SAN JOSE CLEAN ENERGY

(An Enterprise Fund of the City of San José)

Independent Auditor's Report,
Management's Discussion and Analysis,
Financial Statements, and Required
Supplementary Information
For the Year Ended June 30, 2022

MGO Certified Public Accountants

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
For the Year Ended June 30, 2022

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Independent Auditor's Report

Honorable City Council
San José Clean Energy
San José, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San José Clean Energy (SJCE), an enterprise fund of the City of San José, California (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise SJCE's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of SJCE as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SJCE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of SJCE are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities and major enterprise fund of the City that is attributable to the transactions of SJCE. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management's for the Financial Statements

The SJCE's 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, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SJCE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the proportionate share of the net pension liability (asset), the schedule of employer contributions – defined benefit pension plan, the schedule of the proportionate share of the net OPEB asset, and the schedule of employer contributions – postemployment healthcare plan identified as required supplementary information in the accompanying table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022 on our consideration of SJCE'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 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 SCJE's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 18, 2022

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The following discussion and analysis of San José Clean Energy's (SJCE) financial performance provides an overview of its financial activities for the year ended June 30, 2022. Please review in conjunction with SJCE's audited financial statements. The Community Energy Department of the City of San José (City) serves as the administrator of SJCE.

Financial Statements

SJCE's financial statements are those of a proprietary enterprise fund engaged in purchasing wholesale energy and re-selling to customers in the San José service territory. Under Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* public entities like SJCE that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net position; (2) statement of revenues, expenses, and changes in net position; (3) statement of cash flows; and (4) notes to basic financial statements.

SJCE's basic financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). SJCE is reported as a single enterprise fund.

The following table indicates the net position on June 30, 2022 and 2021 (in thousands):

	2022	2021	Dollar Change
Assets	$ 148,519	$ 76,306	$ 72,213
Deferred Outflows	3,641	3,123	518
Liabilities	99,146	52,708	46,438
Deferred Inflows	4,682	380	4,302
Net position	$ 48,332	$ 26,341	$ 21,991

Statement of Net Position

SJCE's net position is $48.3 million as of June 30, 2022, an increase of 83.5% from $26.3 million in 2021.

Assets increased by 94.6% or $72.2 million for 2022 due to rate increases that were implemented in January and March 2022, as well as the reduction in the California Public Utility Commission (CPUC) determined Power Charge Indifference Adjustment (PCIA) which is factored in to SJCE rate setting.

Liabilities increased by 88.1% or $46.4 million for 2022 primarily due to Commercial Paper (CP) borrowing. Between July and December 2021, SJCE borrowed $45.0 million from the San Jose Financing Authority CP Program, bringing total CP drawn to $60.0 million in support of power purchases and other operating costs. In fiscal year 2022, SJCE received advance payment of state grant funding for multi-year energy efficiency and disadvantaged community green energy programs, which resulted in unearned revenue liability increasing by $6.0 million compared to 2021.

The following table indicates the changes in net position for the years ended June 30, 2022 and 2021 (in thousands):

	2022	2021	Dollar Change
Operating revenues	$ 351,099	$ 280,388	$ 70,711
Operating expenses	331,288	291,615	39,673
Operating income	19,811	(11,227)	31,038
Nonoperating revenues (expenses), net	2,180	(1,392)	3,572
Change in net position	21,991	(12,619)	34,610
Net position, beginning of year	26,341	38,960	(12,619)
Net position, end of year	$ 48,332	$ 26,341	$ 21,991

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position identifies various revenue and expense items which impact the change in net position. SJCE's operating revenues were comprised of sales of electricity to customers. SJCE's customer base includes all City of San José residential and commercial electric customers who have not opted out of SJCE service, approximately 350,000 customers which generally remains stable year to year. Revenues increased in 2022 by 25.2% or $70.7 million due to increases in rates made in January and March 2022, as well as the decrease in PCIA. Operating expenses were comprised primarily of energy purchases from wholesale energy suppliers. Operating Expenses increased in 2022 by 13.6% or $39.7 million due to higher market prices in the California energy market.

COVID-19 Global Pandemic

Throughout fiscal year 2022, SJCE continued to support its customers during the COVID-19 pandemic by implementing relief programs to support customers' burden of unpaid bills and connecting them with resources and programs to help pay down debt and lower their energy bills. Many customers suffered economic hardship during the pandemic resulting in an increase in SJCE bill arrearages. As of June 30, 2022, the Allowance for Uncollectible Accounts balance was $14.6 million. To address the significant increase in SJCE bill arrearages, the San José City Council adopted a resolution on January 11, 2022 to accept approximately $4.3 million in California Arrearage Payment Program (CAPP) monies to address electric arrearages accrued during the pandemic relief period from March 4, 2020 to June 15, 2021 for those customers eligible under the CAPP guidelines. This funding is reported as Operating Grant Revenues in Nonoperating Revenues (Expenses) on the Statement of Revenues, Expenses and Changes in Net Position.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed in writing to San José Clean Energy c/o City of San José, 200 East Santa Clara Street, San José, CA 95113, or to the Director of Finance, 200 E. Santa Clara Street, San José, CA 95113.

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Statement of Net Position
June 30, 2022
($000's)

ASSETS		
Current assets:		
Equity in pooled cash and investments held in City Treasury	$	37,439
Receivables (net of allowance for uncollectibles)		78,232
Prepaid expenses, advances and deposits		4,856
Total unrestricted current assets		120,527
Restricted assets:		
Equity in pooled cash and investments held in City Treasury		23,367
Total restricted current assets		23,367
Total current assets		143,894
Noncurrent assets:		
Net pension asset		2,747
Net OPEB asset		1,878
Total noncurrent assets		4,625
Total assets		148,519
DEFERRED OUTFLOWS OF RESOURCES		
Pension related items		2,927
OPEB related items		714
Total deferred outflows of resources		3,641
LIABILITIES		
Current liabilities:		
Accrued cost of electricity		25,238
Accounts payable		1,347
Accrued salaries, wages, and payroll taxes		382
Accrued vacation, sick leave and compensatory time		410
User taxes and energy surcharges due to other governments		4,143
Advances and deposits payable		1,226
Community investment pass-through		375
Due to SJFA - commercial paper		60,000
Unearned revenue		6,025
Total liabilities		99,146
DEFERRED INFLOWS OF RESOURCES		
Pension related items		3,834
OPEB related items		848
Total deferred inflows of resources		4,682
NET POSITION		
Restricted for debt service		20,000
Unrestricted		28,332
Total net position	$	48,332

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

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022
($000's)

OPERATING REVENUES		
Power sales	$	351,099
Total operating revenues		351,099
OPERATING EXPENSES		
Power purchases		313,292
Operations and maintenance		8,492
General and administrative		9,504
Total operating expenses		331,288
Operating income		19,811
NONOPERATING REVENUES (EXPENSES)		
Operating grants		4,594
Investment loss		(557)
Interest expense		(201)
Letter of credit fees		(985)
Commercial paper fees		(451)
Intergovernmental payment to City of San José		(220)
Net nonoperating revenues		2,180
Change in net assets		21,991
Net position - beginning		26,341
Net position - ending	$	48,332

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

SAN JOSE CLEAN ENERGY

(An Enterprise Fund of the City of San José)

Statement of Cash Flows

For the Year Ended June 30, 2022

($000's)

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 314,237
Receipts from customers of tax and surcharge	1,653
Payments to suppliers	(326,634)
Payments to employees	(7,049)
Net cash used in operating activities	(17,793)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Subsidies from operating grants	4,594
Advances, deposits and credits	6,400
Net cash provided by noncapital financing activities	10,994
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal proceeds on short-term commercial paper/short-term notes payable	45,000
Interest paid on debt	(201)
Letter of credit fees	(985)
Commercial paper fees	(451)
Intergovernmental payment to City of San José	(220)
Net cash provided by capital and related financing activities	43,143
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment loss	(557)
Net cash used in investing activities	(557)
Net change in cash and cash equivalents	35,787
Cash and cash equivalents - beginning	25,019
Cash and cash equivalents - ending	$ 60,806
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 19,811
Adjustments to reconcile operating income to net cash used in operating activities:	
Decrease (increase) in:	
Accounts receivable	(37,482)
Prepaid expenses, advances and deposits	4,619
Increase (decrease) in:	
Accrued cost of electricity	(5,744)
Accounts payable	(530)
Accrued salaries, wages, and payroll taxes	82
Accrued vacation, sick leave and compensatory time	11
Net pension asset, deferred outflows/inflows of resources related to pension	(1,090)
Net OPEB asset, deferred outflows/inflows of resources related to OPEB	(349)
User taxes due to other governments	1,653
Advances and deposits payable	1,226
Total adjustments	(37,604)
Net cash used in operating activities	$ (17,793)

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

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Statement of Cash Flows
For the Year Ended June 30, 2022
($000's)
(continued)

Reconciliation of cash and cash equivalents to the balance sheet:		
Equity in pooled cash and investments held in City Treasury		
Unrestricted	$	37,439
Restricted		23,367
	$	60,806

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

NOTE 1 – DESCRIPTION OF OPERATIONS

Overview

On May 16, 2017, the City of San José (City) Council approved the establishment of San José Clean Energy (SJCE), a Community Choice Aggregation program with the goals of providing City residents and businesses with a choice of electricity providers while progressing towards meeting greenhouse gas emissions reduction goals.[1] Under State law, the City may establish a Community Choice Aggregation (CCA) program to purchase electricity on behalf of its residents and businesses. If a local government chooses to form a CCA or join an existing CCA, all residents and businesses within the local government's jurisdiction are automatically enrolled in the program. Electric service customers may elect to remain with the incumbent utility, or to later leave CCA service ("opt-out"). CCAs determine the source of electricity offered, set customer rates for energy, retain revenue, and determine spending priorities locally. The Incumbent Investor Owned Utility (IOU) in the City, which is Pacific Gas and Electric (PG&E), continues to charge customers to maintain the transmission and distribution infrastructure and deliver the energy. For these continued services, PG&E charges CCA customers the same delivery rates as its remaining PG&E customers. PG&E also acts as the billing agent for SJCE, including SJCE charges as part of a single monthly customer bill. Customers make payments to PG&E and PG&E remits the SJCE portion of payments to SJCE every business day.

CCAs provide many community benefits, including significant environmental and economic benefits. CCAs provide choice in electricity options, typically with a higher mix of renewable energy in their base power products than is available from the incumbent utility, at competitive rates. CCAs also allow local governmental entities to have more direct control over rates. As part of its approval to establish SJCE, the City Council directed staff to develop SJCE as a stand-alone enterprise fund to be operated as a new department and reliant on utility customer revenues to minimize the financial risk to the City's General Fund.

Governance

The City Council provides policy oversight and approves rates. At its August 15, 2017 meeting, the City Council adopted an ordinance amending Title 2 of the San José Municipal Code to establish the Community Energy Department.[2] The City Manager and the Director of Community Energy have overall responsibility for managing the program including day-to-day operations of SJCE.

On October 24, 2017, the City Council adopted an ordinance to establish the Clean Energy Community Advisory Commission (CECAC). The CECAC is a public advisory committee that provides input on SJCE operations including policies and programs, rate setting, and community outreach efforts.[3] The CECAC provides policy guidance to the Mayor and City Council, City Manager, and Director of Community Energy. Comprised of community members with a wide range of professional and technical disciplines, the CECAC is a liaison to the community for advocacy and outreach. The CECAC reflects a CCA best practice, as effective public oversight helps to ensure the program is responsive to community needs, which in turn helps to minimize customer opt-outs. The CECAC convenes monthly, and meetings are open to the public.

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[1] May 16, 2017 San Jose City Council Agenda, Item 7.1
[2] August 15, 2017 San Jose City Council Agenda, Item 2.2
[3] October 24, 2017 San Jose City Council Agenda, item 2.2

NOTE 1 – DESCRIPTION OF OPERATIONS (Continued)

On May 1, 2018, the City Council adopted the Energy Risk Management Policy and created the Risk Oversight Committee (ROC).[4] The ROC is a staff committee that serves as the highest level of organizational risk management and is responsible for overseeing compliance with risk management policies within SJCE. The ROC consists of seven voting members: The City Manager or his or her designee, the Director of Community Energy, the Director of Finance, the City Risk Manager, the Budget Director, the Community Energy Department Deputy Director of Power Resources, and the Community Energy Department Division Manager of Risk Management, Contracts and Administrative Services. The City Attorney provides legal advice to the ROC. The ROC convenes at least quarterly, or more frequently as needed, and is charged with managing and controlling risks associated with SJCE operations.

The Energy Risk Management Policy addresses risks faced by SJCE arising from SJCE's procurement activities on behalf of its customers in energy and related markets. SJCE developed the Energy Risk Management Regulations (RMR) to guide procurement decisions, which include analysis of net open position and mark-to-market position. The purpose of the Energy RMR is to utilize the philosophies and objectives specified in the Energy Risk Management Policy, and document and describe the roles, strategies, controls, and authorities that will govern SJCE's comprehensive energy risk management program. The Energy RMR are approved annually by the ROC and are subject to annual review by an independent third-party audit firm to ensure SJCE adheres to the specific risk management practices outlined in the RMR.

Operations

SJCE began providing electric generation service to City facilities in September 2018 in Phase I (City of San José accounts), the first of three phases. The Phase II launch including residential and large commercial accounts began in February 2019; and Phase III launch for small commercial customers began in June 2019. As of June 30, 2022, SJCE serves approximately 350,000 customer accounts in San José with three electricity rate plans that best serve customer's financial needs while also providing programs with a range of renewable energy content. An opt-out rate reflects the percent of customer accounts that choose to decline CCA service. As of June 30, 2022, SJCE maintains an opt-out rate of approximately 3%. As the default energy provider for residents and businesses, SJCE provides the City with the ability to choose its sources of energy and to set power generation rates in the City.

To meet SJCE customer demands for renewable energy and balance the City's supply with real-time demand, SJCE procures energy from power generators and electric service providers, and purchases and sells power on the California Independent System Operator (CAISO) day-ahead and spot markets. PG&E still provides the transmission and distribution of electricity to SJCE customers, sets rates for those services, and performs the monthly billing.

In January 2021, SJCE became a member of California Community Power (CC Power), a newly formed Joint Powers Authority (JPA) consisting of ten CCAs. Membership in CC Power allows SJCE the option of participating in larger projects that are necessary to meet CPUC regulatory requirements while benefitting from economies of scale in purchasing.

[4] Actions Related to the San Jose Clean Energy Risk Management Policy

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. SJCE operations are accounted for as an enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned, and expenses are recognized when liabilities are incurred. Enterprise fund-type operating statements present increases (revenues) and decreases (expenses) in total net position.

SJCE's financial statements are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and major enterprise fund of the City that is attributable to the transactions of SJCE. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(b) Use of Estimates

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

(c) 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 (i.e., Director of Finance) 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.

Pooled cash and investments in the City Treasury are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Pooled cash and investments represent deposits and investments held in the City's cash management pool. This cash management pool possesses the characteristics of a demand deposit account; therefore, investments in this pool are considered to be cash equivalents. SJCE also considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(d) Accounts Receivable

Accounts receivable reflects invoices issued by PG&E on behalf of SJCE to SJCE customers during the reporting period but not yet paid, and electricity estimated to have been delivered but not yet billed, net of an allowance for uncollectible accounts. As the billing agent for SJCE, PG&E collects payments from SJCE customers and remits the electricity generation portion of those payments to the City. PG&E undertakes activities to collect on delinquent SJCE balances until fifty-one (51) days after the final bill is sent to customer (i.e., after customer account is closed), at which time any outstanding SJCE balance is transferred to SJCE.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Defined Benefit Plans

1. Pension

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the SJCE's participation in the Federated City Employees' Retirement System (FCERS), and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS' investments are reported at fair value. While the City reports its pension plan managed by FCERS as a single employer defined benefit pension plan, SJCE recognizes a proportionate share of its participation in FCERS based on the SJCE pension contributions relative to the total City pension contributions to FCERS. For more information regarding SJCE retirement benefits, please refer to Note 9 and the Required Supplementary Information (RSI) section.

2. Other Postemployment Benefits

For purpose of measuring the net Other Postemployment Benefits (OPEB) liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the SJCE's participation in the FCERS, and additions to/deductions from the FCERS' fiduciary net position have been determined on the same basis as they are reported by the FCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. FCERS investments are reported at fair value. While the City reports its OPEB plan managed by FCERS as a single employer defined benefit OPEB plan, SJCE recognizes a proportionate share of its participation in the FCERS OPEB plan based on the SJCE OPEB contributions relative to the total City OPEB contributions to FCERS. For more information regarding SJCE OPEB benefits, please refer to Note 10 and the RSI section.

(f) Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets groups all capital assets into one component of net position. Accumulated depreciation reduces the balance in this category. SJCE did not have any capital assets or capital-related borrowings as of June 30, 2022.

Restricted Net Position consists of the constraints placed on net asset use by external creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position consists of the remaining balance of net position not subject to the aforementioned categorizations.

When both restricted and unrestricted resources are available for use, it is SJCE's policy to use unrestricted resources first and then restricted resources, as needed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Operating Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from nonoperating items. SJCE defines its operating revenues as charges for electric sales, which are earned when electricity is provided to customers. Operating expenses are mainly incurred through the purchase of energy and other power resources and also include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

(h) Revenue Recognition

SJCE recognizes revenue on the accrual basis of accounting. This includes invoices issued by PG&E to customers on behalf of SJCE during the reporting period, and electricity estimated to have been delivered but not yet invoiced. Management estimates that a portion of the billed amounts will be uncollectible. An allowance for doubtful accounts has been assumed to reflect the amount of SJCE receivables that SJCE estimates will be uncollectible. This allowance ensures SJCE receivables are not overstated and that outstanding balances deemed uncollectible are accurately recorded in the correct period for financial reporting purposes. Efforts are made to pursue the timely collection of delinquent accounts.

(i) Operating Grants

SJCE has been awarded government funding from both California state legislation and the California Public Utilities Commission for two primary purposes: customer debt relief and support for customer programs. When grant funds are received, the funds are posted to unearned revenue liability accounts. Any funds designated for future fiscal years' usage are also posted as restricted cash. Funding provided under government grants is considered earned as the related allowable expenses are incurred. In FY 2022 most of the grant fund revenues recognized by SJCE were to subsidize customer electric utility bill debt. These grant funds are recognized as non-operating revenues because they are not reflective of business revenue earned in the current fiscal year.

(j) Significant Agreements with Outside Parties

SJCE maintains several significant professional services agreements with the following outside parties:

- *Calpine Energy Solutions, LLC (Calpine)*: Provides data management and security, reporting functions, management of a customer information system and call center, billing administration, and coordination with PG&E on behalf of SJCE. On February 27, 2018, City Council approved the original Professional Services Agreement for Data Management and Customer Call Center Services with Calpine for a period of two years from the date of execution in an amount not to exceed $5.8 million and up to two (2) one-year agreement extension options, each for an additional $4.95 million for a total contract amount not to exceed $15.7 million. On February 11, 2020, the Professional Services Agreement with Calpine was amended, reducing rates, modifying service terms, and increasing the maximum compensation to $22.0 million through February 28, 2025.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Northern California Power Authority (NCPA)*: Provides energy Scheduling Agent services to support SJCE operations. These services include power supply scheduling, control center services, portfolio management, and optimization services. On March 27, 2018, City Council approved the original Professional Services Agreement for Services with NCPA for a period of two years and five months and two (2) one-year agreement extensions, for a total contract amount not to exceed $2.7 million. Under this agreement, NCPA was the City's Scheduling Coordinator before the CAISO until January 1, 2022. On that date, the City became its own Scheduling Coordinator and designated NCPA as its Scheduling Agent. On August 1, 2022 the City executed a new Professional Services Agreement with NCPA for a period of three years in an amount not to exceed $2.3 million and up to three (3) additional 2-year agreement extension options through August 31, 2025, for a total contract amount not to exceed $7.5 million.

- *PG&E*: The services that PG&E provides to SJCE, including customer switching, meter reading, and billing services, are delineated in PG&E Electric Schedule E-CCA. The recurring monthly charges are $0.35 per customer meter per month, or approximately $1.5 million annually for SJCE with 350,000 customer accounts.

NOTE 3 – EQUITY IN POOLED CASH AND INVESTMENTS HELD IN CITY TREASURY

SJCE's cash as of June 30, 2022 is classified in the financial statements as follows (in thousands):

Unrestricted Equity in pooled cash and investments held in City Treasury	$	37,439
Restricted Equity in pooled cash and investments held in City Treasury		23,367
Total:	$	60,806

(a) Nature of Cash Account

SJCE maintains all its funds as cash deposits in the City pooled cash and investments held in the City Treasury. The pool is managed by the City Treasurer, and SJCE has an equity share in the pool as reflected in the enterprise fund's accounting records. Funds from the operating account are used to disburse funds for operations and capital outlays, under the direction of SJCE. The receipts account is in the name of the City and is under the custodianship of the City. All revenues collected by SJCE are deposited into the operating account as received.

A restricted cash account with a balance of $23.367 million is maintained. $20.0 million is maintained to comply with the terms of a financial services agreement entered with Barclays Bank PLC (refer to Note 8). The additional $3.367 million is restricted for future years' grant funds which have been remitted to SJCE in advance.

(b) Pooled Cash and Investments

The City Council adopted an investment policy (Investment Policy) on April 2, 1985 related to the City cash and investment pool, which is subject to annual review and was reviewed and amended on March 15, 2022. The Investment 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 Investment Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Investment Policy.

NOTE 3 – EQUITY IN POOLED CASH AND INVESTMENTS HELD IN CITY TREASURY (Continued)

SJCE invests funds subject to the Investment Policy. According to the Investment Policy, SJCE is permitted to invest in the City cash and investment pool, the State of California Local Agency Investment Fund (LAIF), obligations of the U.S. Treasury or U.S. Government Agencies, time deposits, investment agreements, money market mutual funds invested in U.S. Government securities, along with various other permitted investments.

SJCE maintains all of its cash in the City's cash and investment pool. As of June 30, 2022, SJCE's share of the City cash and investment pool totaled $60.806 million. It is not possible to disclose relevant information about SJCE's separate portion of the cash and investment pool, as there are no specific investments belonging to SJCE itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2022 Annual Comprehensive Financial Report (ACFR). A copy of that report may be obtained by visiting the City's website at www.sanjoseca.gov or by contacting the City's Finance Department, 200 East Santa Clara Street, 13th Floor, San José, CA, 95113.

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 periods 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 average weighted maturity of the investment portfolio at 2.5 years (or 913 days). Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest maturity not to exceed five years.

In practice, the City purchases a combination of short-term and long-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, 2022, was approximately 533 days.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation 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 Council's Investment Policy 1-12 has strict rating requirements. The City manages credit risk by selecting high quality securities, diversifying the portfolio, and establishing monitoring procedures.

Concentration of Credit Risk –SJCE's cash and investment is pooled with the other City funds. The Investment Policy sets forth the policies regarding concentration of credit risk.

As of June 30, 2022, 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 Bank	19.85%
Federal Farm Credit Bank	10.45%
Federal Home Loan Mortgage Corporation	8.76%
Federal National Mortgage Association	7.20%

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2022, 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.

NOTE 4 – CAPITAL ASSETS

There are no capital assets in SJCE as of June 30, 2022.

NOTE 5 – ACCOUNTS RECEIVABLE

The accounts receivable balance at June 30, 2022 was $78.2 million and is net of an allowance for estimated uncollectible amounts. Management estimated the uncollectible amounts to be $14.6 million at June 30, 2022, using its allowance calculation methodology based on historical experience and current market conditions.

NOTE 6 – ACCRUED COST OF ELECTRICITY

Accrued cost of electricity represents the amount due for electrical power delivered to SJCE during the fiscal year that has not yet been invoiced by June 30, 2022. The SJCE accrual of $25.2 million is primarily due to regular electrical power contracts, expected CAISO power market transaction expenses for June, and an accrued portion of the entirety of Renewable Energy Credits which are attributed to calendar year 2022 as a whole, but not billed uniformly throughout the year.

NOTE 7 – NOTES PAYABLE TO THE CITY OF SAN JOSÉ FINANCING AUTHORITY

On June 22, 2021, the City Council adopted a resolution authorizing the issuance of CSJFA Lease Revenue CP Notes to finance the purchase of power and other operating costs of SJCE in an amount not to exceed $95.0 million, subject to the satisfaction of certain conditions.[5] As of June 30, 2022, SJCE had drawn $60.0 million in CP Notes, with the most recent draw dated December 21, 2021. The Barclay's Revolving Credit agreement contractually stipulates the repayment terms for SJCE's CP issuance cannot occur until (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 3 of the 4 months immediately preceding such month, has been, and after such payment will remain, equal to or in excess of $50.0 million (inclusive of the $20.0 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.

NOTE 8 – 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 $50.0 million for the purpose of the financing start-up costs of the SJCE program, 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. There are no amounts outstanding under this Credit Agreement as of June 30, 2022. The Note qualifies as a "Direct Borrowing" under GASB Statement No. 88.

[5] Issuance of City of San José Financing Authority (CSJFA) Commercial Paper Notes for San Jose Clean Energy Operations and Related Budget Actions

NOTE 8 – CLEAN ENERGY REVOLVING CREDIT AGREEMENT (Long-term Direct Borrowings) (Continued)

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 $20.0 million ("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 $35.0 million ("Standby Letter of Credit Facility Sublimit") for the period commencing November 27, 2018 and ending no later than October 28, 2023, with all unrepaid draws under such letters of credit due and payable to the Bank on November 27, 2023; provided, however, that the aggregate principal amount outstanding under the Revolving Line of Credit Facility and the Standby Letter of Credit Facility shall not to exceed $50.0 million at any one time ("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 $20.0 million to $30.0 million, increase the sublimit for the Standby Letter of Credit Facility thereunder from an aggregate principal amount not to exceed $35.0 million to $65.0 million, increase the Aggregate Commitment to issue revolving loans and standby letters of credit from an aggregate principal amount not to exceed $50.0 million to $80.0 million 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.

As of June 30, 2022, the remaining balance for the Standby Letter of Credit Facility was as follows (in thousands):

Credit Facility	Available Credit Sublimit	Less: Letters of Credit Commitments(1)	Remaining Available Credit as of 6/30/2022
Standby Letter of Credit Facility	$65,000	-$27,644	$37,356

(1) 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.

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 the Second Amendment to the Revolving Credit Agreement with the Bank to amend 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. The Revolving Line of Credit Facility matured on November 26, 2021 and was not renewed.

NOTE 8 – CLEAN ENERGY REVOLVING CREDIT AGREEMENT (Long-term Direct Borrowings) (Continued)

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 $10.0 million 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 $15.0 million in the Operating Reserve Account at all times during such period; and (c) from and after June 24, 2021, to maintain at all times $20.0 million in the Operating Reserve Account (collectively, "Operating Reserve Requirement"). The City has complied with the Operating Reserve Requirement.

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 CSJFA in an amount not to exceed $100.0 million (previously limited to $10.0 million solely for the payment of start-up costs of SJCE). Such loans are subordinate to the City's obligations to the Bank under the Credit Agreement, as amended. Loans from the Financing Authority to SJCE are not permitted unless the City first delivers to the Bank evidence that the Financing Authority has agreed that such loans are subordinate to the City's obligations to the Bank 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 Financing 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 $50.0 million (inclusive of the $20.0 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 certain covenants, including failure to maintain the required debt service coverage ratio or to maintain the required amounts in the Operating Reserve Account; (iv) bankruptcy, (v) breach of representations and warranties (vi) the long-term, unenhanced ratings by any of the Rating Agencies 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, (vii) the dissolution or termination of SJCE, (viii) one or more final, unappealable judgments or orders for the payment of money in excess of $5.0 million where such judgment or order remains unsatisfied and unstayed for a period of 60 days and which is payable from revenues of SJCE, (ix) 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, (x) any event of default under any Other Credit Agreement (as defined in the Credit Agreement) secured by revenues of SJCE, (xi) a Material Adverse Effect (as defined in the Credit

NOTE 8 – CLEAN ENERGY REVOLVING CREDIT AGREEMENT (Long-term Direct Borrowings) (Continued)

Agreement) occurs with respect to SJCE or the City's ability to repay its obligations under the Credit Agreement, (xii) failure to pay when due any principal of or interest on any Debt (as defined in the Credit Agreement) secured by revenues of SJCE, (xiii) failure to pay when due any amount owing under any power purchase agreement, unless the City disputes payment in good faith, or (xiv) the acceleration of the maturity of Debt secured by revenues of SJCE.

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 L/C Obligations (which generally 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.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN

(a) General Information

The City sponsors and administers a single employer defined benefit retirement system, FCERS, which with the exception of certain unrepresented employees covers all full-time and certain part-time employees of the City. The FCERS provides general retirement benefits under a single employer Defined Benefit Pension Plan, as well as the Postemployment Healthcare Plan. All full-time and certain part-time employees in the Community Energy Department participate in the FCERS.

The FCERS is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Board of Administration for the FCERS. The separately issued annual report of FCERS, together with various chapters in Title 3 of the City Municipal Code, provides more detailed information about the FCERS, and may be obtained from the City of San José Office of Retirement Services, 1737 North First Street, Suite 600, San José, California 95112 or at http://www.sjretirement.com. The SCJE presents the related defined benefit disclosures of FCERS as a participant in a cost-sharing arrangement with the City.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

(b) Benefits Provided

FCERS provides general retirement benefits including pension, death, and disability benefits to members. FCERS benefits are based on average final compensation, years of service, and cost of living increases as specified by the City Municipal Code. The contribution and benefit provisions and all other requirements are established by the City Charter and the City Municipal Code. Information regarding disability and death benefits can be found in the annual reports of the FCERS and on the Office of Retirement Services website.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

The following tables summarize the pension benefits for the members:

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

FCERS (continued)

	Tier 1 [(1)]	Tier 1 Classic[(2)]	Tier 2A [(3)]	Tier 2B [(4)]
Disability Retirement (Non-Service Connected)				
Minimum Service	5 years		5 years	
Allowance	**Tier 1:** 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 **Tier 1 Classic:** 40% of Final Compensation plus 2.5% 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. For those who entered the System on 9/01/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 year of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70.0% of Final Compensation)	
Reciprocity				
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Final eligibility for reciprocity is determined at the time of retirement.			
Cost-of-Living Adjustments (COLA)				
Cost-of-Living adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each April. There is no prorating of COLA.		Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back loaded 2.0% COLA per fiscal year. The back loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year The first COLA will be prorated based on the number of months retired.	

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

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

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

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

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Contributions

This subsection provides information related to contributions paid by SJCE for pension benefits provided by FCERS.

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plan 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 Jose Municipal Code.

The contribution rates for the Defined Benefit Pension Plan for the City and the participating employees for the year ended June 30, 2022 were based on the actuarial valuation performed as of June 30, 2020. SJCE's contributions paid during the year ended June 30, 2022 were $2.209 million. The contribution rates in effect and the amounts contributed to the pension plan for the year ended June 30, 2022 are as follows:

	FCERS				
	City			Participants (2)	
Defined Benefit Pension Plan	Tier 1	Minimum Dollar Amount (3)	Tier 2	Tier 1	Tier 2
Actuarial Rate:					
06/26/22-06/30/22	20.32%		8.13%	7.41%	8.13%
07/01/21-06/26/22 (1)	20.25%	$160,694	8.17%	7.39%	8.17%

(1) *The actual contribution rates paid by the City for year ended June 30, 2022 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 March 24, 2019, reclassified Tier 1 members paid an additional 3.00% in contributions. Classic Tier 1 members paid an additional 1.46% effective August 12, 2018.*

(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.*

(c) Net Pension Liability (Asset)

The City's net pension liability (asset) for FCERS Plan is measured as the total pension liability, less the pension plan fiduciary net position as of the measurement date of June 30, 2021. The City's net pension liability (asset) as of June 30, 2022 is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020 and rolled forward to June 30, 2021 using standard update procedures by the actuary. In summary, the SJCE proportionate share of the City's net pension liability (asset) at June 30, 2022 is ($2.747) million based on SJCE's share of 1.06%, which changed from 0.79% in FY 2021.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

The discount rate used to measure the total pension liability (asset) was 6.625% for the valuation dated June 30, 2020. It is assumed that FCERS members' contributions and City's contributions will be made based on the actuarially determined rates based on the funding policy of the FCERS Board. Based on those assumptions, the FCERS' 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the Proportionate Share of the Net Pension Liability (Asset) to Changes in Discount Rates

The following presents the SJCE proportionate share of the net pension liability (asset), calculated using the discount rate of 6.625% in effect as of the measurement date, as well as what the proportionate share of the net pension liability (asset) would be if it was calculated using discount rates that are one percentage point lower (5.625%) or one percentage point higher (7.625%) than the rate used for the FCERS plan (in thousands):

FCERS sensitivity analysis	1% Decrease (5.625%)	Measurement Date Discount Rate (6.625%)	1% Increase (7.625%)
Proportionate share of net pension asset	$ (1,902)	$ (2,747)	$ (3,781)

Pension Fiduciary Net Position

The FCERS issues a publicly available financial report that may be obtained from the Office of Retirement Services, 1737 North First Street, Suite 600, San José, CA 95112-4505 or at https://www.sjretirement.com. The SCJE presents the related defined benefit disclosures of FCERS as a participant in a cost-sharing arrangement with the City.

Pension Expense and Deferrals – For the year ended June 30, 2022, SJCE recognized a pension expense of ($1.090) million in FCERS. As of June 30, 2022, SJCE reported its proportionate share of the City's deferred outflows and inflows of resources related to pension from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 2,209	$ -
Differences between expected and actual experience	320	161
Changes in assumptions	398	14
Net difference between projected and actual earnings on pension plan investments	-	3,659
Total	**$ 2,927**	**$ 3,834**

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

Fiscal Year Ending June 30:		Deferred Outflows/(Inflows) of Resources
2023	$	(579)
2024		(716)
2025		(762)
2026		(1,059)
	$	(3,116)

As of June 30, 2022, SJCE reported $2.209 million 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, 2023. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense shown in the tables above.

Recognition of Deferred Outflows and Deferred Inflows of Resources for 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, 2021 measurement date)

Long-term Expected Rate of Return on Plan Investments

The assumption for the long-term expected rates of return on FCERS investments of 6.625% for the valuation dated June 30, 2020 was selected by estimating the median nominal rates of return based on long-term capital market assumptions adopted by the FCERS Board, 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.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Best estimates of geometric real rates of return for each major asset class included in the FCERS target asset allocation are summarized in the following tables:

	FCERS	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	49%	5.0%
Private equity	8%	6.8%
Investment grade bonds	8%	-0.3%
Core real estate	5%	3.3%
Immunized cash flows	5%	-0.8%
Venture / growth capital	4%	7.4%
Growth real estate	3%	6.0%
Emerging market bonds	3%	1.7%
Private debt	3%	4.6%
Market neutral strategies	3%	2.2%
Private real assets	3%	5.7%
Long-term government bonds	2%	0.4%
Treasury inflation-protected securities	2%	-0.3%
High yield bonds	2%	2.1%

The separately issued annual report of FCERS provides more information about the most recent long-term expected rates of return on plan investments.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability (asset) as of June 30, 2022 are from the actuarial valuation report with a valuation date of June 30, 2020.

	FCERS
Description	**Method/Assumption**
Measurement date	June 30, 2021
Valuation date	June 30, 2020
Inflation rate	2.25%
Discount rate	6.625% The Board expects a long-term rate of return of 7.1% 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	
Healthy retirees:	0.995 for males and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010)
Disabled retirees:	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	Mortality is projected on a generational basis using the MP-2020 scale
Salary increases	
Wage Inflation	The base wage inflation assumption of 3.00%
Merit Increase	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 – 1.25% to 2.0% depending on years of service

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

(a) General Information

In addition to the FCERS Defined Benefit Pension Plan, the City also sponsors and administers a single employer FCERS Postemployment Healthcare Plan, which includes an Internal Revenue Code ("IRC") 115 Trust. The Postemployment Healthcare Plan covers eligible full-time and certain part-time employees in the Community Energy Department.

Generally, the defined benefit Postemployment Healthcare Plan provides 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.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Per the terms of the Framework discussed in Note 9, the City established a VEBA for retiree healthcare for the members of the FCERS in FY 2018. The City does not make contributions into the VEBA and the VEBA is not subject to the jurisdiction of the FCERS Board.

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

(b) Contributions

Contribution amounts to the Postemployment Healthcare Plan 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, ADC was 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 FCERS.

Subsequently, in October 2014, the Board of Administration of 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, FCERS reduces the City’s incentive to prefund its contributions when market valuations and/or economic expansions are beyond historic norms. The incremental reduction is 15% per year, up to a maximum of 45%. In March 2022, the Boards of Administration for FCERS approved a modification to the incremental reduction approach that added market valuations as an additional criterion for triggering a reduction in the prefunding discount rate.

The City elected to prefund its actuarially determined OPEB contributions for the fiscal year ended June 30, 2022, using the reductions in the discount rate mentioned above.

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

(c) Funding Policy

Historically, member and City contributions to the Postemployment Healthcare Plan 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 the Postemployment Healthcare Plan were based upon an actuarially determined percentage of employees’ base salary sufficient to provide adequate assets to pay benefits when due over the next 15 years for FCERS. From 2009 until the implementation of Measure F, the City had been in the process of phasing in payment of the annual required contribution (“ARC”) for the retiree health and dental benefits provided by Postemployment Healthcare Plan as calculated pursuant to GASB

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Statement No. 43 and GASB Statement No. 45 then in effect. However, the contribution rates for the City and members of the Postemployment Healthcare Plan were capped before the full ARC was reached.

The annual contribution costs for the Postemployment Healthcare Plan benefits are allocated to both the City and the active employee members. Contributions to the Postemployment Healthcare Plan 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 Plan. The ADC for the Postemployment Healthcare Plan 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 the Postemployment Healthcare Plan to a fixed percentage of the payroll of all active members of the pension plan. The ADC for the 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 valuation of the Postemployment Healthcare Plan. The implicit subsidy is shown as both a contribution and payment from the Postemployment Healthcare Plan. 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 the 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 ADC to the Postemployment Healthcare Plan.

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

The contributions to the FCERS Postemployment Healthcare Plan for the SJCE and the participating employees for the year ended June 30, 2022 are shown below:

	City - Board Adopted		Member with Healthcare
	Tier 1	Tier 2	Tier 1 and Tier 2
Actuarial Rate:			
Postemployment Healthcare Plan:	*	*	
07/01/2021 - 06/30/2022			7.50%

* In February 2018, the Board approved the contribution policy that sets the City healthcare beginning with fiscal year 2019. The City's contribution for the Postemployment Health Plan during contributions as a flat dollar amount, 2022 was $24,787,000. $19,319,000 in regular contributions and $5,468,000 in implicit subsidy.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

(d) Net OPEB Liability (Asset)

The City's net OPEB liability (asset) for the Postemployment Healthcare Plan is measured as the total OPEB liability, less the plan fiduciary net position as of the June 30, 2021 measurement date. The City's net OPEB liability (asset) as of June 30, 2022 for FCERS Postemployment Healthcare Plan is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020 and rolled forward to June 30, 2021 using standard update procedures by the actuary for the plan. In summary, the SJCE's proportionate share of the City's net OPEB liability (asset) at June 30, 2022 is ($1,878) based on SJCE's share of 1.24%, which changed from 1.12% in FY 2021.

Actuarial Methods and Assumptions

	FCERS
Description	**Method/Assumption**
Measurement date	June 30, 2021
Valuation date	June 30, 2020
Actuarial cost method:	Entry age normal, level of percentage of pay
Actuarial assumptions:	
Discount rate	6.25% per year. The Board expects a long-term rate of return of 6.2% based on Meketa's 20-year capital market assumptions and the System's current investment policy.
Inflation rate	2.25%
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-2020 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 3.78% per annum graded down over a 55-year period for medical pre-age 65 and 4.10% to 3.78% 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

The assumption for the long-term expected rate of return on OPEB plan investments of 6.25% for the valuation year ended June 30, 2020, 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.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Best estimates of geometric real rates of return for each major asset class included in FCERS's target asset allocation as of June 30, 2021 measurement date are summarized in the following table.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	56.0%	5.0%
Short-term investment grade bonds	29.0%	-0.8%
Core real estate	10.0%	3.3%
Commodities	5.0%	1.6%
Cash	0.0%	-1.0%

Discount Rate for FCERS

The discount rate used to measure the total OPEB liability (asset) was 6.25% for the measurement year ended June 30, 2021 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' 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 (asset).

Sensitivity of the Net OPEB Asset to Changes in Discount Rates

The following presents SJCE's proportionate share of the City's net OPEB liability (asset) for FCERS, as well as what the SJCE's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the measurement date rate (in thousands).

FCERS sensitivity analysis	1% Decrease (5.25%)	Measurement Date Discount Rate (6.25%)	1% Increase (7.25%)
Net OPEB Asset	$ (1,380)	$ (1,878)	$ (2,489)

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

The following presents the SJCE proportionate share of the City's net OPEB liability (asset) for FCERS, as well as what the SJCE proportionate share of the net OPEB liability (asset) would be if it were calculated using a health care cost trend rate that is one percentage point lower or one percentage point higher than the measurement date rate (in thousands).

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

FCERS sensitivity analysis	1% Decrease	Measurement Date Health Care Cost Trend Rates	1% Increase
Net OPEB Asset	$ (2,561)	$ (1,878)	$ (1,323)

OPEB Fiduciary Net Position

The City issues a publicly available financial report that may be obtained from the Office of Retirement Services, 1737 North First Street, Suite 600, San José, CA 95112-4505 or at https://www.sjretirement.com. The SCJE presents the related defined benefit disclosures of FCERS as a participant in a cost-sharing arrangement with the City.

Recognition of Deferred Outflows and Deferred Inflows of Resources for FCERS

Gains and losses related to changes in total OPEB liability (asset) 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)

For the year ended June 30, 2022, SJCE recognized a negative OPEB expense of $349,000. As of June 30, 2022, SJCE reported deferred outflows and inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 307	$ -
Difference between expected and actual experience	-	391
Changes in assumptions	407	62
Net difference between projected and actual earnings on OPEB plan investments	-	395
Total	$ 714	$ 848

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The $307,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2021 measurement date will be recognized as an addition to the net OPEB asset during the year ending June 30, 2023.

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

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources	
2023	$	(183)
2024		(61)
2025		(82)
2026		(115)
	$	(441)

NOTE 11– PURCHASE COMMITMENTS

In the ordinary course of business, SJCE enters into various power purchase agreements of different duration (i.e., short-, medium-, and long-term) to acquire renewable and other power supply products. The price and volume of purchased power may be fixed or variable. Variable pricing is generally based on the market price of either natural gas or electricity on the date of delivery. Variable volume is generally associated with contracts to purchase energy from as-available resources such as solar, wind, and hydro-electric facilities.

In FY 2022, two of SJCE's long-term renewable power purchase agreements achieved Commercial Operation. Edwards IV is a solar park in Kern County that has provided SJCE with renewable energy since January 2022 as a part of a 12-year agreement with Terra-Gen. Clines Corner is a wind farm in New Mexico that has been providing wind-energy to City residents since December 2021, as a part of a 15-year power purchase agreement with Pattern Energy.

In 2019, SJCE signed a 20-year power purchase agreement with EDPR for 100 MW of solar energy plus 10 MW of storage, Sonrisa project located in Fresno County with a guaranteed in-service date of December 31, 2022. Due to permitting delays, EDPR and SJCE agreed on an assignment of the power purchase agreement for the development of Scarlet, also located in Fresno County that will provide the same MW of solar and storage as Sonrisa. The Scarlet project is currently facing construction permitting delays, discussions of which are underway between the parties. The resulting in-service date is delayed to 2023.

The viability of SJCE's long-term power purchase agreement with Terra-Gen for the Edwards V solar park is in question due to unforeseen issues with the anticipated construction site. SJCE is currently negotiating with Terra-Gen on a replacement agreement.

NOTE 11– PURCHASE COMMITMENTS (Continued)

In FY 2022 SJCE signed a 15-year long-term agreement with West Tambo, LLC for a solar plant in Merced County. Additionally, SJCE entered two 15-year Project participant share agreements for long duration battery storage, as a part of their membership in the California Community Power Joint Power Agency. The Goal line project will provide approximately 12 MW of storage in San Diego County, and the Tumbleweed project will provide approximately 15 MW of storage in Kern County.

These long-term agreements assist SJCE in meeting CPUC-directed Resource Adequacy and Renewable Portfolio Standard requirements and are consistent with modeling undertaken in the context of SJCE's 2022 Integrated Resource Plan, which has identified a need for substantial amounts of additional batteries and renewable resources. The solar and wind agreements supply SJCE customers with approximately 1.6 million MWh of energy annually, which is projected to meet 40% of SJCE's energy consumption needs. Prices for these long-term agreements are lower than short-term agreements, so it is expected that SJCE's operational costs will decrease over time.

NOTE 12 – CONTINGENCIES

Claims and Litigation

SJCE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; contractual delays and defaults by energy suppliers; and natural disasters. SJCE funds the costs of salaries and benefits, including the cost of workers' compensation coverage, for employees in the Community Energy Department.

COVID-19 Impacts

As a result of the negative economic impacts to many of SJCE residential and commercial customers due to COVID-19, SJCE has collaborated with PG&E to offer flexible payment plan options to provide customers with financial relief as they grapple with the economic challenges that resulted from COVID-19.

The California 2021-2022 State Budget directed approximately $1 billion of the federal American Rescue Plan Act funding towards the California Arrearage Payment Program (CAPP) to offer financial assistance for California energy utility customers to help reduce past due energy bill balances accrued during the COVID-19 pandemic. Preference in this program is given to residential past due customers, and SJCE was granted $4.3 million of funds for qualifying customer relief which was received and applied to customer accounts in early 2022. The California 2022-2023 State Budget directs an additional $1.2 billion towards a second round of CAPP relief. SJCE will apply for an allocation of the assistance on behalf of its qualified customers. It is currently unknown how much of the arrearage balances would qualify.

Regulatory Matters

The 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 three CPUC citations assessed against the City for failing to procure RA in amounts sufficient to satisfy the 2019 ($6.8 million),

NOTE 12 – CONTINGENCIES (Continued)

2020 ($1.1 million), and 2021 ($758 thousand) RA Requirements. The City cannot predict if the CPUC will issue future citations.

Power Charge Indifference Adjustment

The City and SJCE, along with other CCAs, are participating in proceedings before the CPUC to determine the PCIA, which is a fee PG&E charges CCA customers to cover the above-market costs associated with PG&E's power generation portfolio. CCAs factor the PCIA into their rate setting. While the outcome of the CPUC's decision-making process is uncertain, an increase or decrease in the rate may change the total amount paid by SJCE customers. In addition, SJCE actively monitors proposed legislation introduced at the California State Legislature that may potentially affect the methodology used in determining the PCIA and assess the potential impacts these proposed changes may have on the amounts paid by SJCE customers.

Time of Use Rate Plan and Bill Protection

In June 2021, approximately 1/3 of SJCE's residential customers were transitioned to a Time of Use (TOU) rate plan, aligning with PG&E implementing TOU for their customers, as required by the CPUC. Bill Protection is offered by both PG&E and SJCE for customers that accepted transition to TOU rates in June 2021: at the end of the first 12 months on the TOU rates, if customers would have paid less on their old rate plan during those 12 months than they did on the TOU rate plan, they will be credited the difference between rate plans. The TOU transition was first approved by City Council in 2019, but its implementation was delayed due to wildfires and COVID. TOU Bill protection ended in June 2022 and related customer credits were issued July through November 2022. The liability for the customer credits as of June 30, 2022 is $621 thousand, a portion of the Advances and deposits payable line item on the Statement Net Position.

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2022

Schedule of the Proportionate Share of the Net Pension Liability (Asset)

(Dollar Amounts in Thousands)

	2022	2021	2020	2019
Proportion of the collective net pension liability (asset)	1.06%	0.79%	0.47%	0.47%
Proportionate share of the collective net pension liability (asset)	$ 2,747	$ 1,660	$ 1,156	$ -
Covered payroll	$ 2,650	$ 2,336	$ 2,181	$ 1,627
Proportionate share of collective net pension liability (asset) as percentage of covered payroll	103.66%	71.06%	53.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	63.72%	51.07%	50.41%	51.00%

Schedule of Employer Contributions – Defined Benefit Pension Plan

(Dollar Amounts in Thousands)

	2022	2021	2020	2019
Actuarially determined contribution	$ 2,149	$ 1,770	$ 1,429	$ 804
Contribution in relation to the actuarially determined contributions	2,149	1,770	1,429	804
Covered payroll	$ 3,692	$ 2,650	$ 2,336	$ 2,181
Contributions as a percentage of covered payroll	58.21%	66.79%	61.18%	36.86%

Fiscal year	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Valuation date	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 30, 2017**
Actuarial cost method	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
Discount rate	6.625%	6.75%	6.75%	6.875%
Salary increases	3.00% plus merit component based on years of service	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
Amortization growth rate	2.75%	2.75%	3.00%	3.00%
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. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods	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.
Mortality	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2020 projection scale	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

Note to Schedules

As a cost-sharing enterprise fund of the City, SJCE is required to recognize a liability (asset) for its proportionate share of the City's collective net pension liability. SJCE recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pension for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

The schedules present information to illustrate changes in SJCE's proportionate share of the net pension liability (asset) and contributions over a 10-year period when the information is available. SJCE commenced operations in fiscal year 2018.

SAN JOSE CLEAN ENERGY
(An Enterprise Fund of the City of San José)
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2022

Schedule of the Proportionate Share of the Net OPEB Asset

(Dollar Amounts in Thousands)

	2022	2021	2020	2019
Proportion of the collective net OPEB asset	1.24%	1.12%	0.73%	0.73%
Proportionate share of the collective net OPEB asset	$ 1,878	$ 1,062	$ 715	$ 742
Covered payroll	$ 3,757	$ 2,336	$ 2,181	$ 1,627
Proportionate share of the collective net OPEB asset as percentage of covered payroll	49.99%	45.46%	32.78%	45.61%
Plan fiduciary net position as a percentage of the total OPEB liability	57.80%	46.67%	43.81%	42.57%

Schedule of Employer Contributions – Postemployment Healthcare Plan

(Dollar Amounts in Thousands)

	2022	2021	2020	2019
Actuarially determined contribution	$ 307	$ 349	$ 115	$ 148
Contribution in relation to the actuarially determined contributions	307	349	115	148
Covered payroll	$ 4,319	$ 3,757	$ 2,336	$ 2,181
Contributions as a percentage of covered payroll	7.11%	9.29%	4.92%	6.79%

Methods and assumption used to determine contributions:

Fiscal Year	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**	**June 30, 2019**
Valuation Date	**June 30, 2020**	**June 30, 2019**	**June 30, 2018**	**June 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	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	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	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	Fair value of assets
Amortization growth rate	0.00%	0.00%	0.00%	0.00%
Discount rate	6.250%	6.750%	6.750%	6.875%
Ultimate rate of medical inflation	3.780%	3.940%	4.250%	4.250%
Salary increases	3.00% plus merit component based on	3.00% based on years of service	3.25% based on years of service	3.25% based on years of service
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-2020 projection scale	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, 2022 can be found in the June 30, 2019 actuarial valuation report.

Changes in assumptions. The discount rate was 6.25% for 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.

Note to Schedules

As a cost-sharing enterprise fund of the City, SJCE is required to recognize a liability (asset) for its proportionate share of the City's collective net Other Postemployment Benefits (OPEB) liability. SJCE recognizes OPEB expense and reports deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB.

The schedules present information to illustrate changes in the SJCE's proportionate share of the net OPEB liability (asset) and contributions over a 10-year period when the information is available. SJCE commenced operations in fiscal year 2018.

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MGO 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*

Honorable City Council
San José Clean Energy
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 San José Clean Energy (SJCE), an enterprise fund of the City of San José, California (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise SJCE's financial statements, and have issued our report thereon dated November 18, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SJCE'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SJCE's internal control. Accordingly, we do not express an opinion on the effectiveness of SJCE's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SJCE's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 18, 2022