21, 2021, more than 83% of the County's residents age 12 and older are fully vaccinated, and more than 88% of the County's residents age 12 and older have received their first dose. The State reports that, as of September 20, 2021, the average doses per day administered in the State totaled approximately 70,892, and doses equating to 87 days of inventory were on hand statewide. Due to the rise in number of COVID-19 cases in the County and nationally, partially attributable to the spread of the Delta variant of COVID-19, the County reinstated a mask mandate for all persons indoors, effective August 3, 2021. At its meeting on August 24, 2021, the City Council voted unanimously to require proof of COVID-19 vaccinations for attendees at events of 50 or more people in City-owned buildings, excepting those not yet eligible for vaccination.

13. Coyote Creek Flood Settlement

On November 8, 2021, the Santa Clara Superior Court approved a settlement agreement to pay $750,000 to plaintiffs in eighteen lawsuits on behalf of approximately 200 plaintiffs against the City, the County, and Santa Clara Valley Water District. The settlement will end the City's exposure to liability from claims for property loss and damage, personal injuries, and emotional distress allegedly caused by flooding in some areas of the City following heavy rains in February 2017.

E. Restatement of Fund Balance and Net Position ($000)

	Balance Sheet Governmental Funds — Housing Activities Fund	Statement of Net Position, Governmental Activities
Fund Balances/Net Position as June 30, 2020, as previously reported	$ 168,101	$ 2,503,514
Restatement:		
Liabilities - Unearned revenue	(12,408)	(12,408)
Fund Balance/Net Position at June 30, 2020, as restated	$ 155,693	$ 2,491,106

FY2020 totals has been restated due to prior period adjustments overstating the grant revenue by $12,408,000, and therefore reducing fund balance and net position by $12,408,000

	Statement of Changes in Fiduciary Net Position — Custodial Fund
Net Position as June 30, 2020, as previously reported	$ -
Restatement:	
Due to implementation of GASB Statement NO. 84	6,112
Net Position at June 30, 2020, as restated	$ 6,112

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City of San José
Required Supplementary Information (Unaudited)
June 30, 2021

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2021
($000's)

	Budgeted Amounts		Actual Amounts Budgetary Basis Variance with Final Budget	Actual Amounts Budgetary	Budgetary to GAAP	Actual Amounts	
	Original	Final	Over (Under)	Basis	Differences	GAAP Basis	
REVENUES							
Taxes:							
Property	$ 397,500	426,500	7,546	434,046	-	434,046	
Utility	115,800	115,800	12,044	127,844	-	127,844	
Franchise	45,921	45,921	(293)	45,628	-	45,628	
Business tax	72,624	65,496	5,673	71,169	-	71,169	
Other	9,000	5,500	(91)	5,409	-	5,409	
Sales taxes	242,500	262,500	21,520	284,020	-	284,020	
State of California in-lieu	500	500	270	770	-	770	
Licenses, permits and fines	33,978	28,311	33	28,344	-	28,344	
Intergovernmental	11,756	201,739	(81,037)	120,702	-	120,702	
Charges for current services	25,059	8,199	(914)	7,285	-	7,285	
Other revenues	45,842	51,686	2,857	54,543	-	54,543	
Investment income	7,037	7,037	(2,090)	4,947	(3,386)	1,561	(1)
Total revenues	1,007,517	1,219,189	(34,482)	1,184,707	(3,386)	1,181,321	
EXPENDITURES							
Current:							
General government	329,769	405,807	(97,874)	307,933	(15,342)	292,591	(2)
Public safety	753,318	759,816	(77,237)	682,579	(6,276)	676,303	(2)
Community services	150,548	150,548	(21,554)	128,994	(7,256)	121,738	(2)
Sanitation	5,300	5,300	(372)	4,928	(296)	4,632	(2)
Capital maintenance	204,872	178,331	(105,153)	73,178	(27,838)	45,340	(2)
Capital outlay	35,103	35,103	-	35,103	-	35,103	
Debt service:							
Principal	13,000	13,000	(569)	12,431	-	12,431	
Interest	2,200	2,200	(37)	2,163	-	2,163	
Total expenditures	1,494,110	1,550,105	(302,796)	1,247,309	(57,008)	1,190,301	
Excess (deficiency) of revenues over expenditures	(486,593)	(330,916)	268,314	(62,602)	53,622	(8,980)	
OTHER FINANCING SOURCES (USES)							
Proceeds from sale of capital assets	12,103	9,472	(2,452)	7,020	-	7,020	
Bonds issued	17,777	17,777	-	17,777	-	17,777	
Transfers in	8,969	20,039	(3,672)	16,367	-	16,367	
Transfers out	(80,826)	(80,826)	1,752	(79,074)	-	(79,074)	
Total other financing sources (uses)	(41,977)	(33,538)	(4,372)	(37,910)	-	(37,910)	
Net change in fund balance	(528,570)	(364,454)	263,942	(100,512)	53,622	(46,890)	
Fund balance - beginning	398,691	398,691	-	398,691	61,541	460,232	
Add beginning encumbrance balance	-	-	-	53,302	(53,302)	-	
Fund balance - ending	$ (129,879)	34,237	263,942	351,481	61,861	413,342	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.

(2) Encumbrances of funds for which formal budgets are prepared.

City of San José
Housing Activities Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2021
($000's)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES							
Intergovernmental	$ 9,445	59,012	(27,764)	31,248	-	31,248	
Investment income	920	920	2,877	3,797	(1,019)	2,778	(1)
Other revenues	13,973	23,302	6,037	29,339	(1,984)	27,355	(2)
Total revenues	24,338	83,234	(18,850)	64,384	(3,003)	61,381	
EXPENDITURES							
Current:							
Community services	68,011	130,793	(49,843)	80,950	(19,497)	61,453	(2)
Sanitation							
Capital outlay	-	10,868	-	10,868	-	10,868	
Total expenditures	68,011	141,661	(49,843)	91,818	(19,497)	72,321	
Excess (deficiency) of revenues over expenditures	(43,673)	(58,427)	30,993	(27,434)	16,494	(10,940)	
OTHER FINANCING (USES)							
Transfers out	(30)	(105)	43	(62)	-	(62)	
Total other financing (uses)	(30)	(105)	43	(62)	-	(62)	
Net change in fund balance	(43,703)	(58,532)	31,036	(27,496)	16,494	(11,002)	
Fund balance - beginning (as restated)	35,561	35,561	-	35,561	120,132	155,693	
Add beginning encumbrance balance	-	-	-	23,186	(23,186)	-	
Fund balance - ending	$ (8,142)	(22,971)	31,036	31,270	113,421	144,691	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.

(2) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

City of San José
Low and Moderate Income Housing Asset Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2021
($000's)

		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES								
Investment income	$	3,000	3,000	29,050	32,050	(1,744)	30,306	(1)
Other revenues		14,000	14,383	21,668	36,051	(24,980)	11,072	(2)
Total revenues		17,000	17,383	50,717	68,100	(26,723)	41,378	
EXPENDITURES								
Current:								
Community services		62,365	129,689	(66,674)	63,016	(44,769)	18,247	(2)
Total expenditures		62,365	129,689	(66,674)	63,016	(44,769)	18,247	
Excess (deficiency) of revenues over expenditures		(45,365)	(112,306)	117,390	5,084	18,046	23,131	
OTHER FINANCING (USES)								
Transfers out		(401)	(409)		(409)		(409)	
Total other financing (uses)		(401)	(409)		(409)		(409)	
Net change in fund balance		(45,766)	(112,715)	117,390	4,675	18,046	22,722	
Fund balance - beginning		137,050	137,050	-	137,050	278,029	415,079	
Add beginning encumbrance balance				-	14,092	(14,092)	-	
Fund balance - ending	$	91,285	24,335	117,390	155,818	281,983	437,801	

Explanation of differences:

(1) Gain or loss in fair value of investments are not formally budgeted transactions.

(2) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

Schedule of Employer Contributions – Defined Benefit Pension Plans

PFDRP Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 201,370	$ 188,481	$ 176,618	$ 157,712	$ 136,957
Contributions in relation to actuarially determined contribution	201,370	188,481	176,618	157,712	136,957
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 237,476	$ 230,401	$ 218,619	$ 203,164	$ 188,177
Contributions as a percentage of covered payroll	84.80%	81.81%	80.79%	77.63%	72.78%

Fiscal year	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**
Valuation date	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Amortization method	Actuarial gains and losses and plan changes are amortized over a closed 15-year periods. Method and assumption changes are amortized over closed 20-year periods.	Actuarial gains and losses and plan changes are amortized over closed 15-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.
Discount rate	6.75%	6.75%	6.875%	6.875%	7.00%
Salary increases	3.25% plus merit component based on length of service ranging from 6.50% for new hires to 0.50% for members with 11 or more years of service	3.25% per annum (.75% real wage growth) plus merit component based on length of service ranging from 6.00% for new hires to 0.50% for members with 10 or more years of service.	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service.	3.25% plus merit component based on length of service ranging from 6.00% for new hires to .50% for members with 10 or more years of service.	3.25% plus merit component based on length of service ranging from 6.75% for new hires to 1.00% for members with 10 or more years of service.
Amortization growth rate	2.50%	3.25%	3.25%	3.25%	3.25%
Mortality	Healthy Retirees: 2010 Public Safety Above Median Income Mortality tables for retirees multiplied by 1.002, with mortality improvements projected from 2010 using Scale MP-2019 on a generational basis. Disabled retirees: 2010 Public Safety Mortality tables for Disabled Retirees multiplied by 0.915, with mortality improvements projected from 2010 using Scale MP-2019 on a generational basis. Beneficiaries: CalPERS 2009 Healthy Annuitant Mortality tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2019 on a generational basis. Non-Annuitant: 2010 Public Safety Above Median Income Mortality tables for Healthy Employees multiplied by 0.979, with mortality improvements projected from 2010 using Scale MP-2019 on generational basis.	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis. Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis.	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis. Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using SOA MP-2017 on a generational basis.	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis. Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis.	Healthy annuitants: CalPERS 2009 Healthy Annuity Mortality Tables multiplied by 0.948 for males and 1.048 for females, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis. Disabled annuitants: CalPERS 2009 Industrial Mortality Tables for Males multiplied by 0.903, with mortality improvements projected from 2009 using Scale MP-2015 on a generational basis.

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

PFDRP Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2016	2015	2014	2013	2012
Actuarially determined contribution	$ 132,480	$ 129,279	$ 123,583	$ 105,234	$ 121,008
Contributions in relation to actuarially determined contribution	132,480	129,279	123,583	105,234	121,008
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 186,874	$ 180,226	$ 180,083	$ 180,333	$ 184,750
Contributions as a percentage of covered payroll	70.89%	71.73%	68.63%	58.36%	65.50%

Fiscal year	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Valuation date	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Amortization method	Actuarial gains and losses and plan changes are amortized over closed 16-year periods. Method and assumption changes are amortized over closed 20-year periods. All amortizations are a level percent of payroll.				
Discount rate	7.000%	7.125%	7.25%	7.50%	7.75%
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.	2.00% for FY 2015, and 3.5% thereafter plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service.	0.00% for FY 2013 and FY 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and FY 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	4.25% plus merit component based on length of service ranging from 5.50% for new hires to 1.75% for members with 8 or more years of service.
Amortization growth rate	3.25%	3.50%	3.50%	4.25%	4.25%
Mortality	RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years.				RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years.

Schedule of Employer Contributions – Defined Benefit Pension Plans

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 183,964	$ 181,327	$ 173,006	$ 156,770	$ 138,483
Contributions in relation to actuarially determined contributions	183,964	181,327	173,006	156,770	138,483
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 335,421	$ 319,980	$ 298,824	$ 290,504	$ 271,153
Contributions as a percentage of covered payroll	54.85%	56.67%	57.90%	53.96%	51.07%

Fiscal year	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**
Valuation date	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	6.75%	6.75%	6.875%	6.875%	7.00%
Salary increases	3.00% plus merit component based on years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service
Amortization growth rate	2.75%	3.00%	3.00%	2.85%	2.85%
Amortization method	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period.	As of June 30, 2009, the funded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amortization payment for the 2015 assumption changes is phased-in over 3 years.	As of June 30, 2009, the funded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amortization payment for the 2015 assumption changes is phased-in over 3 years.
Mortality	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2019 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale

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

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2016	2015	2014	2013	2012
Actuarially determined contribution	$ 129,456	$ 114,751	$ 102,811	$ 103,109	$ 87,082
Contributions in relation to actuarially determined contributions	124,723	114,751	107,544	103,109	87,082
Contribution deficiency (excess)	$ 4,733	$ -	$ (4,733)	$ -	$ -
Covered payroll	$ 257,771	$ 240,678	$ 219,434	$ 217,375	$ 223,158
Contributions as a percentage of covered payroll	48.39%	47.68%	49.01%	47.43%	39.02%

Fiscal year	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Valuation date	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**	**June 30, 2011**	**June 30, 2010**
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	7.00%	7.00%	7.25%	7.00%	7.50%
Salary increases	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.00% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service
Amortization growth rate	2.85%	2.85%	2.43%	3.00%	3.25%
Amortization method	As of June 30, 2009, the funded actuarial liability was amortized over a closed 30 year period as a level of percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20 year periods as a level percentage of pay.	The unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30 year period commencing June 30, 2009 as a level percentage of Tier 1 pay. Actuarial gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of Tier 1 and Tier 2 pay.	The entire unfunded actuarial liability as of June 30, 2009 was amortized as a level percentage of payroll over a closed 30-year period commening June 30, 2009. Actuarial gains and losses, assumption changes and plan changes since June 30, 2009 are amortized as a level percentage of payroll over a closed 20-year periods beginning with the valuation in which they are first recognized.	Level percent of pay, closed, layered	Level percent of pay, closed, layered
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios for the Measurement Periods Ended June 30 – Defined Benefit Pension Plans

(Dollar amounts in thousands):			PFDRP				
Total pension liability	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Service cost (middle of year)	$ 89,467	$ 87,641	$ 81,883	$ 75,481	$ 72,760	$ 74,531	$ 74,895
Interest (includes interest on service cost)	342,802	329,612	313,565	300,378	290,961	274,487	262,738
Changes of benefit terms	-	-	-	178	5,752	-	-
Differences between expected and actual experience	(15,131)	37,127	(17,011)	33,081	67,558	(8,672)	21,457
Changes of assumptions	73,525	80,852	76,425	(100,328)	72,680	90,179	56,311
Benefit payments, including refunds of member contributions	(244,310)	(231,007)	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)
Net change in total pension liability	246,353	304,225	236,854	102,160	313,679	243,586	239,148
Total pension liability - beginning	5,177,016	4,872,791	4,635,937	4,533,777	4,220,098	3,976,512	3,737,364
Total pension liability - ending	$ 5,423,369	$ 5,177,016	$ 4,872,791	$ 4,635,937	$ 4,533,777	$ 4,220,098	$ 3,976,512
Plan fiduciary net position							
Contibutions - employer	$ 201,370	$ 188,481	$ 176,618	$ 157,712	$ 136,957	$ 132,480	$ 129,279
Contibutions - member	29,033	27,645	24,811	23,841	20,580	21,508	20,747
Net investment income	1,044,290	134,085	114,179	233,475	292,734	(29,206)	(27,690)
Benefit payments, including refunds of member contributions	(244,310)	(231,008)	(218,008)	(206,630)	(196,032)	(186,939)	(176,253)
Administrative expense	(5,764)	(5,605)	(5,369)	(5,464)	(4,635)	(4,254)	(4,191)
Net change in plan fiduciary net position	1,024,619	113,598	92,231	202,934	249,604	(66,411)	(58,108)
Plan fiduciary net position - beginning	3,702,020	3,588,422	3,496,191	3,293,257	3,043,653	3,110,064	3,168,172
Plan fiduciary net position - ending	$ 4,726,639	$ 3,702,020	$ 3,588,422	$ 3,496,191	$ 3,293,257	$ 3,043,653	$ 3,110,064
Net pension liability - ending	$ 696,730	$ 1,474,996	$ 1,284,369	$ 1,139,746	$ 1,240,520	$ 1,176,445	$ 866,448
Plan fiduciary net position as a percentage of the total pension liability	87.15%	71.51%	73.64%	75.41%	72.64%	72.12%	78.21%
Covered payroll	$ 230,401	$ 218,619	$ 203,164	$ 186,177	$ 186,874	$ 180,226	$ 180,083
Net pension liability as a percentage of covered payroll	302.40%	674.69%	632.18%	612.18%	663.83%	652.76%	480.76%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

(Dollar amounts in thousands):			FCERS				
Total pension liability	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Service cost (middle of year)	$ 65,711	$ 61,014	$ 61,808	$ 59,628	$ 51,887	$ 49,011	$ 46,795
Interest (includes interest on service cost)	283,610	280,131	272,787	264,250	249,388	229,609	221,690
Changes of benefit terms	-	-	-	1,781	12,132	-	-
Differences between expected and actual experience	44,382	(27,723)	(11,662)	17,461	40,853	39,720	13,005
Changes of assumptions	36,981	(2,937)	54,398	(15,582)	60,233	205,875	108,674
Benefit payments, including refunds of member contributions	(227,206)	(216,728)	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)
Net change in total pension liability	203,478	93,757	172,265	134,138	231,063	350,897	225,602
Total pension liability - beginning	4,323,370	4,229,613	4,057,348	3,923,210	3,692,147	3,341,250	3,115,648
Total pension liability - ending	$ 4,526,848	$ 4,323,370	$ 4,229,613	$ 4,057,348	$ 3,923,210	$ 3,692,147	$ 3,341,250
Plan fiduciary net position							
Contibutions - employer	$ 183,964	$ 181,327	$ 173,006	$ 156,770	$ 138,483	$ 124,723	$ 114,751
Contibutions - employee	25,724	25,082	22,606	20,501	17,227	15,920	13,621
Net investment income	698,608	90,909	76,855	117,493	146,010	(35,010)	(16,642)
Benefit payments, including refunds of member contributions	(227,206)	(216,728)	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)
Administrative expense	(4,762)	(4,725)	(4,582)	(4,823)	(4,380)	(3,940)	(3,898)
Net change in plan fiduciary net position	676,328	75,865	62,819	96,541	113,910	(71,625)	(56,730)
Plan fiduciary net position - beginning	2,208,017	2,132,152	2,069,333	1,972,792	1,858,882	1,930,507	1,987,237
Plan fiduciary net position - ending	$ 2,884,345	$ 2,208,017	$ 2,132,152	$ 2,069,333	$ 1,972,792	$ 1,858,882	$ 1,930,507
Net pension liability - ending	$ 1,642,503	$ 2,115,353	$ 2,097,461	$ 1,988,015	$ 1,950,418	$ 1,833,265	$ 1,410,743
Plan fiduciary net position as a percentage of the total pension liability	63.72%	51.07%	50.41%	51.00%	50.29%	50.35%	57.78%
Covered payroll	$ 319,980	$ 298,824	$ 290,504	$ 271,153	$ 257,771	$ 240,678	$ 219,434
Net pension liability as a percentage of covered payroll	513.31%	707.89%	722.01%	733.17%	756.65%	761.71%	586.15%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Investment Returns – Defined Benefit Pension Plans

	PFDRP							
	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	26.43%	2.98%	4.00%	6.89%	9.68%	(0.85%)	0.85%	13.00%

	FCERS							
	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	29.43%	3.79%	4.17%	6.03%	7.53%	(0.79)%	(1.07)%	7.49%

The rate shown above is based on the Defined Benefit and 401(h) only and does not include the 115 sub-trusts. Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios – CalPERS

(Dollar amounts in thousands):	2021	2020	2019	2018	2017	2016	2015
Measurement date:	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.03434%	0.03485%	0.03540%	0.03597%	0.03634%	0.03783%	0.01697%
Proportionate share of the net pension liability	$ 1,448	$ 1,395	$ 1,334	$ 1,419	$ 1,262	$ 1,038	$ 1,056
Covered payroll	$ 1,006	$ 797	$ 822	$ 776	$ 756	$ 589	$ 692
Proportionate share of the net pension liability as percentage of covered payroll	143.94%	175.03%	162.29%	182.86%	166.93%	176.23%	152.60%
Plan's fiduciary net position as a percentage of the total pension liability	75.19%	75.65%	76.39%	74.67%	74.39%	77.96%	76.28%

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015. Additional years will be displayed as they become available.

Schedule of Employer Contributions – CalPERS

(Dollar amounts in thousands)	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 305	$ 222	$ 188	$ 184	$ 162	$ 148	$ 107
Contributions in relation to the contractually required contributions	293	222	188	184	162	156	107
Contribution deficiency (excess)	$ 12	$ -	$ -	$ -	$ -	$ (8)	$ -
Covered payroll	$ 1,720	$ 1,006	$ 797	$ 822	$ 776	$ 756	$ 589
Contributions as a percentage of covered payroll	17.03%	22.07%	23.59%	22.38%	20.88%	20.63%	17.06%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Actuarial Cost Method	Entry Age Normal Cost Method						
Amortization Method	Level Percentage of Payroll						
Asset Valuation Method	Market Value						15 Year Smoothed Market
Actuarial Assumptions:							
Discount Rate	7.00% (net of administrative expenses)	7.25% (net of administrative expenses)	7.375% (net of administrative expenses)	7.5% (net of administrative expenses)			
Termination Liability Discount Rate	2.91%	2.61%	1.75%	2.75%	2.91%	3.72%	2.98%
Salary Growth	.40% to 8.50%		3.20% to 12.20%			3.30% to 14.20%	
	Depending on Age, Service and Type of Employment						
Inflation	2.500%	2.625%	2.75%				
Payroll Growth	2.750%	2.875%	3.00%				

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015.
Additional years will be displayed as they occur.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2021

Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios for the Measurement Periods Ended June 30 – Postemployment Healthcare Plans

(Dollar amounts in thousands):	PFDRP				
Total OPEB liability	2021	2020	2019	2018	2017
Service cost (middle of year)	$ 12,991	$ 12,813	$ 15,003	$ 13,001	$ 16,112
Interest (includes interest on service cost)	45,789	44,676	48,208	45,314	46,774
Changes of benefit terms	-	-	-	(69,434)	-
Differences between expected and actual experience	(35,106)	(99,319)	(3,401)	14,877	-
Change of assumptions	48,331	8,567	38,843	21,243	-
Benefit payments, including refunds of member contributions	(25,974)	(25,031)	(26,403)	(27,686)	(24,799)
Net change in total OPEB liability	46,031	(58,294)	72,250	(2,685)	38,087
Total OPEB liability - beginning	725,788	784,082	711,832	714,517	676,430
Total OPEB liability - ending	$ 771,819	$ 725,788	$ 784,082	$ 711,832	$ 714,517
Plan fiduciary net position					
Contibutions - employer	$ 28,397	$ 27,350	$ 28,744	$ 25,382	$ 20,667
Contibutions - employees	12,475	13,135	13,315	16,127	18,116
Net investment income	52,994	7,243	7,907	7,070	12,453
Benefit payments, including refunds of member contributions	(25,974)	(25,031)	(26,403)	(27,686)	(24,799)
Administrative expense	(110)	(122)	(126)	(158)	(182)
VEBA transfer	-	-	-	(7,897)	-
Net change in plan fiduciary net position	67,782	22,575	23,437	12,838	26,255
Plan fiduciary net position - beginning	208,532	185,957	162,520	149,682	123,427
Plan fiduciary net position - ending	$ 276,314	$ 208,532	$ 185,957	$ 162,520	$ 149,682
Net OPEB liability - ending	$ 495,505	$ 517,256	$ 598,125	$ 549,312	$ 564,835
Plan fiduciary net position as a percentage of the total OPEB liability	35.80%	28.73%	23.72%	22.83%	20.95%
Covered payroll	$ 230,401	$ 218,619	$ 203,164	$ 188,177	$ 186,874
Net OPEB liability as a percentage of covered payroll	215.06%	236.60%	294.41%	291.91%	302.25%

(Dollar amounts in thousands):	FCERS				
Total OPEB liability	2021	2020	2019	2018	2017
Service cost (beginning of year)	$ 7,018	$ 7,040	$ 7,723	$ 7,889	$ 11,109
Interest (includes interest on service cost)	39,886	41,855	43,182	42,669	49,977
Changes of benefit terms	-	-	-	(57,623)	-
Differences between expected and actual experience	(33,945)	(25,639)	(10,418)	(994)	-
Changes of assumptions	34,496	(14,804)	9,310	(77,795)	-
Benefit payments, including refunds of member contributions	(31,871)	(30,779)	(28,824)	(29,724)	(31,007)
Net change in total OPEB liability	15,584	(22,327)	20,973	(115,578)	30,079
Total OPEB liability - beginning	649,868	672,195	651,222	766,801	736,721
Total OPEB liability - ending	$ 665,452	$ 649,868	$ 672,195	$ 651,222	$ 766,801
Plan fiduciary net position					
Contibutions - employer	$ 26,236	$ 26,533	$ 26,410	$ 32,397	$ 31,905
Contibutions - employee	10,275	10,692	10,578	15,545	16,827
Net investment income	77,360	3,077	9,472	12,336	17,041
Benefit payments, including refunds of member contributions	(31,871)	(30,779)	(28,826)	(29,724)	(31,007)
Administrative expense	(697)	(686)	(384)	(170)	(242)
VEBA transfer	(5)	(13)	(19)	(13,497)	-
Net change in plan fiduciary net position	81,298	8,824	17,231	16,887	34,524
Plan fiduciary net position - beginning	303,312	294,488	277,257	260,370	225,846
Plan fiduciary net position - ending	$ 384,610	$ 303,312	$ 294,488	$ 277,257	$ 260,370
Net OPEB liability - ending	$ 280,842	$ 346,556	$ 377,707	$ 373,965	$ 506,431
Plan fiduciary net position as a percentage of the total OPEB liability	57.80%	46.67%	43.81%	42.57%	33.96%
Covered payroll	$ 319,980	$ 298,824	$ 290,504	$ 271,153	$ 257,771
Net OPEB liability as a percentage of covered payroll	87.77%	115.97%	130.02%	137.92%	196.47%

Schedule is intended to show information for 10 years commercing with the year ended June 30, 2017. Additional years will be displayed as they become available.

Changes in assumptions. The discount rate was changed from 6.5% (net of administrative expense) to 6.25% and from 6.75% (net of administrative expense) to 6.25%, respectively, for PFDRP and FCERS for the measurement period ended June 30, 2021. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per person cost trends were moved forward one year.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information become available.

Schedule of Employer Contributions – Postemployment Healthcare Plans

PFDRP Schedule of Employer Contributions
(Dollar Amounts in Thousands)
Last Ten Fiscal Years*

Fiscal Year Ended June 30	2021	2020	2019	2018	2017
Actuarially Determined Contribution (ADC)	$ 28,397	$ 27,350	$ 28,744	$ 25,382	$ 20,667
Contribution in relation to the ADC	(28,397)	(27,350)	(28,744)	(25,382)	(20,667)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 237,475	$ 230,401	$ 218,619	$ 203,164	$ 188,177
Contribution as a percentage of covered payroll	12%	12%	13%	12%	11%

Methods and assumptions used to determine contributions:

Fiscal Year	6/30/2021	6/30/2020	6/30/2019
Valuation Date	6/30/2019	6/30/2018	6/30/2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Actuarial Cost Method	Individual entry age	Individual entry age	Individual entry age
Asset Valuation Method	Fair value of assets	Fair value of assets	Fair value of assets
Amortization Method	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Discount rate	6.500%	6.500%	6.875%
Amortization growth rate	3.25%	3.25%	3.25%
Ultimate rate of medical inflation	3.940%	4.250%	4.250%
Salary increases	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service
Mortality	Adjusted 2010 Public Safety above income mortality tables for healthy and disabled members and adjusted 2009 CalPERS mortality tables for survivors projected on a generational basis with the SOA MP-2019 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ended June 30, 2021, June 2020 and June 30, 2019 can be found in the June 30, 2019 , June 30, 2018 and June 30, 2017 actuarial valuation report, respectively.

Schedule of Employer Contributions – Postemployment Healthcare Plans (Continued)

FCERS Schedule of Employer Contributions
(Dollar Amounts in Thousands)
Last Ten Fiscal Years**

Fiscal Year Ended June 30	2021	2020	2019	2018	2017
Actuarially Determined Contribution (ADC)	$ 26,236	$ 26,533	$ 26,410	$ 32,397	$ 31,905
Contribution in relation to the ADC	(26,236)	(26,533)	(26,410)	(32,397)	(31,905)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 335,421	$ 319,980	$ 298,824	$ 290,504	$ 271,153
Contribution as a percentage of covered payroll	8%	8%	9%	11%	12%

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

Fiscal Year	6/30/2021	6/30/2020	6/30/2019
Valuation Date	6/30/2019	6/30/2018	6/30/2017
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Actuarial Cost Method	Individual entry age	Individual entry age	Individual entry age
Amortization Method/Period	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortization as a level dollar amount with 3-year phase-in and phase-out	25-year layered amortization as a level dollar amount with 3-year phase-in and phase-out
Asset Valuation Method	Fair value of assets	Fair value of assets	Fair value of assets
Amortization growth rate	0.00%	0.00%	0.00%
Discount rate	6.750%	6.750%	6.875%
Ultimate rate of medical inflation	3.940%	4.250%	4.250%
Salary increases	3.00% based on years of service	3.25% based on years of service	3.25% based on years of servic
Mortality	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2019 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ended June 30, 2021 can be found in the June 30, 2019 actuarial valuation report.

Schedule of Investment Returns – Postemployment Healthcare Plans

	PFDRP				
	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	23.96%	1.95%	4.86%	3.56%	7.17%

	FCERS				
	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	24.92%	0.53%	4.33%	4.55%	7.20%

The rate shown above is based on the 115 sub-trusts only and does not include the 401(h). Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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I. Budgetary Information

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation.

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, non-personal) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department. The City's legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within the Annual Comprehensive Financial Report itself. As a result, the City prepares a separate report to demonstrate compliance with its legal level of budgetary control.

Annual budgets are prepared for the General Fund and all Special Revenue Funds. Capital project budgets are based on a project time frame rather than a fiscal year time frame. Debt Service Funds appropriations were adopted by the Council when the formal bond resolutions were approved. Therefore, Capital Project Funds and Debt Service Funds are not reported on budgetary basis.

II. Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States ("GAAP") basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process ("budgetary basis") to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial schedules, while encumbered amounts are not recognized as expenditures on GAAP basis until the equipment, supplies or services are received.

- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When loan repayments are received, they are recorded as reductions to receivables on a GAAP basis, but are recognized as revenues on a budgetary basis.

- Net decreases were made to certain GAAP basis loans receivable to reflect carrying amounts at a discounted present value and allowances for bad debts. The discount is treated as an expenditure on a GAAP basis and is not included in the budgetary basis financial statements. In addition, the allowance for bad debts is not included in the budgetary basis financial schedules, but is an expenditure on a GAAP basis.

- Certain 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.

- 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 19, 2021 the City Council approved certain fiscal year 2021 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedules of revenues, expenditures and changes in fund balances - budget and actual reflect such budget revisions.

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Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

City Council
City of San José, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2021, except for our report on the schedule of expenditures of federal awards as to which the date is March 15, 2022.

Our report includes a reference to other auditors who audited the financial statements of the City of San José Federated City Employees' Retirement System and the City of San José Police and Fire Department Retirement Plan, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

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Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 19, 2021

Certified
Public
Accountants

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

City Council
City of San José, California

Report on Compliance for Each Major Federal Program

We have audited the City of San José's, California (City), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 15, 2022

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program	Assistance Listing Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Commerce				
Direct programs:				
COVID-19 Economic Adjustment Assistance	11.307	07-79-07670	$ 36,020	$ 36,020
Total U.S. Department of Commerce			36,020	36,020
U.S. Department of Housing and Urban Development				
Direct programs:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-06-0021	43,869	-
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-06-0021	94,851	-
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-06-0021	1,646,508	703,962
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-06-0021	2,095,801	1,813,730
Community Development Block Grants/Entitlement Grants	14.218	B-19-MC-06-0021	6,467,368	4,991,204
Community Development Block Grants/Entitlement Grants	14.218	B-20-MC-06-0021	1,701,039	1,134,828
COVID-19 Community Development Block Grants/Entitlement Grants	14.218	B-20-MW-06-0021	1,223,003	597,024
Subtotal CDBG - Entitlement Grants Cluster			13,272,439	9,240,748
Emergency Solutions Grant Program	14.231	E-18-MC-06-0021	52,240	-
Emergency Solutions Grant Program	14.231	E-19-MC-06-0021	61,501	60,244
Emergency Solutions Grant Program	14.231	E-20-MC-06-0021	612,923	585,852
COVID-19 Emergency Solutions Grant Program	14.231	E-20-MW-06-0021	11,370,298	9,058,053
Subtotal Emergency Solutions Grant Program			12,096,962	9,704,149
Home Investment Partnerships Program	14.239	M-17-MC-06-0215	991,866	991,866
Home Investment Partnerships Program	14.239	M-18-MC-06-0215	2,527,953	1,745,405
Home Investment Partnerships Program	14.239	M-19-MC-06-0215	2,406,917	2,288,575
Home Investment Partnerships Program	14.239	M-20-MC-06-0215	4,178,993	4,167,675
Subtotal Home Investment Partnerships Program			10,105,729	9,193,521
Housing Opportunities for Persons with AIDS	14.241	CAH18-F004	121,277	121,277
Housing Opportunities for Persons with AIDS	14.241	CAH19-F004	738,075	684,135
Housing Opportunities for Persons with AIDS	14.241	CAH20-F004	337,671	337,671
Housing Opportunities for Persons with AIDS	14.241	CAH15-0001	520,206	515,525
Housing Opportunities for Persons with AIDS	14.241	CAH15-0002	34,099	34,099
Housing Opportunities for Persons with AIDS	14.241	CA-H19-0010	357,085	329,061
COVID-19 Housing Opportunities for Persons with AIDS	14.241	CAH20FHW004	75,333	75,333
COVID-19 Housing Opportunities for Persons with AIDS	14.241	CAH2001W028	16,783	16,783
Subtotal Housing Opportunities for Persons with AIDS			2,200,529	2,113,884
Total U.S. Department of Housing and Urban Development			37,675,659	30,252,302
U.S. Department of Justice				
Direct programs:				
COVID-19 Coronavirus Emergency Supplemental Funding Program	16.034	2020-VD-BX-1489	859,018	-
Missing Children's Assistance	16.543	2017-MC-FX-K020	258,126	-
Missing Children's Assistance	16.543	2018-MC-FX-K003	41,893	-
Missing Children's Assistance	16.543	2020-MC-FX-K006	146,574	-
Subtotal Missing Children's Assistance			446,593	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2018-WE-AX-0029	197,256	-
Bulletproof Vest Partnership Program	16.607	2018 BVP	47,032	-
Special Data Collections and Statistical Studies	16.734	2018-FU-CX-K013	23,557	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2019-DJ-BX-0690	138,825	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	2018-MO-BX-K0015	194,174	-
STOP School Violence	16.839	2018-YS-BX-0042	29,696	29,696
Equitable Sharing Program	16.922	CA0431300	115,000	-
Pass-through California Office of Emergency Services:				
Crime Victim Assistance	16.575	KI 19 02 7928	125,323	125,323
Crime Victim Assistance	16.575	KI 20 03 7928	79,675	79,675
Subtotal Pass-through California Office of Emergency Services:			204,998	204,998
Total U.S. Department of Justice			2,256,149	234,694

See accompanying notes to the Schedule of Expenditures of Federal Awards

Federal Grantor/Pass-Through Grantor/Program	Assistance Listing Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Labor				
Pass-through State of California, Employment Development Department:				
Workforce Innovation and Opportunity Act (WIOA) Cluster:				
WIOA Adult Program	17.258	AA011037202	$ 660,655	$ 660,655
WIOA Adult Program	17.258	AA011037500	746,606	573,215
WIOA Adult Program	17.258	AA111037201	313,687	-
WIOA Adult Program	17.258	AA111037202	437,974	-
WIOA Adult Program	17.258	AA1110371222	3,846	-
Subtotal - WIOA Adult Program			2,162,768	1,233,870
WIOA Youth Activities	17.259	AA011037301	1,101,399	905,591
WIOA Youth Activities	17.259	AA011037302	4,990	-
WIOA Youth Activities	17.259	AA111037301	444,909	-
Subtotal - WIOA Youth Activities			1,551,298	905,591
WIOA Dislocated Worker Formula Grants	17.278	AA011037541	128,064	-
WIOA Dislocated Worker Formula Grants	17.278	AA011037501	211,100	211,100
WIOA Dislocated Worker Formula Grants	17.278	AA011037502	851,737	206,252
WIOA Dislocated Worker Formula Grants	17.278	AA0110371187	800	800
WIOA Dislocated Worker Formula Grants	17.278	AA111037292	22,207	-
WIOA Dislocated Worker Formula Grants	17.278	AA111037293	99,401	-
WIOA Dislocated Worker Formula Grants	17.278	AA111037540	93,554	-
WIOA Dislocated Worker Formula Grants	17.278	AA111037541	164,815	-
WIOA Dislocated Worker Formula Grants	17.278	AA111037501	226,317	-
WIOA Dislocated Worker Formula Grants	17.278	AA111037502	160,665	-
Subtotal WIOA Dislocated Worker Formula Grants			1,958,660	418,152
Subtotal WIOA Cluster			5,672,726	2,557,613
WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277	AA0110371194	106,576	100,615
Total U.S. Department of Labor			5,779,302	2,658,228
U.S. Department of Transportation				
Direct programs:				
Airport Improvement Program	20.106	3-06-0226-086-2015	32,210	-
Airport Improvement Program	20.106	3-06-0226-091-2017	38,095	-
Airport Improvement Program	20.106	3-06-0226-094-2017	150,000	-
Airport Improvement Program	20.106	3-06-0226-098-2020	6,943,225	-
Airport Improvement Program	20.106	3-06-0226-099-2020	4,431,096	-
Airport Improvement Program	20.106	3-06-0226-100-2020	168,433	-
COVID-19 Airport Improvement Program	20.106	3-06-0226-101-2020	53,538,164	-
Airport Improvement Program	20.106	3-06-0226-103-2021	213,673	-
COVID-19 Airport Improvement Program	20.106	3-06-0226-105-2021	1,646,602	-
Subtotal Airport Improvement Program			67,161,498	-
Highway Planning and Construction Cluster:				
Pass-through California Department of Transportation:				
Highway Planning and Construction	20.205	BRLS-5005 (089)	327,302	-
Highway Planning and Construction	20.205	HSIP7-04-022	2,030,189	-
Highway Planning and Construction	20.205	HSIP-5005(149)	2,276,899	-
Highway Planning and Construction	20.205	HSIPL-5005(150)	875,135	-
Highway Planning and Construction	20.205	5005(147)	54,203	-
Highway Planning and Construction	20.205	5005(148)	148,022	-
Highway Planning and Construction	20.205	5005(158)	26,718	-
Subtotal Highway Planning and Construction			5,738,468	-
Recreational Trails Program	20.219	HPLUL-5005 (051)	712,374	-
Subtotal pass-through California Department of Transportation			6,450,842	-
Pass-through Metropolitan Transportation Commission:				
Highway Planning and Construction	20.205	CML-5005(142)	31,693	-
Highway Planning and Construction	20.205	CML-5005(160)	617,202	-
Highway Planning and Construction	20.205	CML-5005(145)	180,346	-
Highway Planning and Construction	20.205	CMLNI-5005(141)	1,476	-
Highway Planning and Construction	20.205	CML-6084(227)	279,207	-
Highway Planning and Construction	20.205	STPL-5005(154)	627,187	-
Highway Planning and Construction	20.205	SCL-170029	714,045	-
Highway Planning and Construction	20.205	SCL170061	317,720	-
Highway Planning and Construction	20.205	STPL-5005(153)	245,334	-
Highway Planning and Construction	20.205	SCL170031	53,415	-
Highway Planning and Construction	20.205	PLNG-23877	19,035	-
Highway Planning and Construction	20.205	STPL-5005(163)	14,733,285	-
Subtotal pass-through Metropolitan Transportation Commission			17,819,945	-
Subtotal Highway Planning and Construction Cluster			24,270,787	-

CITY OF SAN JOSE, CALIFORNIA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program	Assistance Listing Number	Grant Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
Pass-through California Office of Traffic Safety:				
State and Community Highway Safety	20.600	PS19028	$ 90,303	$ -
State and Community Highway Safety	20.600	PT20159	3,576	-
State and Community Highway Safety	20.600	PT20156	25,925	-
Subtotal State and Community Highway Safety			119,804	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT20159	48,607	-
National Priority Safety Programs	20.616	PT20156	61,490	-
Subtotal pass-through California Office of Traffic Safety			229,901	-
Total U.S. Department of Transportation			91,662,186	-
U.S. Department of the Treasury				
Direct program:				
Equitable Sharing	21.016	N/A	100,000	-
COVID-19 Coronavirus Relief Fund	21.019	N/A	104,351,693	20,224,692
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	1,676,329	-
Total U.S. Department of the Treasury			106,128,022	20,224,692
National Endowment for the Arts				
Direct program:				
Promotion of the Arts Grants to Organizations and Individuals	45.024	17-6200-7002	10,000	-
Promotion of the Arts Grants to Organizations and Individuals	45.024	1854443-62-19	30,000	-
Subtotal State and Community Highway Safety			40,000	-
Total National Endowment for the Arts			40,000	-
U.S. Department of Health and Human Services				
Pass-through Santa Clara County Social Services:				
Aging Cluster:				
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	4300010957	184,151	-
Nutrition Services Incentive Program	93.053	4300010957	38,358	-
Subtotal Aging Cluster			222,509	-
Total U.S. Department of Health and Human Services			222,509	-
U.S. Department of Homeland Security				
Pass-through California Office of Emergency Services:				
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4482-DR	999,855	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4308-DR	390,273	-
Subtotal pass-through California Office of Emergency Services:			1,390,128	-
Pass-through Santa Clara County:				
Emergency Management Performance Grants	97.042	2019-0003	74,737	-
Subtotal pass-through Santa Clara County			74,737	-
Pass-through the Bay Area UASI:				
Non-Profit Security Program	97.008	2018-0054	34,282	-
Non-Profit Security Program	97.008	2019-0035	48,888	-
Subtotal Non-Profit Security Program			83,170	-
Homeland Security Grant Program	97.067	2018-0054	77,410	-
Homeland Security Grant Program	97.067	2019-0035	589,951	-
Homeland Security Grant Program	97.067	2020-0095	81,236	-
Homeland Security Grant Program	97.067	FY2016-2017	75,018	-
Homeland Security Grant Program	97.067	None	64,247	-
Homeland Security Grant Program	97.067	2019-0035	320,567	-
Homeland Security Grant Program	97.067	2020-0095	216,917	-
Homeland Security Grant Program	97.067	None	163,400	-
Homeland Security Grant Program	97.067	None	122,122	-
Subtotal Homeland Security Grant Program			1,710,868	-
Subtotal pass-through the Bay Area UASI			1,794,038	-
Total U.S. Department of Homeland Security			3,258,903	-
Total Expenditures of Federal Awards			$ 247,058,750	$ 53,405,936

See accompanying notes to the Schedule of Expenditures of Federal Awards

(1) GENERAL

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of the federal award programs of the City of San José, California (the City). The City's reporting entity is defined in Note I to its basic financial statements. The SEFA includes all federal awards received directly from federal agencies and federal awards passed-through other governmental agencies.

(2) BASIS OF PRESENTATION

The accompanying schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds as described in Note I to the City's basic financial statements. The City did not elect to use the 10% de minimis cost rate as covered in U.S. Code of Federal Regulations, Title 2 section 200.414 *Indirect (F&A) costs*.

For reimbursable grants, the City recognizes revenues commencing on the date of grant approval (provided all eligibility requirements are met) since this is when the City is eligible to claim expenditures for reimbursements. Pass-through entity identifying numbers are presented where available.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the general, special revenue, and capital projects funds and as expenses for non-capital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

(4) DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIAL DECLARED DISASTERS)

The U.S. Department of Homeland Security reimburses the City for 75% for major declaration event number FEMA-4482-DR and 100% for FEMA-4482-DR of allowable costs funded by Disaster Grants – Public Assistance (Presidential Declared Disasters) (Programs), assistance listing number 97.036. During the FY 2021, the Programs reported $1,390,128 in aggregate, of which $278,046 was incurred in FY 2020. These are allowable and consistent with public assistance funding. Federal Emergency Management Agency and California Governor's Office of Emergency Services issue obligation letters, which were received during FY 2021. It provides cost recognition and reimbursements for projects arising out of the COVID-19 Pandemic event.

(5) INTERNET CRIMES AGAINST CHILDREN (ICAC) GRANT

The following schedule represents expenditures and revenues for the Internet Crimes Against Children Task Force Program from the U.S. Department of Justice and the California Governor's Office of Emergency Services (CalOES) for the year ended June 30, 2021. Federal funding of the program is reported under assistance number 16.543.

Program Title and Expenditure Category	Grant Number Grant Period	Cumulative Expenditures through June 30, 2020	Actual 7/1/20-6/30/21 Non-match	Match	Cumulative Expenditures through June 30, 2021	Cumulative Program Revenue
Internet Crimes Against Children						
Task Force Program (Federal)	2017-MC-FX-K020					
Personnel Services	7/01/2017-09/30/2021	$ 414,094	$ 160,384	$ -	$ 574,478	$ 574,478
Operating Expenses		622,039	97,742	-	719,781	719,781
Total		$ 1,036,133	$ 258,126	$ -	$ 1,294,259	$ 1,294,259
Internet Crimes Against Children						
Task Force Program (Federal)	2018-MC-FX-K003					
Personnel Services	10/01/2018-09/30/2021	$ 150,192	$ 41,893	$ -	$ 192,085	$ 192,085
Operating Expenses		7,915	-	-	7,915	7,915
Total		$ 158,107	$ 41,893	$ -	$ 200,000	$ 200,000
Internet Crimes Against Children						
Task Force Program (Federal)	2020-MC-FX-K006					
Personnel Services	10/01/2020-12/31/2021	$ -	$ 72,044	$ -	$ 72,044	$ 72,044
Operating Expenses		-	74,530	-	74,530	74,530
Total		$ -	$ 146,574	$ -	$ 146,574	$ 146,574
Internet Crimes Against Children						
Task Force Program (State)	IC20-11-7928					
Personnel Services	1/1/2021-12/31/2021	$ -	$ 51,207	$ -	$ 51,207	$ 51,207
Operating Expenses		-	120,302	-	120,302	120,302
Total		$ -	$ 171,509	$ -	$ 171,509	$ 171,509

Section I Summary of Audit Results

Financial Statements

Type of report issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
♦ Material weakness(es) identified?	Yes
♦ Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance with major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.231	Emergency Solutions Grants Program
20.106	Airport Improvement Program
	Highway Planning and Construction Cluster:
20.205	Highway Planning and Construction (Federal-Aid Highway Program)
20.219	Recreational Trails Program
21.019	Coronavirus Relief Fund

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

Section II Financial Statement Findings

Finding 2021-001 – Material Weakness
Internal Controls Over the Financial Reporting Process

Criteria and Condition

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

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

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

Cause

While the City has made significant efforts in improving its financial reporting process over the past several years, the progress has been hampered by staff turnover, an increase in volume and complexity of new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), and additional reporting and compliance responsibilities associated with new federal and state grants funds.

Effect or Potential Effect

While the City has been successful in recruiting professionals to fill vacant positions over the past four years, it has been challenged with retaining these professionals. As such, the City has been continuously training and integrating new personnel into the City's complex accounting and financial reporting process. This rebuilding of staff has increased the workload of the remaining seasoned professionals, which contributed to errors or proposed audit adjustments to the financial reporting such as the following:

- In fiscal year 2019-20, the City's Housing Activities Fund was awarded a State grant in the amount of $23.8 million. The award was received upfront as an advance, and $14.9 million was recognized as grant revenue in fiscal year 2019-20. However, only $2.5 million should have been recognized as revenue in fiscal year 2019-20. The City should only recognize revenue as it incurs eligible costs, and report unearned revenue for the award amount where eligible costs are not yet incurred. An adjustment to the Housing Activities Fund in the amount of $12.4 million was necessary to properly report fund balance and governmental activities net position and unearned revenue at the beginning of the year for the fiscal year 2020-21.

- Errors made in accounts payable for end of year cut-off analysis, in the amounts of $5.8 million and $2.7 million in its governmental and proprietary funds, respectively.

- Errors made in the classification between unearned revenue and deferred revenue in the amount of $12.9 million in a nonmajor governmental fund.

- Proper asset classification for cash received as of the end of year by decreasing accounts receivable and increasing cash for the Low and Moderate Income Housing Asset Fund in the amount of $7.9 million.

In addition, there were numerous adjusting entries made by the City after the initial close of its financial records for financial statement presentation. This resulted in increased staff effort in re-performing reconciliations to substantiate account balances. This continued practice could cause possible irregularities, delays, and errors without timely identification and correction.

Recommendation
We recommend that the City continue evaluating the causes for the deficiencies reported above and to incorporate the necessary tasks during its closing process to prevent these types of errors in the future. This includes minimizing manual reconciliations to the General Ledger and manual adjusting entries for financial statement presentation. In addition, the City should continue to develop the skills and experience of its new personnel assigned to key roles in the preparation of the annual financial statements to improve the efficiency of its financial reporting process, including cross-training to minimize the impacts of further turnover.

Management Response
Management agrees with MGO's comment and acknowledges the need for continuous training and development of accounting professional staff in the Finance Department and within the departments. Additionally, there are opportunities for process improvements in converting the General Ledger to the financial statement presentation which will strengthen the accuracy and efficiency of financial reporting. See Management's Corrective Action Plan for a comprehensive response.

Section III Federal Award Findings and Questioned Costs

None reported.

Management's Corrective Action Plan – Unaudited
Year Ended June 30, 2021

Finding 2021-001 – Material Weakness
Internal Controls Over the Financial Reporting Process

Management Response:

Management agrees with MGO's comment and acknowledges the need for continuous training and development of accounting professional staff in the Finance Department and within the departments. Additionally, there are opportunities for process improvements in converting the General Ledger to the financial statement presentation which will strengthen the accuracy and efficiency of financial reporting.

The Finance Department's Accounting Division is responsible for recording citywide accounting and budget transactions, maintaining the general ledger database, coordinating the City's annual external audit process, and preparing and producing the Annual Comprehensive Financial Report (ACFR), in addition to approximately twenty (20) stand-alone financial reports. Additional work includes producing the City's annual cost allocation plans and filing mandatory financial reports with the State Controller's Office. Further complicating the governmental financial reporting over the past two years was an increase in the volume and complexity of new accounting pronouncements issued by GASB and additional reporting and compliance responsibilities associated with new federal and state grants funds.

Despite these challenges, the Accounting Division is undertaking various steps to address the issues raised in this Report to Those Charged With Governance (Governance Report).

1. The Department recently filled the Deputy Director of Finance, Accounting position, which had been vacant since September 2020. In addition, the Accounting Division has secured temporary funding for a new reporting unit, Finance Recovery. The Finance Recovery unit is focused exclusively on reporting, compliance, and documentation for COVID-19 federal and state grants. The Accounting Division has completed the recruitments and on-boarded three (3) of the eight (8) dedicated positions within this unit, including the Division Manager. While this unit will provide temporary relief for the additional work assumed by the Accounting Division, the success of the unit will depend on hiring, developing, and retaining skilled accounting professionals. Workload in this new unit will be closely monitored and as this unit continues to expand our expertise in grants reporting, compliance and documentation and the goal will be to utilize their expertise across the organization to enhance our performance in this area.

2. In Management's Response to the FY 2019-2020 Governance Report, the Finance Department included several workplan items to institute and implement changes to address internal control issues. Department senior management has reviewed those commitments and recognizes that staff turnover as well as the volume and complexity of new accounting standards and new grant funding has affected our ability to fully implement. It is appropriate to re-examine and refocus our efforts.

The following actionable tasks include:

a. The Finance Department anticipates during FY 2021-22, the Accounting Division will be able to institute and implement changes to address internal control issues, including the following:
   - Ensure proper training and cross training of professional accounting staff in core job assignments; including developing and maintaining detailed desk procedures;
   - Reconcile and review of accounting transactions, including review and approval by Supervising and Principal Accountants in a timely manner;
   - Plan and execute citywide fiscal year-end close activities and recording of accounting transactions in a timely manner;
   - Prepare and review audit documents and draft financial reports for the external auditor's review; and
   - Prepare a citywide audit completion schedule in consultation with the external auditors and conduct weekly or bi-weekly status meetings to ensure that tasks are completed by the targeted dates.

b. As the City has decentralized accounting operations, proper coordination among department accounting staff and the Accounting Division staff is critical for the successful execution of the audit process and completion of the ACFR and other reports. The Accounting Division will coordinate and prepare a detailed work plan that will list fiscal year-end milestones to be completed by department accounting staff and delivered to the Accounting Division within the timelines prescribed in the work plan. The Finance Department will ensure department senior management is aware of fiscal year-end close responsibilities and the related deliverables. Additionally, the Finance Department will engage with department accounting staff to commence an assessment of key accounting functions that could be better performed centrally versus decentralized. Finally, the City Manager's Office will commence a new procedure requiring departments to coordinate with the Finance Department prior to acceptance of grants to ensure departmental staff are properly trained and informed on appropriate accounting treatment of grant funds and expenditures.

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

Targeted Completion Date: June 30, 2022

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

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

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

While the City has been successful in recruiting professionals to fill vacant positions over the past three years, it has been challenged with retaining these professionals. As such, the City has been continuously training and integrating new personnel into the City's complex accounting and financial reporting process. This rebuilding of staff has increased the workload of the remaining seasoned professionals, which contributed to errors or proposed audit adjustments to the financial reporting such as the following:

- An error in reporting CARES Act funding received in advance. Reporting non-exchange revenues can be complex under generally accepted accounting principles, as revenue recognition depends upon whether the revenues have purpose restrictions or eligibility requirements. For the CARES Act program, revenue is only recognized to the extent the City has incurred eligible COVID-19 related costs. As the City recognized the entire advance received by the U.S. Treasury, an adjustment of $115 million to unearned revenue was necessary to properly recognize the CARES Act revenues earned during fiscal year 2019-20.

- An error in reporting interfund notes payable, resulting in an overstatement of $10 million at the government-wide financial statements level.

- Errors made in accounts payable for end of year cut-off analysis, in the amounts of $4.9 million and $3.1 million in it governmental and proprietary funds, respectively.

- Timely resolution of bank reconciling items.

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

We recommend that the City evaluate the causes for the deficiencies reported above in an effort to incorporate the necessary tasks during its closing process to prevent these kinds of errors in the future. In addition, the City should continue to develop the skills and experience of its new personnel assigned to key roles in the preparation of the annual financial statements to improve the efficiency of its financial reporting process, including cross-training to minimize the impacts of further turnover.

Status: Partially Corrected. While the City has improved its internal controls over financial reporting process, we did identify a similar finding in the current year (i.e., Finding 2021-001).

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

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

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

Status: Corrected.