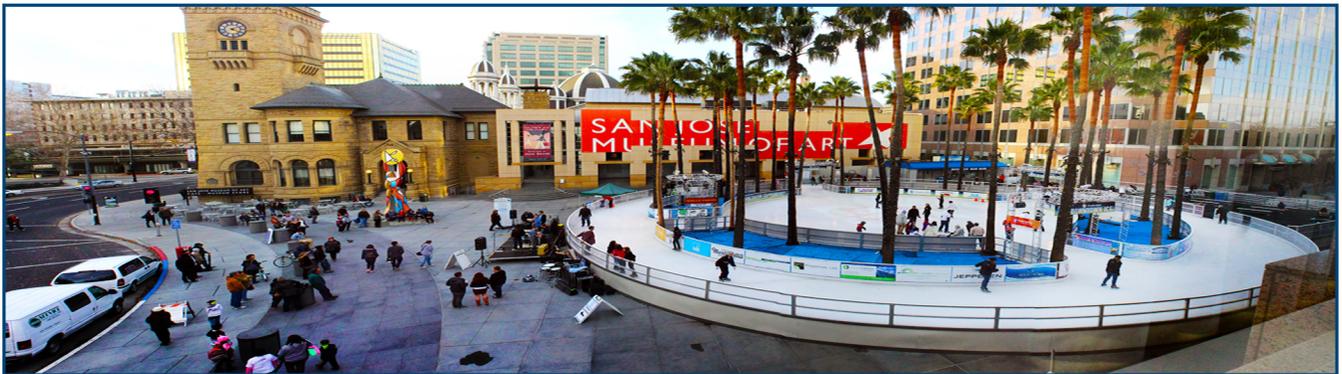
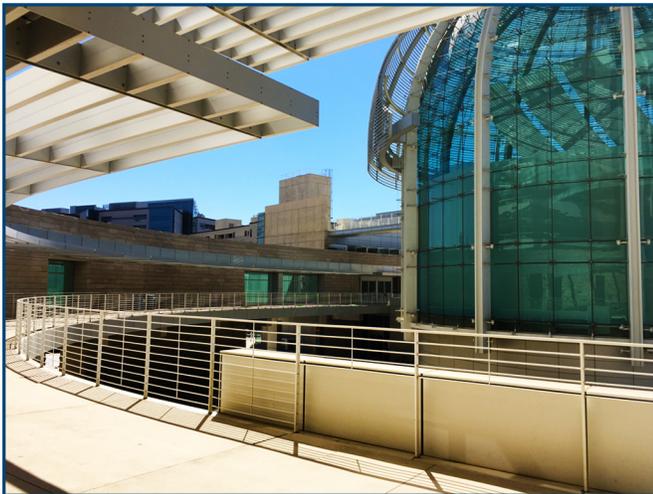


COMPREHENSIVE ANNUAL FINANCIAL REPORT



*Fiscal Year Ended June 30, 2016
San José, California*

City of San José
California

Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2016

Prepared by the Finance Department

Julia H. Cooper
Director of Finance

City of San José
Comprehensive Annual Financial Report
Project Team

Julia H. Cooper
 Director of Finance

Derek Hansel
 Assistant Director

Grace O. Martinez, CPA
 Accounting Deputy Director

Finance Department Financial Statement Review and Coordination

Inderdeep Dhillon, CPA
 Principal Accountant

Jennifer Ye, CPA
 Principal Accountant

Vicky Lu
 Senior Accountant

Michael Vavrichek, CPA
 Senior Accountant

Maggie Liao, CPA
 Senior Accountant

Winnie Shin, CPA (inactive)
 Senior Accountant

Elan Ye, CPA
 Senior Accountant

Financial Statement Preparation

Accountants

Gurinder Chhina
 Govind Das
 Weiping Ding
 Jose Gonzalez
 Suzanne McPherson

Accountants

Bhavana Menghrajani
 Han Nguyen
 Justine Nguyen
 Shivani Sharma
 Jennifer Yu

Accounting Technicians

Chato Apor
 Uyen Le

Component Unit Financial Statement Coordination

Laura Burke, Environmental Services
 Principal Accountant

Mary Soo, Airport
 Principal Accountant

Yen Tiet, Housing
 Senior Accountant

Lillian Nguyen, Environmental Services
 Senior Accountant

Laura Luu, Airport
 Senior Accountant

Gina Rios, Retirement Services
 Senior Accountant

Tinlan Li, Environmental Services
 Senior Accountant

Ivan Dela Cruz, Airport
 Senior Accountant

Deborah Sattler, Retirement Services
 Senior Accountant

Special Assistance

Sharon Winslow Erickson, City Auditor

Jennifer Maguire, Budget Office

Joe Gray, Finance

Qianyu Sun, Finance

Rachel VanderVeen, Finance

Andrew Andrade, Finance

Damian Beatty, Finance

Carrie Rank, Human Resources

Donna Busse, Retirement Services

Kim Hawk, Airport

Benjie Chua-Foy, Retirement Services

Special Assistance - Departments and Offices

Airport
 Budget
 City Attorney
 City Auditor
 City Clerk
 City Manager

Environmental Services
 Fire
 Housing
 Human Resources
 Information Technology
 Library

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

Parks, Recreation and Neighborhood Services

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Introductory Section

November 17, 2016

HONORABLE MAYOR and CITY COUNCIL

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

We are pleased to present the Comprehensive Annual Financial Report (“CAFR”) of the City of San José (“City”) for the fiscal year July 1, 2015 through June 30, 2016 as required by Sections 805(a) and 1215 of the City Charter. Although submitted to the Mayor and City Council (“Council”) for consideration, the CAFR is also intended to provide relevant financial information to the residents of San José, taxpayers, creditors, investors, and other interested parties.

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

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

The City contracted with Grant Thornton LLP, a firm of Certified Public Accountants licensed to practice in the State of California, to perform the annual independent audit. The auditors expressed an opinion that the City’s financial statements for fiscal year 2015-2016 are fairly stated in conformity with accounting principles generally accepted in the United States. This is the most favorable conclusion and is commonly known as an “unmodified” or “clean” opinion. The independent auditor’s report is included in the Financial Section of this report.

In addition, Grant Thornton is in the process of auditing the City’s major program expenditures of federal funds for compliance with the Federal Single Audit Act Amendments of 1996, the Office of Management and Budget Uniform Guidance regulating Single Audits, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR, and when completed, may be obtained upon request from the City’s Department of Finance.



Letter of Transmittal (Continued)

This CAFR is organized into three sections:

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

REPORTING ENTITY

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

The passage of Measure G in November 2014 enacted a Charter amendment to implement a revised governance structure for both retirement plans. As summarized below, the Charter:

- Expressly provides for the City Council's establishment of one or more retirement boards and specifies the City Council's authority to appoint at least a majority, but not all, of the retirement board members.
- Authorizes the retirement boards to hire and prescribe the duties of the chief executive officer and chief investment officer within the Office of Retirement Services who serve at the pleasure of the retirement boards and authorizes the retirement boards to contract with attorneys for services related to the retirement plans' administration.
- Specifies certain duties and obligations of each retirement board, including among others (1) administering the applicable retirement plan in accordance with the fiduciary duties and obligations under the law and (2) adopting an annual operating budget approved by the City Council.
- Authorizes the chief executive officer to hire and oversee the Office's employees, subject to any applicable Civil Service Rules.

The City provides a range of municipal services, including police and fire protection, sanitation services, environmental management, maintenance of streets and infrastructure, and the administration of library

Letter of Transmittal (Continued)

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

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

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

San José covers approximately 179 square miles at the south end of the San Francisco Bay and is the county seat of Santa Clara County. With a 2016 estimated population of 1,042,094¹, it is the tenth largest city in the United States and the third largest city in California. San José is the oldest city in California, developing from a Spanish pueblo established on November 29, 1777. The City has transformed dramatically from the rich agricultural setting of its early years into the largest city in the Silicon Valley, known as the “Capital of Silicon Valley.” Silicon Valley is home to many of the world’s largest technology companies and is a global center of technology innovation. Service providers account for approximately 85.5 percent² of the employment in the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (“MSA”) with the majority of employment related to professional and business services, education and

¹ State of California, Department of Finance, Population Estimates for Cities and Counties January 2016.

² State of California, Employment Development Department, Labor Market Information Division, June 2016.

Letter of Transmittal (Continued)

health services, government, and retail. In addition, durable goods manufacturing, primarily computer equipment, semiconductor components, and electronic instruments, account for approximately 14.7 percent² of the MSA employment.

The CAFR includes all funds of the City, as well as all governmental organizations and activities for which the Council has financial accountability. These organizations include the San José-Santa Clara Clean Water Financing Authority, the City of San José Financing Authority, and the Successor Agency to the Redevelopment Agency of the City of San José (“SARA”).

ECONOMIC CONDITION and FISCAL OUTLOOK

Fiscal year 2015-2016 ended with continued solid growth in a number of revenue categories such as Property Tax, Sales Tax, Transient Occupancy Tax, and development-related fees and taxes. Other revenue categories such as the Construction and Conveyance taxes have shown improvement in fiscal year 2015-2016. With strategic financial reform, revenue increases from a stronger economy, and the careful management of expenses, the City’s budget remained stable in fiscal year 2015-2016 and provided for limited services enhancements and infrastructure improvements, avoided service cuts, and allowed for incremental increases in employee compensation. However, revenues and expenditures are projected to remain in very close alignment over the next five-year period, with variances of less than 1% annually. This includes a small surplus in the first year followed by shortfalls in the remaining four years. Therefore, it is important for the organization to continue to monitor increasing costs and to seek new opportunities to increase tax base revenues for maintaining service levels.

The 2015-2016 Adopted Budget was developed with the assumption of continued economic recovery. Economic indicators and actual revenue performance supported this assumption, with continued improvement during fiscal year 2015-2016. Employment indicators residential and industrial permit activity, median single-family home prices and days on market continue to improve. The June 2016 MSA employment level was 1.02 million, which was 1.9%³ higher than the June 2015 level of 1.0 million³. The unemployment rate in the MSA continued to improve in 2015-2016, dropping from 4.2% in June 2015 to 4.1% in June 2016. These rates remain well below the double digit levels that had been experienced in three fiscal years from 2009 to 2011. The June 2016 unemployment rate in this region is less than the unadjusted rate for California (5.7%) and the nation (5.1%).

Construction activity was moderate in fiscal year 2015-2016, with total fiscal year end valuation of \$1.2 billion. The 1,692 permits for new residential units issued through June 2016 were lower by 47.9% than the prior year level of 3,241. Residential valuation of \$440.9 million in fiscal year 2015-2016 was significantly lower than the 2014-2015 level of \$580.9 million. Commercial valuation of \$380.0 million was lower than the prior year level of \$398.5 million, and industrial activity of \$474.0 million was higher than last year’s level of \$380.0 million. Overall, this construction activity drives revenue collection in several construction tax categories and is an indicator of future activity for other revenues such as storm and sanitary sewer system fees.

The housing market also continued to improve in fiscal year 2015-2016. The median price for single family homes increased, with a median home price in June 2016 of \$920,000, up 6.36% from the June 2015 price of \$865,000. However, the days on the market for a home sale (single-family and multi-family dwelling units) has increased in the past year from 17 days in June 2015 to 19 days in June 2016. The number of home sales (single-family and multi-family dwelling units) has also increased over the past year from 7,992 sales in fiscal year 2014-2015 to 8,223 sales in fiscal year 2015-2016.

³ State of California, Employment Development Department, Labor Market Information Division, June 2016.

Letter of Transmittal (Continued)

At the commencement of fiscal year 2015-2016, the City continued to face legal challenges on significant portions of the June 2012 pension modification ballot measure, or Measure B, by individual employees, retirees, and bargaining units representing current employees that were filed in the Santa Clara County Superior Court and consolidated under the caption of *San José Police Officers' Association v. City of San José, Board of Administration for Police and Fire Department* (the "SJPOA Caption") in the Santa Clara County Superior Court. The judgment in the cases under the SJPOA Caption is currently on appeal by the City and various other parties. The SJPOA also filed a *Quo Warranto* action against the City in the Santa Clara Superior Court challenging placement of Measure B on the June 2012 ballot. A separate case filed by the San José Retired Employees Association (or "Retirees' Association"), along with four individual retirees in July 2014, challenging the changes to healthcare plans for retirees remains pending in the Santa Clara County Superior Court. Additionally, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board ("PERB") related to Measure B; these remain pending before PERB and are currently subject to a stipulation to stay those proceedings.

In an effort to settle these cases for budget stability and to provide certainty to the City's workforce, the City Council directed the City Administration to make any and all reasonable efforts to reach and implement a settlement. In August 2015, the City Council formally approved an Alternative Pension Reform Settlement Framework agreement ("Police and Fire Framework") with the SJPOA and the San Jose Fire Fighters, International Association of Fire Fighters, Local 230 (IAFF). In December 2015 and January 2016, the City Council approved the Federated Alternative Pension Reform Settlement Framework agreement ("Federated Framework") with the bargaining units representing employees in the Federated City Employees' Retirement System, including the Association of Engineers and Architects, IFPTE Local 21 (AEA); the Association of Legal Professionals (ALP); the Association of Maintenance Supervisory Personnel, IFPTE Local 21 (AMSP); the City Association of Management Personnel, IFPTE Local 21 (CAMP); the Confidential Employees' Organization, AFSCME Local 101 (CEO); the International Brotherhood of Electrical Workers, Local No. 332 (IBEW); the Municipal Employees' Federation, AFSCME Local 101 (MEF); the International Union of Operating Engineers, Local No. 3 (OE#3); and the Association of Building, Mechanical & Electrical Inspectors (ABMEI). The terms of the Federated Framework, with certain exceptions, also applied to unrepresented employees in Unit 99 and Units 81/82. These agreements would settle the Measure B litigation involving these parties.

As part of the agreed upon process in the Frameworks to resolve the Measure B litigation, the City and the SJPOA sought a stipulated judgment in the SJPOA's *Quo Warranto* action declaring the resolution which placed Measure B on the June 2012 ballot null and void due to a procedural defect. The trial court issued the stipulated judgment however, third parties subsequently filed suit to contest the issuance of the stipulated judgment and the case remains on appeal in the California Court of Appeal.

The Frameworks also contemplated that a measure would be placed on the November 8, 2016 ballot, whether or not Measure B was invalidated through the *Quo Warranto* action, that included provisions requiring voter approval of future defined retirement benefit enhancements while prohibiting retroactive enhancements, actuarial soundness, and other provisions mutually agreed to by the parties.

The City and its eleven bargaining units negotiated the provisions of a ballot measure, known as Measure F, to amend the City Charter to supersede the provisions implemented by Measure B with the retirement provisions agreed to in the Settlement Frameworks. The City Council placed Measure F on the November 2016 ballot and the Measure was approved by the voters. Once the Charter amendment approved through the passage of Measure F becomes effective, the City Council will enact the ordinances that will be necessary to implement the changes to the City's retirement plans. The City anticipates that the appeal of the lawsuits under the SJPOA caption and the PERB proceedings will be dismissed. The City anticipates that *Quo Warranto* action will likely become moot. In the event that the appeal of *Quo Warranto* action proceeds, the issues will be procedural because Measure F will supersede Measure B.

In addition to these Settlement Frameworks, tentative agreement has been reached with the Retirees' Association to resolve the appeal of lawsuits under the SJPOA Caption as well as the pending Superior

Letter of Transmittal (Continued)

Court action filed by the Retirees' Association. More information related to the Measure B legal proceedings and these settlements is available in Note IV.B.8.

The City Council adopted a balanced fiscal year 2016-2017 budget in June 2016. This marks the fifth consecutive year that the operating budget did not include significant reductions in services, staffing, and compensation to achieve a balanced budget. The fiscal year 2016-2017 budget focused on the following Council adopted goals:

- Save (setting aside resources to ensure fiscal stability)
- Invest and Innovate: Safety (investments that address public safety needs)
- Invest and Innovate: Economic Opportunity (investments that expand opportunities for our residents and businesses)
- Invest and Innovate: Our Future (investments that better position the City moving forward)
- Invest and Innovate: Our Community (investments that support a vibrant community)
- Invest in Making San José America's Most Innovative City: (investments that support innovation and strategic partnerships as well as increase transparency and community input)

These goals were met by using a balanced approach to maintaining stability, meeting service delivery needs, and planning for uncertainties. The 2016-2017 Adopted Budget has a limited number of new budget actions in strategically important areas. It provides for some service restorations and investments in our infrastructure, avoids service cuts, and continues to provide incremental increases in employee compensation in order to remain competitive as an employer in this challenging labor marketplace. The Adopted Budget also includes service delivery efficiencies and cost savings that can be obtained while maintaining service levels. Although the budget outlook is relatively stable, it is not robust and the City will continue to face a long-term "service level deficit". The City will not be able to fully restore services to the pre-recession levels unless there are significant new sources of revenues.

In June 2016, San José voters approved a ¼ percent sales tax for 15 years, effective from October 1, 2016, to be available for general purposes; including improving police response; improving emergency medical/fire response times; repairing potholes and streets; expanding gang prevention; and maintaining the City's long-term financial stability. Furthermore, an increase to the City's local business tax was approved by San José voters on November 8, 2016 that will provide for additional funding in the City's General Fund to support city services.

The City's current general obligation credit ratings are Aa1/AA+/AA+ from Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), and Fitch Ratings ("Fitch"), respectively. These credit ratings have remained the same from the prior year, and the City continues to be one of the highest rated large cities (with population over 250,000) in California, and second highest among the nation's ten largest cities. The ratings continue to reflect the diversity of the local economy anchored by a strong technology presence and sound financial management and prudent budgetary practices.

SIGNIFICANT COMMUNITY EVENTS and SERVICE DELIVERY ACCOMPLISHMENTS

Examples of significant community events and service delivery accomplishments for the fiscal year ended June 30, 2016, include the following:

- ❖ In August 2015, the San José–Santa Clara Regional Wastewater Facility (RWF⁴) Capital Program received an Achievement Award for Organizational Excellence from the California Association of Sanitation Agencies. The award recognizes the RWF for its managerial excellence during the start-up phase and validation stage of the 10-year \$1.5 billion improvement program, the first part of an overall \$2.1 billion plan over the next three decades. The RWF Capital Program is the largest public works program in the South Bay.

⁴ The RWF was previously known as the San Jose-Santa Clara Water Pollution Control Plant, which remains its official name.

Letter of Transmittal (Continued)

- ❖ The Housing Department funded a land acquisition and a large part of construction costs of a new affordable housing development, which received the Silicon Valley Business Journal's annual Structures Award for Best Affordable Residential Project. The project is to provide affordable apartments to extremely low, very low income, and homeless residents. In addition, all residents will have access to financial literacy courses, vocational development, computer lab assistance, health and wellness program, and other community resources, with services to be provided on-site and through Santa Clara County.
- ❖ The City's Small Business Ally Program won the "Red Tape to Red Carpet Award " from the Silicon Valley Leadership Group, which annually invites public agencies to submit their programs and awards programs that celebrates efforts to enhance economic development in the Bay Area. The City's program was jointly sponsored by the Office of Economic Development and the Department of Planning, Building, and Code Enforcement. City staff provides bilingual Spanish-English business coaching, helps small business owners navigate business tax registration, permits and inspections, and other processes with the goal of making it easier for small business to start, grow, and expand in San Jose.
- ❖ The City's Happy Hollow Park & Zoo received accreditation from the Association of Zoos & Aquariums (AZA). To be accredited, Happy Hollow Park & Zoo underwent a thorough review including onsite inspection and observation of all aspects of operations, to ensure it has and will continue to meet requirements and standards, which include animal care, veterinary programs, conservation, education, and safety. The AZA requires zoos and aquariums to successfully complete this rigorous accreditation process every three to five years in order to be members of the AZA.
- ❖ The Department of Public Works' Fire Station No. 21 Project received the 2016 Silicon Valley Chapter American Public Works Association "Project of the Year Award" for the category of projects between \$5-25 million. The award recognized the exceptional planning, design, and construction management techniques used to complete the project. The project was designed and managed in-house by the Public Works staff, keeping the project on schedule and on budget while minimizing public inconvenience during the construction, and meeting all environmental requirements.

FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM

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

In total, the City's 2016-2017 Adopted Capital Budget totals \$878.4 million and the 2017-2021 Adopted CIP totals \$2.4 billion. The 2016-2017 Adopted Capital Budget reflects a 11.9% decrease from the 2015-2016 Adopted Capital Budget of \$996.7 million and from the five-year CIP perspective, the 2017-2021 Adopted CIP is 5.2% lower than the 2016-2020 Adopted CIP of \$2.6 billion. The 2017-2021 Adopted CIP programs include significant amounts for the following purposes: to upgrade and revitalize the RWF, and to rehabilitate the sanitary sewer collection system; the rehabilitation and enhancement of a variety of park assets and recreational facilities; reseal and resurface pavement; construction of bike and pedestrian, traffic safety, and multi-modal improvement projects; and renovate a number of the City's outstanding cultural facilities.

Letter of Transmittal (Continued)

Key components of the 2017-2021 Adopted Capital Improvement Program include:

- Water Pollution Control Capital Program is the largest capital program accounting for 39.8% of the 2017-2021 CIP with a total of \$970.5 million, of which \$139.8 million is budgeted in 2016-2017, directed to renovate and upgrade the RWF infrastructure to ensure capacity and reliability of treatment plant processes.
- Sanitary Sewer System Capital Program in the fiscal years 2017-2021 CIP programs funding of \$228.2 million, of which \$87.0 million is budgeted in 2016-2017. The program's funding is used to enhance sewer capacity for continued development and to rehabilitate existing sewers. Funding in both the RWF and Sanitary Sewer System Capital Programs is supported the Sewer Service and Use Charge Fees. In addition, the Sanitary Sewer System Capital Program is supported by Sanitary Sewer Connection Fees, and "Joint Participations" contributions from other jurisdictions served by the Sanitary Sewer System for the use of San José sewer lines. Sewer Service and Use Charge rate increases by 5.5% for 2016-2017. Estimated Sewer Service and Use Charge rate increases ranging from 5% to 7% are projected in the remaining years of the CIP. These rates may be revised based on future assessments of capital and operating needs or changes in project costs.
- Traffic Capital Program is the second largest program at 14.4% of the CIP with a budget of \$351.8 million, of which \$183.7 million is budgeted in 2016-2017. The 2017-2021 CIP invests approximately \$71.3 million in traffic safety and local multi-modal projects, supporting the use of all modes of travel and placing emphasis on the safe travel of pedestrians, bicyclists, and transit users and \$96.4 million for a variety of infrastructure maintenance and repair activities, of which \$88.3 million is earmarked for pavement maintenance.
- Parks and Community Facilities Development Capital Program in the 2017-2021 CIP has funding of \$316.3 million, of which \$179.6 million is budgeted in 2016-2017. All Park Bond Projects, with the exception of a softball complex and a soccer sports complex have been completed and opened to the public. The 2017-2021 CIP provides resources to operate and maintain existing and newly-constructed parks and recreational facilities and to continue with long-term capital investment plans in the coming years.
- Airport Capital Program for fiscal years 2017-2021 totals \$244.0 million, of which \$107.0 million is budgeted in 2016-2017. After the successful completion of several large Airport Master Plan projects, the 2017-2021 CIP focuses on the maintenance and preservation of Airport infrastructure, security enhancement, and on the redevelopment of the non-terminal areas, including the Airport's west side and the southeast side of the Airport, as well as projects that address the capacity of the facilities in the preparation for growth opportunities.
- Public Safety Capital Program for fiscal years 2017-2021 plans funding of \$60.8 million, of which \$30.5 million is budgeted in 2016-2017. The majority of the Public Safety Bond Projects for the Police and the Fire Departments funded by the Neighborhood Security Act Bond Measure have been completed. However, there is insufficient bond funding to complete the last project, Fire Station 37. This project has been on hold until additional funding sources are identified to complete the project and provide for ongoing operating and maintenance costs once constructed.
- Library Capital Program for fiscal years 2017-2021 plans funding of \$57.4 million, of which \$18.9 million is allocated in 2016-2017. The Library bond funded projects marked their completion with the opening of a Village Square Branch Library in spring 2016. The Library bond funds provided for the construction, or replacement of the 14 of the 17 existing branches, and construction of six additional branches in under-served neighborhoods. San José voters approved the extension of the Library Parcel Tax in June 2014 for the next 25 years. The Library Parcel Tax receipts continue to be a significant, long term funding source for maintenance of the library automated systems,

Letter of Transmittal (Continued)

acquisition and replacement of library materials on an annual basis, and provide the stability needed to position the library system for user growth.

- Storm Sewer System Capital Program for fiscal years 2017-2021 plans funding of \$49.3 million, of which \$30.0 million is budgeted in 2016-2017. This level of funding did not require a rate increase in fiscal year 2016-2017, however, the need for a rate increase may be reassessed beyond 2016-2017 upon completion of the initial recommendations from the Storm Sewer Master Plan.

Even with strong emphasis placed on rehabilitation and renewal, the City continues to lack the resources required to fully maintain its existing infrastructure portfolio. The persistent gap between optimal levels of capital investment and available resources, including grants and revenues from other agencies, results in a growing backlog of unmet/deferred infrastructure needs. Nowhere is this gap between need and funding more apparent than the City's local street network, especially considering recent reductions to the City's State Gas Tax allocation. The Deferred Infrastructure Maintenance Backlog report accepted by the City Council in February 2016 identified a backlog of unmet/deferred for pavement maintenance that has grown from \$250.0 million to \$521.5 million since 2010. The City, however, took actions towards addressing the shortfall, such as allocating any additional Construction Excise Tax revenues and one-time funding of \$17.7 million from the recent voter-approved 2016 sales tax ballot measure towards pavement maintenance. Regardless of the fiscal challenges, within available resources, the City remains dedicated to providing a safe, reliable, and efficient public infrastructure that meets the needs of its residents and businesses, now and in the future.

FINANCIAL INFORMATION

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

Single Audit

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

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

Budgetary Controls

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

The City also uses encumbrance accounting as another technique for accomplishing budgetary control. An encumbrance is a commitment of a future expenditure earmarked for a particular purpose that reduces the amount of budgetary authority available for general spending. At the end of the fiscal year, encumbered

Letter of Transmittal (Continued)

appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse.

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

Debt Management Policy

The City's Debt Management Policy was adopted by the City Council on May 21, 2002 and most recently revised on June 9, 2015, and is reviewed annually. The Debt Management Policy establishes the following equally important objectives:

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve the highest practical credit rating
- Ensure the full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with applicable City Policy and state and federal laws

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

AWARDS

The Government Finance Officers Association ("GFOA") of the United States and Canada awarded its Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2015. This was the twenty-eighth consecutive year the City has received this prestigious award. To qualify for the Certificate of Achievement, the governmental entity must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards. Such report must satisfy accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

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

For the twenty-sixth consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the fiscal year beginning July 1, 2015. To qualify for this award, the government unit must publish a budget document that meets program criteria as a policy document, a financial plan, an operations guide, and a communications medium.

Letter of Transmittal (Concluded)

ACKNOWLEDGMENTS

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

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

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

Respectfully submitted,



NORBERTO L. DUEÑAS
City Manager



JULIA H. COOPER
Director of Finance

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Government Finance Officers Association

**Certificate of
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for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



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**City of San Jose
California**

For the Fiscal Year Beginning

July 1, 2015

Executive Director

San José Mayor & City Council

To contact members of the San José City Council by mail, send to:
200 East Santa Clara Street, Tower 18th, San José, CA 95113



Mayor Sam Liccardo
(408) 535-4800
mayoremail@sanjoseca.gov



Charles "Chappie" Jones
District 1
(408) 535-4901
district1@sanjoseca.gov



Pierluigi Oliverio
District 6
(408) 535-4906
pierluigi.oliverio@sanjoseca.gov



Ash Kalra
District 2
(408) 535-4902
district2@sanjoseca.gov



Tam Nguyen
District 7
(408) 535-4907
district7@sanjoseca.gov



Raul Peralez
District 3
(408) 535-4903
district3@sanjoseca.gov



Vice Mayor Rose Herrera
District 8
(408) 535-4908
rose.herrera@sanjoseca.gov



Manh Nguyen
District 4
(408) 535-4904
district4@sanjoseca.gov



Donald Rocha
District 9
(408) 535-4909
district9@sanjoseca.gov

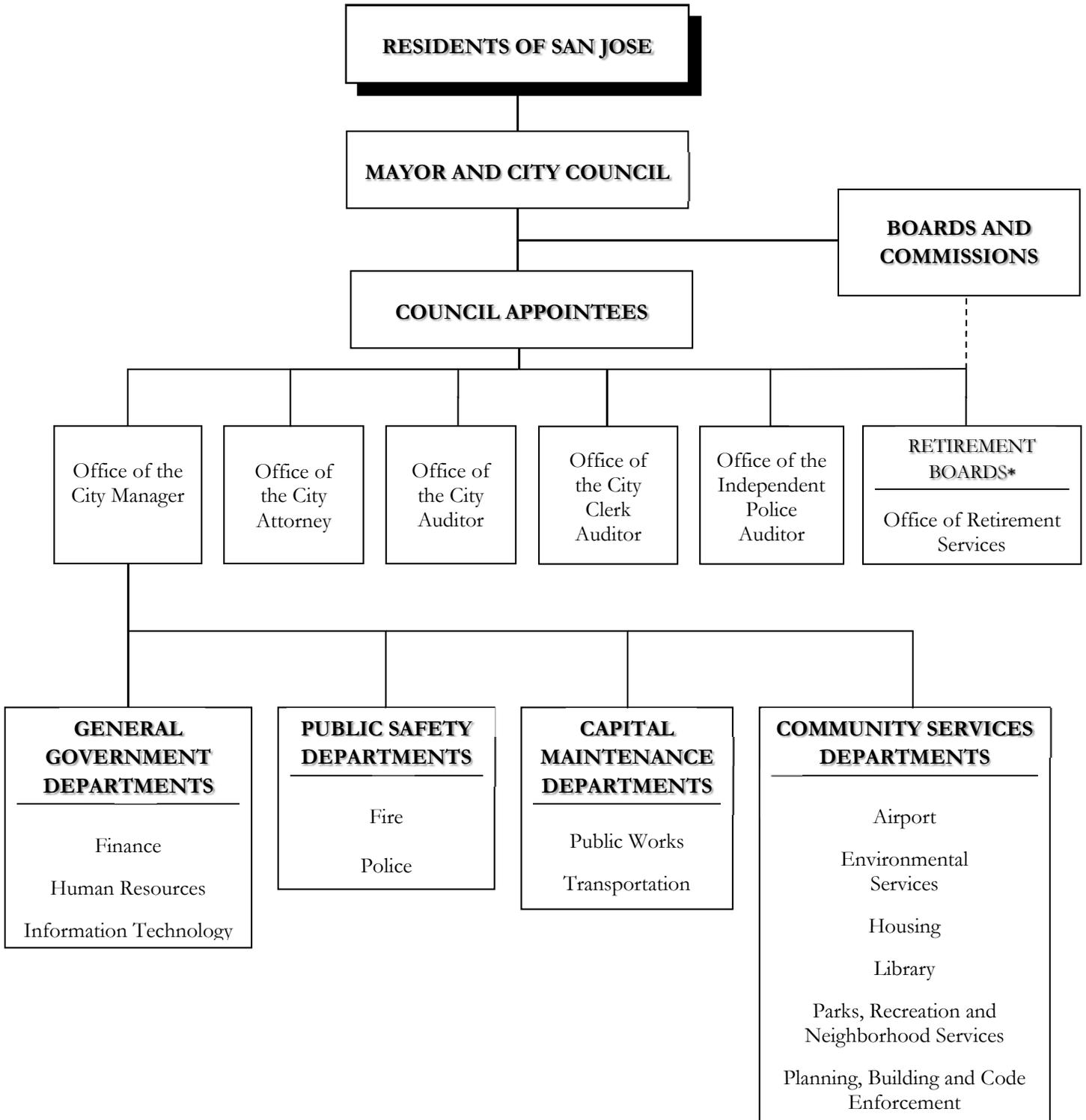


Magdalena Carrasco
District 5
(408) 535-4905
district5@sanjoseca.gov



Johnny Khamis
District 10
(408) 535-4910
district10@sanjoseca.gov

CITY ORGANIZATION BY FUNCTION



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

Financial Section

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
150 Almaden Blvd., Suite 600
San Jose, CA 95113

T +1 408 275 9000
F +1 408 275 0582
www.GrantThornton.com

Honorable City Council
City of San Jose, California

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Jose, California (the “City”) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Jose, California as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

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

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements of the nonmajor governmental funds, nonmajor special revenue funds, nonmajor debt service funds, nonmajor capital project funds, internal service funds, and trust and agency funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

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

Grant Thornton LLP

San Jose, CA
November 17, 2016

City of San José
Management's Discussion and Analysis
Required Supplementary Information (Unaudited)
June 30, 2016

Management's Discussion and Analysis ("MD&A") provides an overview of the City of San José's ("City") activities and financial performance for the fiscal year ended June 30, 2016. Readers are encouraged to read the MD&A in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal at the beginning of the Introductory Section, and with other portions of this Comprehensive Annual Financial Report ("CAFR"). All amounts have been rounded to the nearest one hundred thousand dollars and one tenth of a percent.

FINANCIAL HIGHLIGHTS

- The government-wide statement of net position for the City's governmental and business-type activities indicates that as of June 30, 2016, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$4.868 billion. Of this amount, a deficit of \$1.384 billion represent unrestricted net position, which is comprised of a deficit balance of \$1.723 billion for governmental activities, and a positive balance of \$339.4 million for business-type activities. In addition, the City's restricted net position totals \$1.007 billion (\$930.6 million for governmental activities and \$76.7 million for business-type activities) and is dedicated to specific purposes. Lastly, net position of \$5.245 billion is the City's net investment in capital assets (\$4.479 billion for governmental activities and \$766.1 million for business-type activities).
- The net position decreased by \$21.8 million or 0.5 percent during 2015-2016 to \$4.868 billion from \$4.890 billion. Expenses continued to exceed revenues although tax revenues were increased by \$52.2 million.
- Governmental funds reported a combined ending fund balances of \$1.367 billion at June 30, 2016, which is \$43.7 million or 3.3 percent more than the June 30, 2015 balance. The increase was attributable to an increase in the General Fund of \$3.1 million, Housing Activities Fund of \$1.8 million, Low and Moderate Income Housing Asset Fund of \$22.0 million, Special Assessment Districts of \$0.5 million, San José Financing Authority Debt Service Fund of \$1.5 million, and the Nonmajor Governmental Funds of \$14.9 million.
- Unassigned fund balance of governmental funds totals \$65.4 million, which is 4.8 percent of combined governmental fund balances at June 30, 2016.
- Total long-term liabilities (excluding net pension liability) decreased by \$67.9 million to \$3.331 billion at June 30, 2016, which represents a decrease of 2.0 percent compared to \$3.398 billion at June 30, 2015. The primary factors leading to the decrease in long-term liabilities for governmental activities of \$34.6 million were the payments of scheduled debt service of \$51.8 million, offset by increases in compensated absences liability of \$8.2 million and OPEB liability of \$17.7 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of \$33.3 million were due to payments of \$33.7 million for scheduled debt service and an increase in OPEB liability of \$1.0 million.
- Net pension liability increased by \$579.6 million or 34.1 percent during 2015-2016 to \$2.278 billion from \$1.699 billion. Deferred outflows of resources related to pensions increased by \$283.7 million or 116.2%, and deferred inflows of resources related to pensions decreased by \$275.5 million or 99.9%. The changes were mainly due to a net loss of \$402.8 million between projected and actual investment earnings on plan assets, and an increase of \$199.5 million to the total pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

In addition, this report also contains other supplementary information.

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2016

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

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

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

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

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

Fiduciary funds account for resources held for the benefit of City employees and outside parties in a similar manner as that for proprietary funds. Pension plan trust funds, private purpose trust funds, and agency funds are reported as fiduciary funds. The government-wide financial statements do not include fiduciary funds as their resources are not available to support City programs.

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

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

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

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of net position: As noted earlier, net position may serve as a useful indicator of a government's financial position. As of June 30, 2016, the City's total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$4.868 billion.

The following table is a condensed summary of the City's net position for governmental and business-type activities:

Statement of Net Position
June 30, 2016 and 2015
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Assets:						
Current and other assets.....	\$ 1,762,904	\$ 1,733,780	858,111	829,066	2,621,015	2,562,846
Capital assets.....	5,571,397	5,697,918	2,020,445	2,032,236	7,591,842	7,730,154
Total assets.....	<u>7,334,301</u>	<u>7,431,698</u>	<u>2,878,556</u>	<u>2,861,302</u>	<u>10,212,857</u>	<u>10,293,000</u>
Deferred outflows of resources:						
Loss on refundings of debt.....	1,090	1,275	3,397	3,645	4,487	4,920
Deferred outflows of resources related to pensions.....	468,238	216,614	59,620	27,523	527,858	244,137
Total deferred outflows of resources	<u>469,328</u>	<u>217,889</u>	<u>63,017</u>	<u>31,168</u>	<u>532,345</u>	<u>249,057</u>
Liabilities:						
Current and other liabilities.....	176,594	184,587	90,803	93,683	267,397	278,270
Long-term liabilities.....	1,910,414	1,945,015	1,420,159	1,453,417	3,330,573	3,398,432
Net Pension liability.....	2,030,227	1,514,381	248,000	184,277	2,278,227	1,698,658
Total liabilities.....	<u>4,117,235</u>	<u>3,643,983</u>	<u>1,758,962</u>	<u>1,731,377</u>	<u>5,876,197</u>	<u>5,375,360</u>
Deferred inflows of resources:						
Gain on refundings of debt.....	-	-	373	796	373	796
Deferred inflows of resources related to pensions.....	341	245,922	-	29,894	341	275,816
Total deferred inflow of resources	<u>341</u>	<u>245,922</u>	<u>373</u>	<u>30,690</u>	<u>714</u>	<u>276,612</u>
Net position:						
Net investment in capital assets	4,478,760	4,566,716	766,107	769,516	5,244,867	5,336,232
Restricted	930,553	927,190	76,709	113,459	1,007,262	1,040,649
Unrestricted	(1,723,260)	(1,734,224)	339,422	247,428	(1,383,838)	(1,486,796)
Total net position.....	<u>\$ 3,686,053</u>	<u>\$ 3,759,682</u>	<u>1,182,238</u>	<u>1,130,403</u>	<u>4,868,291</u>	<u>4,890,085</u>

At June 30, 2016, the City reported positive balances in net position on a total basis. Net investment in capital assets (infrastructure, land, buildings, other improvements, vehicles, and equipment, less outstanding debt used to acquire them) of \$5.245 billion comprise 107.7 percent of the City's total net position. These capital assets facilitate providing services to the San José community, but they are not liquid, and therefore they are not available for future spending. During 2015-2016, net investment in capital assets decreased by \$91.4 million due primarily to the depreciation expense of \$299.1 million offset by additions (net) to capital assets of \$162.2 million.

A portion of the City's net position, \$1.007 billion or 20.7 percent, are subject to legal restrictions on their use, including \$930.6 million in governmental activities and \$76.7 million in business-type activities. Of the total net position at June 30, 2016, \$1.384 billion or 28.4 percent represents unrestricted net position, which

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2016

comprises a deficit balance of \$1.723 billion for governmental activities, and a positive balance of \$339.4 million for business-type activities. Primary factors contributing to the deficit unrestricted net position are the City's net pension liability.

During 2015-2016, the City's total net position decreased by \$21.8 million. Notable changes in the statement of net position between June 30, 2016 and June 30, 2015 include:

- Capital assets decreased by \$138.3 million or 1.8 percent compared to the prior fiscal year. Governmental capital assets decreased by \$126.5 million and business-type capital assets decreased by \$11.8 million. The decrease in governmental capital assets resulted from depreciation expense of \$215.0 million for major infrastructure and other assets, partially offset by additions (net) to capital assets of \$89.9 million, which included transfers of \$7.9 million of properties on Autumn Street and the Circle of Palms public plaza from the SARA to the City for City's governmental use and the purchases of properties with net book value of \$2.9 million from the SARA. The properties purchased were Plaza Hotel, Gallup property and Mesa property for the City's affordable housing programs. The decrease in business-type capital assets was primarily due to depreciation expense of \$84.0 million, offset by additions (net) to capital assets of \$72.3 million primarily at the Wastewater Treatment Facility and at the Airport.
- Current and other assets increased by \$58.1 million or 2.3 percent due to an increase of \$29.1 million for governmental activities and also an increase of \$29.0 million for business-type activities. The increase in current assets for business-type activities is mainly due to an increase in cash and investments, as a result of revenues exceeding expenses by \$51.8 million. The increase in governmental activities is mainly due to increases in cash, investments and receivable, as a result of revenues exceeding expenses by \$43.7 million for governmental funds.
- Total long-term liabilities (excluding net pension liability) decreased by \$67.9 million to \$3.331 billion at June 30, 2016, which represents a decrease of 2.0 percent compared to \$3.398 billion at June 30, 2015. The primary factors leading to the decrease in long-term liabilities for governmental activities of \$34.6 million were the payments of scheduled debt service of \$51.8 million, offset by net increases in compensated absences liability of \$8.2 million and OPEB liability of \$17.7 million. The primary factors leading to the decrease in long-term liabilities for business-type activities of \$33.3 million were due to payments of \$33.7 million for scheduled debt service and an increase in OPEB liability of \$1.0 million.
- Current and other liabilities for the City decreased by \$10.9 million or 3.9 percent due to decreases of \$8.0 million for governmental activities and \$2.9 million for business-type activities. The decreases were primarily due to the payoff of commercial paper notes payable in the amounts \$6.3 million and \$3.2 million for governmental activities and business-type activities, respectively.
- Net pension liability increased by \$579.6 million or 34.1 percent during 2015-2016 to \$2.278 billion from \$1.699 billion. Deferred outflows of resources related to pensions increased by \$283.7 million or 116.2%, and deferred inflows of resources related to pensions decreased by \$275.5 million or 99.9%. The changes were mainly due to a net loss of \$402.8 million between projected and actual investment earnings on plan assets, and an increase of \$199.5 million to the total pension liability resulting from changes of assumptions and differences between expected and actual actuarial experience.

Unrestricted net position for governmental activities slightly increased by \$11.0 million or 0.6 percent with a deficit balance of \$1.723 billion at June 30, 2016. Primary factors contributing to the deficit unrestricted net position for governmental activities are the City's net pension liability. For business-type activities, unrestricted net position increased by \$92.0 million with a positive balance of \$339.4 million at June 30, 2016. The net increase in unrestricted net position in business-type activities was primarily due to revenue exceeding expenses by \$51.8 million. Primary factors contributing to the increase are \$35.8 million increase in fees and charges for services, and \$9.2 million increase in capital grants and contributions.

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Analysis of activities: The following table indicates the changes in net position for governmental and business-type activities:

Statement of Activities
For the Years Ended June 30, 2016 and 2015
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2016	FY 2015	FY 2016	FY 2015	FY 2016	FY 2015
Revenues:						
Program revenues:						
Fees, fines, and charges for services.....	\$ 423,820	\$ 398,994	445,372	409,586	869,192	808,580
Operating grants and contributions.....	107,583	97,467	864	1,266	108,447	98,733
Capital grants and contributions.....	69,848	129,901	15,437	6,225	85,285	136,126
General revenues:						
Property taxes.....	404,878	384,523	-	-	404,878	384,523
Utility taxes.....	113,474	112,645	-	-	113,474	112,645
Franchise fees.....	48,949	46,909	-	-	48,949	46,909
Transient occupancy taxes.....	41,125	36,980	-	-	41,125	36,980
Sales taxes shared revenue.....	201,797	180,407	-	-	201,797	180,407
State of California in-lieu.....	410	419	-	-	410	419
Business taxes.....	50,864	47,431	-	-	50,864	47,431
Unrestricted interest and investment income....	7,790	4,125	6,383	3,252	14,173	7,377
Other revenue.....	2,103	17,753	2,314	1,747	4,417	19,500
Total revenues.....	<u>1,472,641</u>	<u>1,457,554</u>	<u>470,370</u>	<u>422,076</u>	<u>1,943,011</u>	<u>1,879,630</u>
Expenses:						
General government.....	122,363	127,480	-	-	122,363	127,480
Public safety.....	555,072	466,519	-	-	555,072	466,519
Community services.....	274,838	236,840	-	-	274,838	236,840
Sanitation.....	145,516	141,244	-	-	145,516	141,244
Capital maintenance.....	395,393	507,523	-	-	395,393	507,523
Interest and fiscal charges.....	56,768	60,266	-	-	56,768	60,266
Norman Y. Mineta San José International						
Airport.....	-	-	201,017	197,786	201,017	197,786
Wastewater Treatment System.....	-	-	163,985	158,385	163,985	158,385
Municipal Water System.....	-	-	36,246	33,885	36,246	33,885
Parking System.....	-	-	13,607	12,714	13,607	12,714
Total expenses.....	<u>1,549,950</u>	<u>1,539,872</u>	<u>414,855</u>	<u>402,770</u>	<u>1,964,805</u>	<u>1,942,642</u>
Excess (deficiency) before transfers.....	(77,309)	(82,318)	55,515	19,306	(21,794)	(63,012)
Transfers.....	3,680	3,501	(3,680)	(3,501)	-	-
Change in net position.....	<u>(73,629)</u>	<u>(78,817)</u>	<u>51,835</u>	<u>15,805</u>	<u>(21,794)</u>	<u>(63,012)</u>
Net position at beginning of year, as previously reported	3,759,682	5,452,867	1,130,403	1,311,023	4,890,085	6,763,890
Change in accounting principle.....	-	(1,614,368)	-	(196,425)	-	(1,810,793)
Net position at beginning of year, as restated	<u>3,759,682</u>	<u>3,838,499</u>	<u>1,130,403</u>	<u>1,114,598</u>	<u>4,890,085</u>	<u>4,953,097</u>
Net position at end of year.....	<u>\$ 3,686,053</u>	<u>\$ 3,759,682</u>	<u>1,182,238</u>	<u>1,130,403</u>	<u>4,868,291</u>	<u>4,890,085</u>

Governmental activities: Net position for governmental activities decreased by \$73.6 million or 1.5 percent during 2015-2016 from \$3.760 billion to \$3.686 billion. Total expenses increased by \$10.1 million and total revenues increased by \$15.1 million. The increase in revenues was not enough to offset total expenses resulting in a decrease in net position before transfers. Significant elements of the decrease in net position before transfers for governmental activities from June 30, 2015 to June 30, 2016 are as follows:

- Contributing factors resulting in increases to certain revenue categories are as follows: Fees, fines, and charges for services increased by \$24.8 million or 6.2 percent, due to an increase of \$7.9 million in the General Fund, which is explained in more detail in the General Fund section; an increase of \$6.9 million in integrated waste management fund due to rate increases for garbage services and an increase of \$8.4 million in revenues from additional conference activities in the Convention Center; Operating grants and contributions increased by \$10.1 million or 10.4 percent primarily due to an increase of \$12.7 million in interest repayment of developer loans in Low and

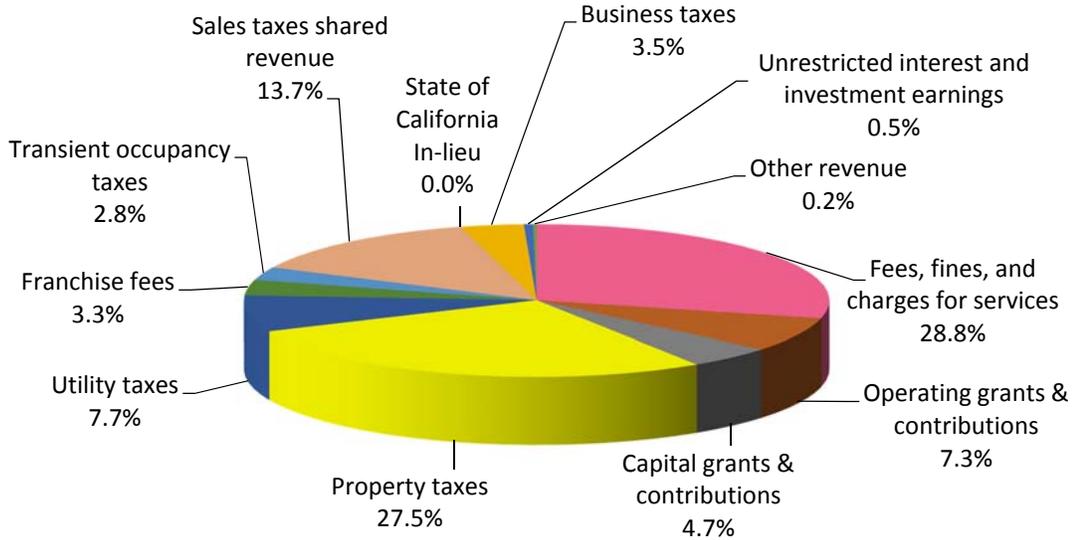
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Moderate Income Housing Asset Fund. Property tax revenue increased by \$20.4 million or 5.3 percent due to an increase in assessed property tax valuations. Sales tax revenue increased by \$21.4 million or 11.9 percent indicating a modest improvement in consumer spending. Transient occupancy tax receipts from guests staying in the City's local hotels increased by \$4.1 million or 11.2 percent. For the fourteen largest hotels in the City, the average room rate increased by approximately 13 percent during the year indicating signs of continued economic recovery.

- Contributing factors resulting in decreases to certain revenue categories are as follows: Capital grants and contributions decreased by \$60.1 million or 46.2 percent primarily due to the fact that the transfers of capital assets from the SARA to the City were \$68.1 million less when compared to prior fiscal year.
- Unrestricted interest and investment income increased by \$3.7 million, an increase of 88.9 percent from the prior year. This is primarily due to a more favorable market condition during the fiscal year compared to the prior fiscal year.
- General government expenses decreased by \$5.1 million or 4.0 percent during 2015-2016 due to an increase of \$20.3 million in the General Fund, which is explained in more detail in the General Fund section, while in the prior year there was a write-off of construction-in-progress in the amount of \$25.9 million for parks and library projects.
- Public safety expenses increased by \$88.6 million or 19.0 percent primarily due to an increase in pension expenses of \$59.0 million and an increase in the General Fund of \$28.6 million, which is explained in more detail in the General Fund section.
- Community services expenses increased by \$38.0 million or 16.0 percent primarily due to an increase of \$9.5 million in the General Fund, which is explained in more detail in the General Fund section, an increase of \$2.6 million in the Low and Moderate Income Housing Asset Fund due to increases in personnel costs and the costs for homeless programs, an increase of \$2.7 million in Housing Activity Fund due to increases in loan loss reserve, an increase of \$3.0 million in Transient Occupancy Tax Fund due to an increase of \$2.0 million to Team San Jose for marketing and promotion activities, an increase of \$2.9 million in depreciation mainly due to an increase of \$3.6 million on property SARA transferred to the City in fiscal year 2015, an increase of \$8.8 million in pension expenses and an increase of \$6.5 million in operating expenses in the Convention Center, which corresponded to increased conference activities and revenues in the Convention Center.
- Sanitation expenses increased by \$4.3 million or 3.0 percent primarily due to increase in pension expense of \$2.9 million, and an increase of \$1.3 million in the Storm Drainage Service Use Charge fund due to increases in personnel expenses.
- Capital maintenance decreased by \$112.1 million or 22.1 percent primarily due to an increase of \$9.8 million in the General Fund which is explained in more detail in the General Fund section, an increase of \$7.8 million in street repaving and maintenance expenses, and an increase of pension expense of \$10.8 million. The increases were offset by a decrease in depreciation expense of \$150.9 million due to the retirement of certain infrastructure assets for Storm Sewer and Traffic Systems in the previous year.
- Interest and fiscal charges decreased by \$3.5 million or 5.8 percent primarily due to the payoff and retirement of long-term obligations. The balance of debt payable for various bonds and loans decreased by \$51.8 million or 4.2 percent from the prior year.

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Governmental Activities Revenues 2016

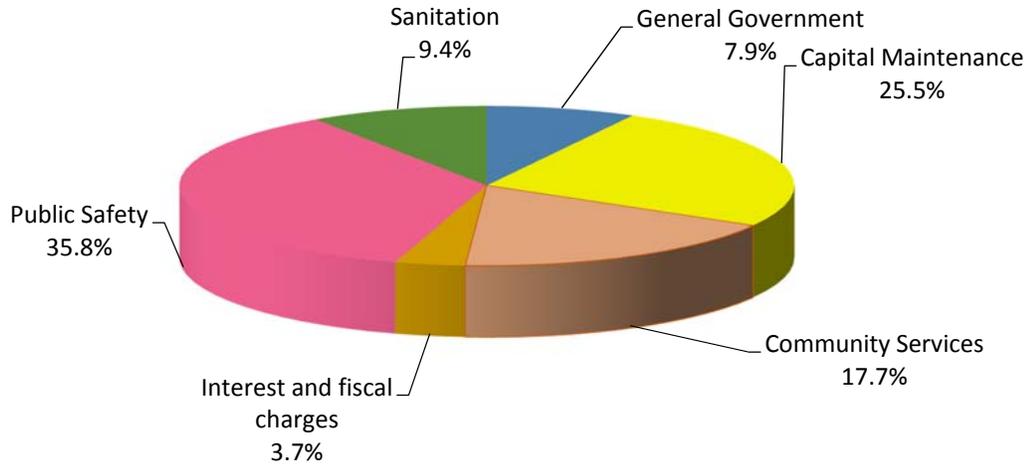


The chart shows the primary components of governmental activities revenue sources for 2015-2016. Of the \$1.473 billion in total revenues generated by governmental activities, 77.7 percent is attributable to four categories: property taxes (27.5 percent), fees, fines, and charges for services (28.8 percent), sales taxes (13.7 percent), and utility taxes (7.7 percent). Revenue sources decreased due to capital grants and contributions (\$60.1 million), State of California in-lieu fees (\$0.1 million), and other revenue (\$15.6 million), which decreased compared to the previous year.

The chart below shows the principal categories of 2015-2016 expenses for governmental activities. Of the \$1.550 billion in total expenses incurred by governmental activities, the categories accounting for 79.0 percent of the totals are: capital maintenance (25.5 percent); public safety (35.8 percent); and community services (17.7 percent).

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Governmental Activities Expenses 2016



Business-type activities: Business-type activities net position increased by \$51.8 million or 4.6 percent to \$1.182 billion during 2015-2016.

The notable components of the changes in net position for business-type activities during 2015-2016 are:

Airport net position decreased by \$8.0 million or 3.95% from \$201.8 million to \$193.8 million. The decrease was primarily due to operating expenses and interest expenses exceeding operating and non-operating revenues by \$13.6 million, offset by an increase of \$4.8 million in capital contributions.

The Airport had a net operating income of \$12.2 million, an increase of \$10.8 million compared to prior year's operating income of \$1.4 million.

Operating revenues increased by \$16.0 million or 12.7 percent, which was mainly due to an increase in terminal building and concession, parking and roadway, and general aviation all attributable to growth in passenger traffic.

A total of approximately 10.2 million passengers travelled through the Airport in 2016 compared to approximately 9.6 million in 2015, resulting in passenger traffic growth of 6.9 percent.

Operating expenses of \$129.7 million increased by \$5.2 million or 4.1 percent compared to the prior fiscal year due to increases in overhead costs, fees charged by the City for police and firefighting services, and pension expenses. These increases were offset by decreases in interest expense and bond issuance costs. Nonoperating expenses exceeded nonoperating revenues by \$25.8 million which represented an increase of \$6.8 million from the previous fiscal year. This increase was mainly due to an increase of \$1.2 million in CFC revenues, an increase of \$1.3 million in passenger facilities charges, an increase of \$1.0 million in

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interest expense, an increase of \$1.2 million in other revenues, offset by a decrease of \$1.0 million in bond issuance costs and an increase of \$1.2 million in investment income.

Wastewater Treatment System net position increased by \$55.8 million or 7.3 percent from \$768.7 million to \$824.4 million. The increase was primarily due to operating revenues exceeding operating expenses by \$46.4 million, and an increase of \$5.7 million in capital contributions. The largest portion, \$544.7 million or 66.1 percent, of the net position was its net investment in capital assets (e.g. land, buildings, and infrastructures) less outstanding debt that was used to acquire those assets. Approximately \$266.4 million, or 32.3 percent of the total net position, constitutes unrestricted net position, which may be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

Operating revenues increased \$16.3 million primarily due to a 5.5 percent sewer rate increase effective July 1, 2015 (\$6.1 million), higher contributions from the Tributary Agencies toward the Water Pollution Control Plant's ongoing maintenance, replacement and debt service costs by \$8.9 million and higher recycled-water revenue due to recycled-water rate increases by \$1.0 million.

Total operating expenses increased by \$6.0 million compared to the prior fiscal year. The increase was due to an increase of \$7.61 million in pension expense and increases in personnel expense of \$3.4 million to support ramp up in capital implementation activities to rebuild the aging infrastructures of the wastewater system. These changes were offset by decreases in various preliminary engineering studies, condition assessments and master planning update expenses of \$2.3 million in the wastewater collection system, decreases in maintenance costs and lower energy prices of \$2.5 million and decreases in direct overhead costs of \$0.2 million.

Net non-operating revenues increased by \$1.1 million primarily due to an increase in fair value of investment. Capital contributions increased by \$5.7 million mainly due to available funding appropriated from the U.S. Bureau of Reclamation for construction of wastewater recycling facilities (\$5.0 million) and an increase in donated capital assets from developers (\$0.9 million) offset by a decrease in Environmental Protection Act grant toward the Japantown Sewer Infrastructure project (\$0.2 million).

Municipal Water System net position increased by \$1.8 million or 2.2 percent from \$83.3 million to \$85.1 million. Operating revenues of \$37.4 million increased by \$0.1 million or 0.2 percent due to higher sales of recycled water which was largely offset by a decrease in sales of potable water due to significant conservation efforts. Operating expenses of \$36.2 million increased by \$2.3 million or 7.0 percent due to an increase in the cost of wholesale water, for both potable and recycled water, as well as increased costs due to fewer vacancies and higher salary and benefit costs.

Parking System net position increased by \$2.2 million or 2.9 percent from \$76.7 million to \$78.9 million. Operating revenues increased by \$0.9 million or 5.7 percent primarily due to the increase in usage of smart meters in the downtown area and increased activity at the Convention Center parking facility resulting from a continued economic recovery. Operating expenses increased by \$0.9 million or 7.0 percent reflecting higher general and administrative costs.

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FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

As of June 30, 2016, the City's governmental funds reported combined fund balances of \$1.367 billion, an increase of \$43.7 million or 3.3 percent compared to the balance at June 30, 2015. The governmental fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned.

- \$0.4 million consists of nonspendable fund balance including prepaid items, advances and deposits, and other assets that are not intended to convert into cash and long-term in nature and do not represent currently available resources.
- \$911.0 million is reported as restricted fund balance that includes restrictions imposed by external parties or enabling legislation. This amount includes unspent bond proceeds, unspent grant revenues, and restricted tax revenues.
- \$140.4 million is reported as committed fund balance that had been limited by formal Council action to specific purposes.
- \$250.0 million is reported as assigned fund balance that includes amounts that may be used for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- \$65.4 million is reported as unassigned fund balance that represents the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications.

General Fund: The General Fund is the chief operating fund of the City. At June 30, 2016, the General Fund's unassigned fund balance is \$65.4 million or 20.5 percent of the \$319.0 million total General Fund balance. Comparing unassigned fund balance and total fund balance to total fund expenditures may be useful as a measure of the General Fund's capacity to liquidate future obligations. At June 30, 2016, unassigned fund balance represents 7.6 percent of total General Fund expenditures of \$854.6 million, while total fund balance represents 37.3 percent of total General Fund expenditures. At June 30, 2015, the same measures were 8.4 percent and 39.8 percent, respectively.

Consistent with the prior year, revenues exceeded expenditures resulting in an excess of \$17.0 million in 2015-2016. The excess was generated through stronger revenues.

In 2015-2016, General Fund revenues of \$871.7 million were \$63.0 million or 7.8 percent higher than 2014-2015 revenues of \$808.7 million. Taxes and special assessments revenues increased by \$45.6 million or 7.0 percent. The increase was primarily attributed to the following revenue sources: increases of \$16.0 million in property tax due to increased property tax assessments, \$21.4 million in sales tax and \$3.4 million in business tax due to an improving economy.

License, permits and fines increased by \$7.9 million or 12.7 percent primarily due to increases in building and fire code plan inspection fees and multiple housing permits resulting from higher construction activities.

2015-2016 General Fund expenditures of \$854.6 million were \$61.5 million or 7.8 percent higher than 2014-2015 expenditures of \$793.2 million as discussed below.

General government expenditures increased by \$20.3 million primarily due to increases in salary costs, and costs associated with PeopleSoft Human Resources and Payroll system upgrade and new budgeting system project.

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Public safety expenditures increased by \$28.6 million primarily due to higher pension expenses, a one-time lump sum non-pensionable payment equivalent to approximately 2% of sworn personnel base pay, and higher overtime costs incurred due to large vacancy rates.

Community services expenditures increased by \$9.5 million mainly due to increases in salary costs for library services to open six days a week effective in fiscal year 2016

Capital outlay expenditures increased by \$5.1 million due to the purchase of additional vehicles, radios servers, fire apparatus and Spartan fire engines for police and fire departments.

Capital maintenance expenditures increased by \$9.8 million due to increase spending in capital projects associated with streets and road pavement maintenance activities.

Housing Activities fund: The City's Housing Activities fund receives resources from the U.S. Department of Housing and Urban Development and the California Department of Housing and Community Development. At June 30, 2016, the fund's loan receivable balance (net), which represents loans to developers of various affordable housing projects and first time homebuyers, was \$74.7 million. This balance includes loans to developers for various projects, including Ford and Monterey, Taylor Oaks Apartments, Donner Lofts, Japantown Seniors, The Metropolitan, Northrup, Roundtable, Kings Crossing, Fourth Street Apartments, Peacock Commons, Archer Studios, Canoas Terrace, Curtner Studios, Homesafe, Markham Plaza, Plaza Del Sol, Verandas, Corde Terra Village Senior, Willow Glen Senior Housing and Santa Clara Inn. Additions to the loan receivable balance were offset by an increase in the valuation allowance in the Housing Activities fund based on the City's annual review of the valuations and adjustments reflecting the terms of the loans. Restricted fund balance increased by \$1.8 million to \$86.4 million at June 30, 2016. The increase is primarily due to revenues from intergovernmental (\$6.9 million), and investment and other revenues (\$8.9 million) exceeding expenditures for community services (\$14.0 million). Intergovernmental revenues increased by \$1.5 million or 26.8 percent compared to prior year due to more grant funds received from HOME Investment Partnership Program.

Low and Moderate Income Housing Asset fund: The Low and Moderate Income Housing Asset fund was created pursuant to the Redevelopment Dissolution Law to administer the housing assets and functions related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the former Agency. At June 30, 2016, the fund's loan receivable balance (net) was \$227.4 million. This balance consists mainly of loans to developers for various projects including Almaden Family Apartments, Belovida Apartments, Brookwood Terrace, Cinnabar Commons, Corde Terra Village, Las Ventanas, Oak Tree Village, Pollard Plaza, and Terramina Square. Restricted fund balance increased by \$22.0 million to \$348.5 million from \$326.5 million. The increase is primarily due to interest repayment of developer loans.

On May 26, 2016, the Oversight Board approved the repayment schedule for the SERAF loan borrowed in 2011 in the amount of \$12,815,668 plus accrued interest, and also approved a partial reinstatement of the Loan Agreement to restore the moneys loaned from the City's special funds in the amount of \$10,000,000, which was subsequently transferred from the City's special funds to the General Fund. The Oversight Board determined that the remaining portion of the SERAF loan borrowed in 2010 in the amount of \$52,000,000 plus accrued interest in the amount of \$905,351 is not an enforceable obligation. As a result, the Low and Moderate Income Housing Asset fund wrote off the remaining portion of the 2010 SERAF loan and interest receivables along with their corresponding allowances.

Special Assessment Districts fund: The Special Assessment Districts fund accounts for debt issuance and capital improvements related to the specific purposes of eight special assessment and community facilities districts located in different parts of the City. A total of \$141.1 million in special assessment and special tax bonds were outstanding at June 30, 2016. All bonds are secured by special assessments or special taxes charged to the owners' real property in the district issuing the debt, except for the Special Hotel Tax Revenue Bond, Series 2011, which are secured by a first lien on the Convention Center Facilities District No.2008-1 special tax revenues and any of the Available Transient Occupancy Tax (Available TOT

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as defined in the bond documents) that is appropriated by City Council. The City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund for these bonds; provided, however, the City is not prevented, in its sole discretion, from so advancing funds.

Restricted fund balance increased by \$0.6 million from \$43.7 million to \$44.3 million as of June 30, 2016, due to increase in Transient Occupancy Tax revenue. Total expenditures for 2015-2016 also increased by \$0.9 million or 5.5 percent compared to the prior fiscal year primarily due to a significant increase of \$2.6 million in capital maintenance for the Convention Center renovation and expansion which is newly funded by the Special Hotel Tax Revenue Bonds (Series 2011) surplus cash and offset by a decrease in Debt Service payments with the maturity of a special assessment bond in September 2014.

Financing Authority fund: The City's Financing Authority Debt Service fund accounts for debt activity related to lease revenue bonds and commercial paper notes, which serves as a mechanism for financing City public improvements. Restricted fund balance increased by \$1.5 million from \$16.3 million to \$17.8 million as of June 30, 2016. The increase was primarily due to \$1.5 million transfer from Special Assessment District Fund for Commercial Paper redemption related to improvements at San Jose Convention Center.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail. At June 30, 2016, the unrestricted net position was \$36.7 million for the Airport, \$266.4 million for the Wastewater Treatment System, \$15.5 million for the Municipal Water System and \$20.8 million for the Parking System. Net position for proprietary funds increased from \$1.130 billion at June 30, 2015 to \$1.182 billion at June 30, 2016, resulting in an increase of \$51.8 million or 4.6 percent.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's Charter requires the City Manager to submit balanced operating and capital budgets to the City Council prior to the beginning of a new fiscal year that begins each July 1 and ends on the following June 30. Council approved the 2015-2016 budgets in June 2015.

During the fiscal year ended June 30, 2016, there was a \$43.0 million increase in the budgeted revenues between the original and final amended operating budget for the General Fund. The increase reflected higher actual receipts in property tax; business tax; franchise and other taxes; and other revenues.

Actual budgetary basis expenditures of \$911.5 million were \$88.6 million less than the amended budget and \$162.1 million less than the original budget due to planned expenditures not occurring in the fiscal year ended June 30, 2016.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets, net of accumulated depreciation, for its governmental and business-type activities together amounted to \$7.592 billion at June 30, 2016. This investment includes land, infrastructure, structures and improvements, vehicles, equipment, intangible assets, and construction-in-progress. The City's decision to depreciate infrastructure capital assets results in recording a large non-cash depreciation expense each year that offsets additions to capital assets. At June 30, 2016, net capital assets decreased by \$138.3 million (\$126.5 million in governmental activities and \$11.8 million in business-type activities) or 1.8 percent compared to net capital assets at June 30, 2015. The decrease in capital assets of \$126.5 million in governmental activities is primarily due to depreciation expense of \$215.0 million and deletions of capital assets totaling \$1.4 million. These decreases were offset by acquisitions of capital assets of \$79.1 million and transfers of \$7.9 million and purchase of \$2.9 million of real properties from the SARA. The decrease of \$11.8 million in capital assets in the business-type activities resulted from depreciation expense of \$84.0 million, offset by additions of capital projects of \$72.3 million at the Airport and within the Wastewater Treatment System.

Total construction-in-progress (CIP) increased by \$6.4 million or 8.1 percent from \$79.5 million at June 30, 2015 to \$86.0 million at June 30, 2016. Construction-in-progress for the governmental activities decreased by \$18.9 million or 37.6 percent primarily due to more CIP projects completed and placed into service than new additions to CIP. Two of the larger assets placed into service was the U.S. Patent Office improvements to the City Hall Wing and the Village Square Branch Library, which resulted in \$13.8 million and \$12.6 million decrease in CIP, respectively. Business-type activities contributed an increase of \$25.3 million to the total construction-in-progress as additions to the Airport and the Wastewater Treatment System construction-in-progress totaling \$36.1 million was offset by \$10.8 million in projects that were completed and placed in service. The completed Airport projects include the following: completion of runway pavement rehabilitation and construction of the Gate 17/18 Sterile Corridor.

The City records infrastructure assets at historical cost in the government-wide financial statements and depreciates assets from acquisition date to the end of the current fiscal year as required by GASB Statement No. 34. For governmental fund financial statements recording purposes, capital asset purchases are recorded as expenditures, rather than capitalizing and recording related depreciation. Capital assets, net of depreciation, for governmental and business-type activities in the government-wide financial statements are presented below to illustrate changes between June 30, 2015 and June 30, 2016 (in thousands):

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 406,337	\$ 388,732	134,926	134,926	541,263	523,658
Intangible assets	-	-	12,882	12,882	12,882	12,882
Construction in progress	31,411	50,329	54,554	29,209	85,965	79,538
Buildings	1,077,897	1,080,068	1,103,732	1,139,829	2,181,629	2,219,897
Improvements, other than buildings	211,921	205,535	628,459	622,621	840,380	828,156
Infrastructure	3,808,903	3,946,285	-	-	3,808,903	3,946,285
Furniture and fixtures, vehicles, equipment	34,928	26,969	85,892	91,693	120,820	118,662
Property under capital leases	-	-	-	1,076	-	1,076
Total capital assets	\$5,571,397	\$5,697,918	2,020,445	2,032,236	7,591,842	7,730,154

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Commitments outstanding as of June 30, 2016, related to governmental and business-type activities construction in progress totaled approximately \$30.0 million and \$165.1 million, respectively. Additional information about the City's capital assets can be found in the Notes to Basic Financial Statements, Note III.D.

General Obligation Bonded Debt Limit

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2015-2016 tax roll was \$155.9 billion, which results in a total debt limit of \$23.4 billion. As of June 30, 2016, the City had \$387.4 million of General Obligation bonds outstanding which represents approximately 1.7% of the General Obligation bonds' debt limit.

General Obligation Bonds and Other Bond Ratings

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

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

Sewer revenue bonds issued by the San Jose-Santa Clara Clean Water Financing Authority have current underlying ratings of AAA by S&P and Fitch, and a rating of Aa2 by Moody's. The rating outlook by S&P and Fitch is stable. Moody's does not assign a rating outlook for these bonds.

Outstanding Debt

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

During 2015-2016, the City's outstanding long-term debt decreased by \$87.6 million to \$2.588 billion, comprised of \$1.225 billion of governmental activities and \$1.363 billion of business-type activities. The balances at June 30, 2015 were \$1.279 billion for governmental activities and \$1.397 billion for business-type activities, for a total of \$2.676 billion. The decrease of \$87.6 million is primarily due to the scheduled debt service payments.

City of San José
Management's Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2016

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

	As of June 30, 2016	As of June 30, 2015	Net Change
Governmental Activities:			
General obligation bonds	\$ 387,403	\$ 407,332	(19,929)
HUD Section 108 loan	957	1,196	(239)
San José Financing Authority			
Lease revenue bonds	579,325	595,743	(16,418)
Lease revenue bonds with reimbursement agreement	89,730	100,260	(10,530)
Revenue bonds with pledge agreement	27,985	29,880	(1,895)
Special assessment bonds with limited governmental commitment	139,435	144,158	(4,723)
Sub-total	<u>1,224,835</u>	<u>1,278,569</u>	<u>(53,734)</u>
Business-Type Activities:			
Revenue bonds	1,352,717	1,382,433	(29,716)
State of CA-Revolving Fund Loan	10,399	14,597	(4,198)
Sub-total	<u>1,363,116</u>	<u>1,397,030</u>	<u>(33,914)</u>
Total:	<u>\$ 2,587,951</u>	<u>\$ 2,675,599</u>	<u>(87,648)</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The City completed 2015-2016 with better operating financial results than expected when the 2015-2016 Adopted Budget was developed. Although the economic indicators in this region appear to have stabilized, the City still faces fiscal challenges on a long-term basis to achieve a more desirable level of budget stability while avoiding any reduction in services. In June 2016, the City Council approved a balanced General Fund budget for fiscal year 2016-2017 with a projected surplus of \$6.9 million and has a focus on achieving budget and service level stability, target investments to meet priority needs of the community, and to continue service delivery efficiencies.
- Due to an improved forecast for 2016-2017; the City does not face further service cuts in the fiscal year. The small projected surplus is due to increases in revenues from a stronger economy and careful management of expenses.
- In order to maintain service level stability, the 2016-2017 Adopted Budget includes funding of \$25.3 million in the General Fund (\$33.5 million in all funds) for salary increases.
- 2016-2017 redevelopment property tax revenues are forecast to be sufficient to pay debt service obligations of the SARA. The City does not plan to advance any money to the SARA in 2016-2017 to fund the debt service payments for the Convention Center and the 4th and San Fernando Street Garage.
- As reported in the GASB 67/68 Report as of June 30, 2016 prepared by actuaries for the Police and Fire Department Retirement Plan ("PFDRP"), the net position of the Defined Benefit Pension Plan was 72.1% of the total pension liability. The total pension liability was \$4.220 billion, and the fiduciary net position was \$3.044 billion resulting in a net pension liability of \$1.176 billion.

City of San José
Management’s Discussion and Analysis (Continued)
Required Supplementary Information (Unaudited)
June 30, 2016

- As reported in the GASB 67/68 Report as of June 30, 2016 prepared by actuaries for the Federated City Employees’ Retirement System (“FCERS”), the net position of the Defined Benefit Pension Plan was 50.3% of the total pension liability. The total pension liability was \$3.692 billion, and the fiduciary net position was \$1.859 billion resulting in a net pension liability of \$1.833 billion.
- For funding purposes, as of June 30, 2015, the most recent actuarial valuation date, PFDRP’s Postemployment Healthcare Plan had a 15.5 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was \$739.8 million and the actuarial value of assets was \$114.6 million resulting in a UAAL of \$625.2 million. As of June 30, 2015, the most recent actuarial valuation date, FCERS’s Postemployment Healthcare Plan had a 25.7 percent actuarial funded ratio for postemployment healthcare benefits. The actuarial accrued liability for postemployment healthcare benefits was \$817.7 million and the actuarial value of postemployment healthcare benefit assets was \$209.8 million, resulting in a UAAL of \$607.9 million.
- For 2016-2017, the City’s contribution rates for pension benefits and postemployment healthcare benefits, as a percentage of payroll are as follows:

Contribution Rates	PFDRP				FCERS			
	Police	Police	Fire	Fire	Tier 1	Tier 2	Tier 2B	Tier 2C
	Tier 1	Tier 2	Tier 1	Tier 2				
Retirement Pension	80.40%	10.97%	81.61%	10.61%	78.06%	6.04%	6.04%	6.04%
Postemployment Healthcare Benefits	10.31%	10.31%	10.62%	10.62%	9.41%	9.41%	12.66%	12.86%

- On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for pension benefits and postemployment healthcare benefits to PFDRP and FCERS. The lump sum prepayment for the fiscal year ending June 30, 2016 was calculated to be actuarially equivalent to the biweekly payments that would otherwise have been the City’s required contributions to the benefit pension plans and the postemployment healthcare plans. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount of \$149.3 million for PFDRP, and \$145.9 million for FCERS Tier 1 members. The prepayment for PFDRP and for FCERS Tier 1 members was paid by the City in July 2016. The City did not exercise its option to prepay its contribution for PFDRP and FCERS Tier 2 members.

All of these factors were considered in preparing the City’s budget for 2016-2017.

City of San José
Management's Discussion and Analysis (Concluded)
Required Supplementary Information (Unaudited)
June 30, 2015

FORWARD-LOOKING STATEMENTS AND REQUESTS FOR INFORMATION

Forward-Looking Statements

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

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

Requests for Information

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

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 200 East Santa Clara Street, San José, California 95113. Requests for documents may be directed to the City department designated in the CAFR as the holder of the particular document or to the Director of Finance.

Basic Financial Statements

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City of San José
Statement of Net Position
June 30, 2016
(\$000's)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 907,777	593,556	1,501,333
Receivables (net of allowances for uncollectibles)	155,699	22,663	178,362
Due from outside agencies	459	-	459
Inventories	995	660	1,655
Loans receivable (net of allowances for uncollectibles)	306,682	-	306,682
Advances and deposits	429	2,968	3,397
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	54,950	110,317	165,267
Cash and investments held with fiscal agent	117,707	110,365	228,072
Other cash and investments	7,973	-	7,973
Receivables (net of allowances for uncollectibles)	-	4,530	4,530
Prepaid bond insurance costs (net of accumulated amortization)	365	6,485	6,850
Long-term receivables from SARA	164,423	6,284	170,707
Other assets	45,445	283	45,728
Capital assets (net of accumulated depreciation):			
Nondepreciable	437,748	202,362	640,110
Depreciable	5,133,649	1,818,083	6,951,732
Total assets	<u>7,334,301</u>	<u>2,878,556</u>	<u>10,212,857</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refundings of debt	1,090	3,397	4,487
Deferred outflows of resources related to pensions	468,238	59,620	527,858
Total deferred outflows of resources	<u>469,328</u>	<u>63,017</u>	<u>532,345</u>
LIABILITIES			
Accounts payable	50,372	20,450	70,822
Accrued liabilities	27,979	3,380	31,359
Interest payable	10,578	23,921	34,499
Due to outside agencies	485	-	485
Short-term notes payable	37,517	34,672	72,189
Unearned revenue	12,201	3,607	15,808
Advances, deposits, and reimbursable credits	6,881	4,773	11,654
Long-term payables to SARA	459	-	459
Other liabilities	30,122	-	30,122
Long-term obligations:			
Due within one year	114,677	41,757	156,434
Due in more than one year	1,795,737	1,378,402	3,174,139
Net pension liability	2,030,227	248,000	2,278,227
Total liabilities	<u>4,117,235</u>	<u>1,758,962</u>	<u>5,876,197</u>
DEFERRED INFLOWS OF RESOURCES			
Gain on refundings of debt	-	373	373
Deferred inflows of resources related to pensions	341	-	341
Total deferred inflows of resources	<u>341</u>	<u>373</u>	<u>714</u>
NET POSITION			
Net investment in capital assets	4,478,760	766,107	5,244,867
Restricted for:			
Debt service	40,539	22,581	63,120
Capital projects	332,746	54,128	386,874
Community services	551,785	-	551,785
Public safety	5,483	-	5,483
Unrestricted (deficit)	<u>(1,723,260)</u>	<u>339,422</u>	<u>(1,383,838)</u>
Total net position	<u>\$ 3,686,053</u>	<u>1,182,238</u>	<u>4,868,291</u>

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

City of San José
Statement of Activities
For the Year Ended June 30, 2016
(\$000's)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -Type Activities	
Governmental activities:							
General government	\$ 122,363	46,952	103	-	(75,308)	-	(75,308)
Public safety	555,072	23,046	6,745	-	(525,281)	-	(525,281)
Community services	274,838	129,905	60,827	-	(84,106)	-	(84,106)
Sanitation	145,516	157,477	1,450	1,250	14,661	-	14,661
Capital maintenance	395,393	66,440	38,458	68,598	(221,897)	-	(221,897)
Interest and fiscal charges	56,768	-	-	-	(56,768)	-	(56,768)
Total governmental activities	1,549,950	423,820	107,583	69,848	(948,699)	-	(948,699)
Business -Type activities:							
Norman Y. Mineta San José							
International Airport	201,017	182,445	497	5,760	-	(12,315)	(12,315)
Wastewater Treatment System	163,985	209,056	367	9,081	-	54,519	54,519
Municipal Water System	36,246	37,368	-	596	-	1,718	1,718
Parking System	13,607	16,503	-	-	-	2,896	2,896
Total business-type activities	414,855	445,372	864	15,437	-	46,818	46,818
Total	\$ 1,964,805	869,192	108,447	85,285	(948,699)	46,818	(901,881)
General revenues:							
Taxes and franchise fees:							
Property and other taxes					404,878	-	404,878
Utility					113,474	-	113,474
Franchise					48,949	-	48,949
Transient occupancy					41,125	-	41,125
Business taxes					50,864	-	50,864
Sales taxes shared revenue					201,797	-	201,797
State of California in-lieu					410	-	410
Unrestricted interest and investment income					7,790	6,383	14,173
Other revenue					2,103	2,314	4,417
Transfers					3,680	(3,680)	-
Total general revenues and transfers					875,070	5,017	880,087
Change in net position					(73,629)	51,835	(21,794)
Net position - beginning					3,759,682	1,130,403	4,890,085
Net position - ending					\$ 3,686,053	1,182,238	4,868,291

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

City of San José
Balance Sheet
Governmental Funds
June 30, 2016
(\$000's)

	<u>General Fund</u>	<u>Housing Activities</u>	<u>Low and Moderate Income Housing Asset</u>
ASSETS			
Equity in pooled cash and investments held in City Treasury	\$ 281,607	22,639	91,657
Receivables (net of allowance for uncollectibles)	82,791	976	1,580
Due from outside agencies	459	-	-
Due from other funds	1,450	-	-
Loans receivable (net of allowance for uncollectibles)	1,241	74,669	227,361
Advances and deposits	186	-	-
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	1,277	7,027	-
Cash and investments held with fiscal agent	4,564	-	-
Other cash and investments	-	-	-
Advances to other funds	3,297	-	-
Advances receivables from SARA	26,182	-	13,029
Other assets	-	2,300	21,621
Total assets	<u>\$ 403,054</u>	<u>107,611</u>	<u>355,248</u>
LIABILITIES			
Accounts payable	\$ 14,105	1,427	523
Accrued salaries, wages, and payroll taxes	23,305	39	191
Due to other funds	-	-	-
Due to outside agencies	373	-	-
Short-term notes payable	-	-	-
Unearned revenues	6,205	-	-
Advances, deposits, and reimbursable credits	7	-	-
Advances from other funds	-	-	-
Long-term advances from SARA	-	-	459
Other liabilities	29,803	-	-
Total liabilities	<u>73,798</u>	<u>1,466</u>	<u>1,173</u>
DEFERRED INFLOW OF RESOURCES	<u>10,217</u>	<u>19,768</u>	<u>5,615</u>
FUND BALANCES			
Nonspendable	186	-	-
Restricted	1,265	86,377	348,460
Committed	84,998	-	-
Assigned	167,239	-	-
Unassigned	65,351	-	-
Total fund balances	<u>319,039</u>	<u>86,377</u>	<u>348,460</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 403,054</u>	<u>107,611</u>	<u>355,248</u>

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

<u>Special Assessment Districts</u>	<u>San José Financing Authority Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
-	108	492,104	888,115
39,039	-	31,073	155,459
-	-	-	459
-	-	3,696	5,146
-	-	3,411	306,682
5	-	238	429
13,486	-	33,160	54,950
31,200	49,162	32,781	117,707
-	-	7,973	7,973
-	-	-	3,297
-	9,477	-	48,688
<u>1</u>	<u>4</u>	<u>1,909</u>	<u>25,835</u>
<u>83,731</u>	<u>58,751</u>	<u>606,345</u>	<u>1,614,740</u>
51	-	33,742	49,848
5	-	3,487	27,027
-	-	5,146	5,146
-	112	-	485
-	37,517	-	37,517
-	-	5,996	12,201
1,575	-	5,299	6,881
-	3,297	-	3,297
-	-	-	459
<u>317</u>	<u>-</u>	<u>2</u>	<u>30,122</u>
<u>1,948</u>	<u>40,926</u>	<u>53,672</u>	<u>172,983</u>
<u>37,515</u>	<u>-</u>	<u>1,407</u>	<u>74,522</u>
5	-	238	429
44,263	17,825	412,808	910,998
-	-	55,435	140,433
-	-	82,785	250,024
-	-	-	65,351
<u>44,268</u>	<u>17,825</u>	<u>551,266</u>	<u>1,367,235</u>
<u>83,731</u>	<u>58,751</u>	<u>606,345</u>	<u>1,614,740</u>

City of San José
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016
(\$000's)

Total fund balances-governmental funds (Page 25) \$ 1,367,235

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	406,337	
Construction in progress	31,411	
Infrastructure assets	11,440,581	
Other capital assets	2,044,921	
Accumulated depreciation	<u>(8,359,174)</u>	
Total capital assets		5,564,076

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

Long-term receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds. 37,007

Long-term receivables associated with lease, pledge revenue agreements, and reimbursement arrangements from the private-purpose trust fund are not current financial resources and therefore are not reported in the governmental funds. 115,735

Prepaid bond insurance costs are expensed in governmental funds when paid, however, such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position. 365

Refunding of debt reported as deferred outflows/inflows of resources are not financial resources, therefore are not reported in the funds. Such costs are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position. 1,090

Special assessments are reported as revenue when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred inflows of resources since they are not available. 37,515

Interest payable on long-term debt does not require the use of current financial resources and, therefore, interest payable is generally not accrued as a liability in the balance sheet of governmental funds. (10,578)

Internal service funds are used by management to charge the cost of public works support, employee benefits, and stores, vehicle, maintenance and operations to individual funds. The assets and liabilities are included in governmental activities in the statement of net position. 23,427

Long-term obligations are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and HUD loan payable	(1,224,835)	
Accrued vacation, sick leave and compensatory time	(70,057)	
Estimated liability for self-insurance	(142,471)	
Net other postemployment benefits obligation	(425,316)	
Other	<u>(44,420)</u>	
Total long-term obligations		(1,907,099)

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

Net pension liability	(2,030,227)	
Deferred outflows of resources	229,338	
Deferred inflows of resources	<u>238,559</u>	
		<u>(1,562,330)</u>

Net position of governmental activities (Page 22) \$ 3,686,053

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

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City of San José

**Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016**
(\$000's)

	<u>General Fund</u>	<u>Housing Activities</u>	<u>Low and Moderate Income Housing Asset</u>
REVENUES			
Taxes and special assessments	\$ 695,359	-	-
Licenses, permits, and fines	69,856	-	-
Intergovernmental	9,103	6,934	-
Charges for current services	48,110	-	-
Rent	-	-	-
Investment Income	4,658	2,495	18,063
Other revenues	44,582	6,376	14,333
Total revenues	<u>871,668</u>	<u>15,805</u>	<u>32,396</u>
EXPENDITURES			
Current:			
General government	92,093	-	-
Public safety	513,921	-	-
Community services	132,115	13,978	10,032
Sanitation	1,690	-	-
Capital maintenance	85,324	-	-
Capital outlay	26,832	-	-
Debt service:			
Principal	1,463	-	-
Interest and fiscal charges	1,200	-	-
Total expenditures	<u>854,638</u>	<u>13,978</u>	<u>10,032</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,030</u>	<u>1,827</u>	<u>22,364</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	3,848	-	-
Transfers in	10,253	-	-
Transfers out	(28,046)	(77)	(404)
Total other financing sources (uses)	<u>(13,945)</u>	<u>(77)</u>	<u>(404)</u>
Net change in fund balances	3,085	1,750	21,960
Fund balances - beginning	<u>315,954</u>	<u>84,627</u>	<u>326,500</u>
Fund balances - ending	<u>\$ 319,039</u>	<u>86,377</u>	<u>348,460</u>

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

Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
20,589	-	166,032	881,980
-	-	-	69,856
-	-	65,096	81,133
-	-	209,102	257,212
-	-	43,284	43,284
190	168	4,450	30,024
341	18,994	4,253	88,879
<u>21,120</u>	<u>19,162</u>	<u>492,217</u>	<u>1,452,368</u>
-	-	16,412	108,505
-	-	2,693	516,614
-	-	85,519	241,644
-	-	143,318	145,008
2,590	-	143,553	231,467
209	-	33,008	60,049
4,790	27,085	20,067	53,405
9,011	30,030	18,766	59,007
<u>16,600</u>	<u>57,115</u>	<u>463,336</u>	<u>1,415,699</u>
<u>4,520</u>	<u>(37,953)</u>	<u>28,881</u>	<u>36,669</u>
-	-	-	3,848
12	39,484	46,812	96,561
<u>(3,975)</u>	<u>(12)</u>	<u>(60,820)</u>	<u>(93,334)</u>
<u>(3,963)</u>	<u>39,472</u>	<u>(14,008)</u>	<u>7,075</u>
557	1,519	14,873	43,744
<u>43,711</u>	<u>16,306</u>	<u>536,393</u>	<u>1,323,491</u>
<u>44,268</u>	<u>17,825</u>	<u>551,266</u>	<u>1,367,235</u>

City of San José
Reconciliation of the Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2016
(\$000's)

Net change in fund balances--total governmental funds (Page 29)	\$	43,744
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	60,049	
Depreciation expense	<u>(212,684)</u>	
Excess of depreciation expense over capital outlay		(152,635)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)		
Donated assets	16,157	
Transfers from SARA	10,761	
Proceeds from sale of capital assets	<u>(3,848)</u>	
Gain on disposal of assets	<u>2,483</u>	
		25,553
Decrease in long-term receivables associated with lease, pledge revenue, and reimbursement arrangements from the private purpose trust fund are not current financial resources and therefore are not reported in the governmental funds.		
		(12,510)
Prepaid bond insurance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for the purposes of the statement of activities.		
		(19)
Amortization of deferred outflows of resources resulting from the deferred loss on refunding of bonds		
		(185)
Repayment of long-term obligation principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The City's long-term obligations were reduced because principal payments were made to bondholders and HUD.		
		51,764
Accrued interest payable on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources. Amortization of bond premiums and discounts should be expensed as a component of interest expense on the statement of activities. This amount represents the change in accrued interest payable and the amortization of bond premiums and discounts not reported in governmental funds.		
Decrease in accrued interest payable	454	
Amortization of premiums and discounts on bonds issued	<u>1,970</u>	
Total net interest expense and amortization of discount/premium		2,424
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available revenues" and are reported as deferred inflows of resources in the governmental funds.		
		5,865
Internal service funds are used by management to charge the cost of public works support, employee benefits, and vehicle, maintenance and operations to individual funds. The change in net position is included in governmental activities in the statement of activities.		
		(195)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net increase in net OPEB obligation	(17,678)	
Net increase in vacation, sick leave, and compensatory time	(7,906)	
Net decrease in estimated liability for self-insurance	4,633	
Net decrease in other liabilities	<u>2,158</u>	
Total additional expenditures		(18,793)
Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
		<u>(18,642)</u>
Change in net position of governmental activities (Page 23)	\$	<u><u>(73,629)</u></u>

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

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City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2016
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
ASSETS						
Current assets:						
Equity in pooled cash and investments held in City Treasury	\$ 130,091	419,931	23,444	20,090	593,556	19,662
Receivables (net of allowance for uncollectibles)	11,379	4,698	6,215	371	22,663	240
Prepaid expenses, advances and deposits	217	-	-	-	217	-
Inventories	-	660	-	-	660	995
Total unrestricted current assets	<u>141,687</u>	<u>425,289</u>	<u>29,659</u>	<u>20,461</u>	<u>617,096</u>	<u>20,897</u>
Restricted assets:						
Equity in pooled cash and investments held in City Treasury	99,399	8,847	-	2,071	110,317	-
Cash and investments held with fiscal agent	104,080	6,285	-	-	110,365	-
Receivables (net of allowances for uncollectibles)	4,530	-	-	-	4,530	-
Prepaid expenses, advances and deposits	66	-	-	-	66	-
Total restricted assets	<u>208,075</u>	<u>15,132</u>	<u>-</u>	<u>2,071</u>	<u>225,278</u>	<u>-</u>
Total current assets	<u>349,762</u>	<u>440,421</u>	<u>29,659</u>	<u>22,532</u>	<u>842,374</u>	<u>20,897</u>
Noncurrent assets:						
Prepaid bond insurance (net of accumulated amortization)	6,478	7	-	-	6,485	-
Advances and deposits	2,968	-	-	-	2,968	-
Long-term receivable from SARA	-	-	-	6,284	6,284	-
Capital assets (net of accumulated depreciation):						
Nondepreciable	96,283	82,386	2,275	21,418	202,362	-
Depreciable	1,216,388	499,818	67,327	34,550	1,818,083	7,321
Total noncurrent assets	<u>1,322,117</u>	<u>582,211</u>	<u>69,602</u>	<u>62,252</u>	<u>2,036,182</u>	<u>7,321</u>
Total assets	<u>1,671,879</u>	<u>1,022,632</u>	<u>99,261</u>	<u>84,784</u>	<u>2,878,556</u>	<u>28,218</u>
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refundings of debt	3,326	71	-	-	3,397	-
Deferred outflows of resources related to pensions	15,145	39,781	3,340	1,354	59,620	-
Total deferred outflows of resources	<u>\$ 18,471</u>	<u>39,852</u>	<u>3,340</u>	<u>1,354</u>	<u>63,017</u>	<u>-</u>

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

City of San José
Statement of Fund Net Position
Proprietary Funds
June 30, 2016
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 3,769	11,915	1,738	981	18,403	524
Accrued liabilities	809	2,311	200	60	3,380	952
Interest payable	6	111	-	-	117	-
Due to SARA	-	-	-	-	-	-
Short-term notes payable	34,672	-	-	-	34,672	-
Accrued vacation, sick leave and compensatory time	1,538	3,806	94	80	5,518	-
Estimated liability for self-insurance	563	557	111	-	1,231	-
Advances and deposits payable	1,459	-	-	92	1,551	-
Unearned revenue	3,607	-	-	-	3,607	-
Loans payable	-	4,275	-	-	4,275	-
Pollution remediation obligation	-	-	-	-	-	-
Total current liabilities unrestricted	<u>46,423</u>	<u>22,975</u>	<u>2,143</u>	<u>1,213</u>	<u>72,754</u>	<u>1,476</u>
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	2,047	-	-	-	2,047	-
Interest payable	23,674	130	-	-	23,804	-
Current portion of bonds payable, net	24,711	6,022	-	-	30,733	-
Pollution remediation obligation	-	-	-	-	-	-
Total current liabilities payable from restricted assets	<u>50,432</u>	<u>6,152</u>	<u>-</u>	<u>-</u>	<u>56,584</u>	<u>-</u>
Total current liabilities	<u>96,855</u>	<u>29,127</u>	<u>2,143</u>	<u>1,213</u>	<u>129,338</u>	<u>1,476</u>
Noncurrent liabilities:						
Accrued vacation, sick leave and compensatory time	847	640	81	68	1,636	3,315
Estimated liability for self-insurance	2,245	2,895	592	-	5,732	-
Advance contributions from participating agencies	-	1,788	-	-	1,788	-
Advances, deposits and reimbursable credits	-	-	1,434	-	1,434	-
Loans payable	-	6,124	-	-	6,124	-
Bonds payable (net of premium/discount)	1,300,868	21,116	-	-	1,321,984	-
Net pension liability	81,313	150,287	11,296	5,104	248,000	-
Net other postemployment benefits obligation	14,026	26,069	1,964	867	42,926	-
Total noncurrent liabilities	<u>1,399,299</u>	<u>208,919</u>	<u>15,367</u>	<u>6,039</u>	<u>1,629,624</u>	<u>3,315</u>
Total liabilities	<u>1,496,154</u>	<u>238,046</u>	<u>17,510</u>	<u>7,252</u>	<u>1,758,962</u>	<u>4,791</u>
DEFERRED INFLOWS OF RESOURCES						
Gain on refundings of debt	373	-	-	-	373	-
Deferred inflows of resources related to pensions	-	-	-	-	-	-
Total deferred inflows of resources	<u>373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	95,800	544,738	69,602	55,967	766,107	7,321
Restricted for debt service	16,332	6,249	-	-	22,581	-
Restricted for capital projects and other agreements	44,977	7,080	-	2,071	54,128	3,040
Unrestricted	36,714	266,371	15,489	20,848	339,422	13,066
Total net position	<u>\$ 193,823</u>	<u>824,438</u>	<u>85,091</u>	<u>78,886</u>	<u>1,182,238</u>	<u>23,427</u>

City of San José
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
OPERATING REVENUES						
Charges for services	\$ 53,896	158,268	37,368	16,503	266,035	112,899
Rentals and concessions	17,576	7,980	-	-	25,556	-
Service connection, engineering and inspection	61,821	3,703	-	-	65,524	-
Operating contributions from participating agencies	-	38,894	-	-	38,894	-
Other	8,661	211	-	-	8,872	-
Total operating revenues	<u>141,954</u>	<u>209,056</u>	<u>37,368</u>	<u>16,503</u>	<u>404,881</u>	<u>112,899</u>
OPERATING EXPENSES						
Operations and maintenance	58,574	106,780	31,895	7,077	204,326	111,452
General and administrative	19,334	27,473	1,706	4,532	53,045	-
Depreciation	51,864	27,795	2,645	1,748	84,052	2,378
Materials and supplies	-	621	-	250	871	-
Total operating expenses	<u>129,772</u>	<u>162,669</u>	<u>36,246</u>	<u>13,607</u>	<u>342,294</u>	<u>113,830</u>
Operating income (loss)	<u>12,182</u>	<u>46,387</u>	<u>1,122</u>	<u>2,896</u>	<u>62,587</u>	<u>(931)</u>
NONOPERATING REVENUES (EXPENSES)						
Passenger facility charges	20,603	-	-	-	20,603	-
Customer facility charges	19,888	-	-	-	19,888	-
Operating grants	497	-	-	-	497	-
Investment income	2,444	3,562	218	159	6,383	272
Interest expense	(71,245)	(1,297)	-	-	(72,542)	-
Contributions for maintenance reserves	-	367	-	-	367	-
Loss on disposal of capital assets	-	(19)	-	-	(19)	(7)
Other revenues, net	2,031	89	30	164	2,314	18
Net nonoperating revenues (expenses)	<u>(25,782)</u>	<u>2,702</u>	<u>248</u>	<u>323</u>	<u>(22,509)</u>	<u>283</u>
Income (loss) before capital contributions and transfers	<u>(13,600)</u>	<u>49,089</u>	<u>1,370</u>	<u>3,219</u>	<u>40,078</u>	<u>(648)</u>
Capital contributions	5,760	9,081	596	-	15,437	-
Transfers in	-	-	22	31	53	1,005
Transfers out	(128)	(2,420)	(162)	(1,023)	(3,733)	(552)
Changes in net position	<u>(7,968)</u>	<u>55,750</u>	<u>1,826</u>	<u>2,227</u>	<u>51,835</u>	<u>(195)</u>
Net position - beginning, as previously reported	201,791	768,688	83,265	76,659	1,130,403	23,622
Net position - ending	<u>\$ 193,823</u>	<u>824,438</u>	<u>85,091</u>	<u>78,886</u>	<u>1,182,238</u>	<u>23,427</u>

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

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City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 141,241	182,319	34,643	16,486	374,689	-
Cash received from interfund services provided	-	-	-	-	-	112,787
Payments to suppliers	(50,887)	(59,974)	(28,123)	(9,071)	(148,055)	(91,928)
Payments for employees	(25,251)	(74,823)	(6,157)	(2,404)	(108,635)	(20,151)
Other receipts	2,090	26,441	-	-	28,531	-
Net cash provided by operating activities	<u>67,193</u>	<u>73,963</u>	<u>363</u>	<u>5,011</u>	<u>146,530</u>	<u>708</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from other funds	-	-	22	31	53	1,005
Transfer to other funds	(128)	(2,420)	(162)	(1,023)	(3,733)	(552)
Operating grants	699	-	-	-	699	-
Payments from other funds	-	-	70	-	70	-
Increase in long-term receivable from SARA	-	-	-	(1,681)	(1,681)	-
Net cash provided by (used in) noncapital and related financing activities	<u>571</u>	<u>(2,420)</u>	<u>(70)</u>	<u>(2,673)</u>	<u>(4,592)</u>	<u>453</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Passenger facility charges received	20,140	-	-	-	20,140	-
Customer facility charges received	19,893	-	-	-	19,893	-
Capital grants received	4,971	5,501	-	-	10,472	-
Acquisition and construction of capital assets	(10,834)	(53,281)	(3,193)	(433)	(67,741)	(2,945)
Principal payment on commercial paper	(3,240)	-	-	-	(3,240)	-
Principal paid on debt	(23,660)	(9,993)	-	-	(33,653)	-
Interest paid on debt	(71,979)	(1,414)	-	-	(73,393)	-
Advances and deposits received	205	-	-	-	205	-
Net cash used in capital and related financing activities	<u>(64,504)</u>	<u>(59,187)</u>	<u>(3,193)</u>	<u>(433)</u>	<u>(127,317)</u>	<u>(2,945)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	18,458	-	-	-	18,458	-
Purchase of investments	(18,463)	-	-	-	(18,463)	-
Interest received	2,186	3,337	207	159	5,889	271
Net cash provided by investing activities	<u>2,181</u>	<u>3,337</u>	<u>207</u>	<u>159</u>	<u>5,884</u>	<u>271</u>
Net change in cash and cash equivalents	5,441	15,693	(2,693)	2,064	20,505	(1,513)
Cash and cash equivalents - beginning	314,159	419,370	26,137	20,097	779,763	21,175
Cash and cash equivalents - ending	<u>\$ 319,600</u>	<u>435,063</u>	<u>23,444</u>	<u>22,161</u>	<u>800,268</u>	<u>19,662</u>

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

City of San José
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016
(\$000's)

	Enterprise Funds					Internal Service Funds
	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total	
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	\$ 12,182	46,387	1,122	2,896	62,587	(931)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	51,864	27,795	2,645	1,748	84,052	2,378
Other nonoperating revenues	2,090		30	134	2,254	18
Decrease (increase) in:						
Accounts receivable	(2,591)	(296)	(2,755)	(151)	(5,793)	(130)
Inventories	-	267	-	-	267	(3)
Prepaid expenses, advances and deposits	14	20	-	-	34	-
Increase (decrease) in:						
Accounts payable and accrued liabilities	640	(2,526)	(1,130)	328	(2,688)	(963)
Accrued salaries, wages, and payroll		633	69	9	711	-
Accrued vacation, sick leave and compensatory time	-	265	51	-	316	339
Estimated liability for self-insurance	111	(318)	291	23	107	-
Unearned revenue	2,195	-	-	-	2,195	-
Due to SARA	-	-	-	(20)	(20)	-
Net pension liability, deferred outflows and inflows of pension related resources	688	1,043	(19)	20	1,732	-
Net other postemployment benefit obligation	260	693	59	24	1,036	-
Advances and deposits payable	(260)	-	-	-	(260)	-
Total adjustments	55,011	27,576	(759)	2,115	83,943	1,639
Net cash provided by operating activities	\$ 67,193	73,963	363	5,011	146,530	708
Reconciliation of cash and cash equivalents to the statement of net position:						
Equity in pooled cash and investments held in City Treasury						
Unrestricted	\$ 130,091	419,931	23,444	20,090	593,556	19,662
Restricted	99,399	8,847	-	2,071	110,317	-
Cash and investments held with fiscal agent	104,080	6,285	-	-	110,365	-
Less investments not meeting the definition of cash equivalents	(13,970)	-	-	-	(13,970)	-
Cash and cash equivalents	\$ 319,600	435,063	23,444	22,161	800,268	19,662
Noncash noncapital, capital and related financing, and investing activities:						
Change in operating grants receivable	\$ 202	-	-	-	202	-
Loss on disposal of capital assets	-	19	-	-	19	(7)
Bond refunding	-	-	-	-	-	-
Capital contributions from developers	-	3,702	596	-	4,298	-
Amortization of bond discount/premium, and prepaid bond insurance costs	34	236	-	-	270	-
Amortization of deferred outflows/inflows of resources related to bond refundings	364	189	-	-	553	-
Change in capital related payables	(238)	-	-	-	(238)	-
Change in capital related receivables	(789)	-	-	-	(789)	-
Change in fair value of investments	(12)	-	-	-	(12)	-

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

City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016
(\$000's)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	\$ -	481	5,166
Cash and investments	-	19,625	-
Investments of retirement systems:			
Fixed income	1,019,189	-	-
Collective short-term investments	361,907	-	-
Absolute return	478,628	-	-
Global equity	1,688,463	-	-
Private equity	348,154	-	-
International currency contracts, net	603	-	-
Global tactical asset	298,150	-	-
Private debt	297,624	-	-
Real assets	699,575	-	-
Real estate	5,910	-	-
Total investments of retirement systems	<u>5,198,203</u>	<u>-</u>	<u>-</u>
Receivables:			
Accrued investment income	12,308	-	12
Employee contributions	2,519	-	-
Employer contributions	12,879	-	-
Due from the City of San José	-	20	-
Other	30,280	3,039	-
Restricted cash and investments held with fiscal agent	-	158,725	-
Total current assets	<u>5,256,189</u>	<u>181,890</u>	<u>5,178</u>
Noncurrent assets:			
Advances to the City of San José	-	459	-
Accrued interest	-	861	-
Loans receivables, net	-	4,954	-
Advances and deposits	-	6	-
Property held for resale	-	29,473	-
Capital assets:			
Nondepreciable	-	73,556	-
Depreciable, net	1,873	61,632	-
Total noncurrent assets	<u>1,873</u>	<u>170,941</u>	<u>-</u>
Total assets	<u>5,258,062</u>	<u>352,831</u>	<u>5,178</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding of debt	\$ -	26,712	

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

City of San José
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016
(\$000's)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
LIABILITIES			
Current liabilities:			
Due to the City of San José	\$ -	130	-
Accounts payable	-	8,121	-
Accrued salaries and benefits	-	182	-
Due to brokers	3,706	-	-
Accrued interest payable	-	35,089	-
Pass through payable to the County of Santa Clara	-	47,006	-
Unearned revenue	-	162	-
Other liabilities	<u>2,548</u>	<u>11</u>	<u>5,178</u>
Total current liabilities	<u>6,254</u>	<u>90,701</u>	<u>5,178</u>
Long-term liabilities:			
Due within one year	-	205,901	-
Due in more than one year	<u>-</u>	<u>1,843,701</u>	<u>-</u>
Total noncurrent liabilities	<u>-</u>	<u>2,049,602</u>	<u>-</u>
Total liabilities	<u>6,254</u>	<u>2,140,303</u>	<u>5,178</u>
NET POSITION RESTRICTED FOR:			
Employees' pension benefits	4,907,327	-	
Employees' postemployment healthcare benefits	344,481	-	
Redevelopment dissolution and other purposes	<u>-</u>	<u>(1,760,760)</u>	
Total net position	<u>\$ 5,251,808</u>	<u>(1,760,760)</u>	

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

City of San José
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016
(\$000's)

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Redevelopment property tax revenues	\$ -	217,013
Investment income:		
Interest	44,798	821
Dividends	31,242	-
Net rental income	1,778	303
Net change in fair value of plan investments	(112,785)	-
Investment expenses	(33,379)	-
Total investment income (loss)	<u>(68,346)</u>	<u>1,124</u>
Contributions:		
Employer	313,466	-
Employees	73,316	-
Total contributions	<u>386,782</u>	<u>-</u>
Charges for current services	-	761
Development fees	-	425
Gain on sales of property	-	2,689
Grant Revenue	-	11,184
Other	-	2,136
Total additions	<u>318,436</u>	<u>235,332</u>
DEDUCTIONS		
General and administrative	8,570	2,320
Project expenses	-	2,063
Pass through amounts to the County of Santa Clara	-	29,856
Capital contributions to the City of San José	-	9,166
Depreciation	-	2,077
Interest on debt	-	90,462
Allowance Expense	-	17,821
Health insurance premiums	53,026	-
Refunds of contributions	2,117	-
Retirement and other benefits:		
Death benefits	21,613	-
Retirement benefits	336,528	-
Total deductions	<u>421,854</u>	<u>153,765</u>
Extraordinary item from SERAF loan reduction	-	42,905
Change in net position	<u>(103,418)</u>	<u>124,472</u>
Net position restricted for pension, postemployment healthcare benefits and other purposes:		
Beginning of year	5,355,226	(1,885,232)
End of year	<u>\$ 5,251,808</u>	<u>(1,760,760)</u>

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

City of San José
Notes to Basic Financial Statements
June 30, 2016

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City of San José
Notes to Basic Financial Statements
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I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

In general, the SARA’s assets can only be used to pay enforceable obligations in existence at the date of dissolution, February 1, 2012 (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). The SARA is only allocated revenue in the amount that is necessary to meet the enforceable obligations of the former Redevelopment Agency of the City of San José (the “Agency”) each year until all enforceable obligations of the Agency have been paid in full and all assets have been liquidated. Based upon the nature of the SARA’s custodial role, the SARA is reported in a fiduciary fund (private purpose trust fund).

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- **San José – Santa Clara Clean Water Financing Authority** – The San José – Santa Clara Clean Water Financing Authority (the “Clean Water Financing Authority”) was created pursuant to a Joint Exercise of Powers Agreement between the City and the City of Santa Clara. The purpose was to finance the acquisition of, and additions and improvements to the existing San José – Santa Clara Water Pollution Control Plant (the “Plant”). The Clean Water Financing Authority is governed by a five-member Board of Directors; three are members of the San José City Council and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the cities of San José and Santa Clara entered into an Improvement Agreement and subsequent amendments to the Improvement Agreement (the “Improvement Agreement”), which requires each city to make base payments that are at least equal to each city’s allocable share of debt service requirements of the Clean Water Financing Authority’s outstanding revenue bonds. Under the Improvement Agreement, the City of San José is entirely responsible for the repayment of the Clean Water Financing Authority’s outstanding revenue bonds. The Clean Water Financing Authority is blended in the Wastewater Treatment System Fund for financial reporting purposes.
- **City of San José Financing Authority** – The City of San José Financing Authority (the “Financing Authority”) was created by a Joint Exercise of Powers Agreement between the City and the Agency. The Financing Authority was created for the purpose of facilitating the financing of public improvements and facilities within the City and is authorized to issue bonds for this purpose. The Financing Authority is governed by an 11-member Governing Board, which consists of the members of the City Council.
- **San José Diridon Development Authority** – The San José Diridon Development Authority (the “Diridon Authority”) was created in March 2011 by a Joint Exercise of Powers Agreement between the City and the Agency. The Diridon Authority was created for the purposes of overseeing the development of properties within the Diridon area of the City, and is authorized to issue bonds for this purpose. The Diridon Authority is governed by an 11-member Governing Board, which consists of the members of the City Council. The Diridon Authority did not have any activity in fiscal year 2015-16.

Separate financial reports for City departments and component units for the fiscal year 2015-16, containing additional information and more detailed information regarding financial position, changes in financial position, and, where applicable, cash flows, are available from the City’s Director of Finance, 200 East Santa Clara Street; 13th Floor, San José, CA 95113-1905, for the following:

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

B. Financial Statement Presentation

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

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intergovernmental revenues and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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

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

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

The City reports the following major governmental funds:

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

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

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

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

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

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The City reports the following major enterprise funds:

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

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

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

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

The City also reports the following types of funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

The basis of accounting determines when transactions are reported in the financial statements. The government-wide, proprietary and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds do not have a measurement focus but are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales and use, transient occupancy and utility user taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. This focus is on the determination of, and changes in financial resources, and generally only current assets and current liabilities are included in the balance sheet. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. For this purpose, the City considers revenues

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as available if they are collected within sixty days after the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. However, principal and interest on long-term debt and certain estimated liabilities, such as compensated absences and self-insurance claims, are recorded when payment is due.

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

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

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

D. Use of Estimates

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

E. New Pronouncements

During the year ended June 30, 2016, the City implemented the following Governmental Accounting Standards Board (the "GASB") Statements:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and acquisition value to certain assets and disclosures related to all fair value measurements. The City's Retirement Systems' application of Statement No. 72 did not have any major effect on the City's financial statements, except as noted in Note III A.2.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy*

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of *Generally Accepted Accounting Principles for State and Local Governments*. The application of Statement No. 76 did not have any effect on the City's financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The application of Statement No. 79 did not have any effect on the City's financial statements.

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

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. Application of Statement No. 73 is effective for the City's fiscal year ending June 30, 2017.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("OPEB"). This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. Application of Statement No. 74 is effective for the City's fiscal year ending June 30, 2017.

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

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

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

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- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Application of Statement No. 77 is effective for the City's fiscal year ending June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. Application of Statement No. 78 is effective for the City's fiscal year ending June 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. Application of Statement No. 80 is effective for the City's fiscal year ending June 30, 2017.

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

In March 2016, the GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statement No.67, No. 68, and No. 73*. This statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. Application of Statement No. 82 is effective for the City's fiscal year ending June 30, 2017.

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

1. Cash and Cash Equivalents

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

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

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

3. Deposits and Investments

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, the City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

Pooled Cash and Investments held in City Treasury. The City reports its investments held in the City Treasury at fair value. The fair value is based on quoted market information obtained from fiscal agents or other sources. Income from some investments is assigned to the General Fund. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. For the year ended June 30, 2016, the total investment income from these investments assigned and transferred to the General Fund was approximately \$683,000.

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

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

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4. Inventories

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

5. Loans Receivable, net

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

6. Special Assessment Districts

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

7. Advances and Deposits

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

8. Other Assets

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

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

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

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

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

10. Restricted Assets

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

11. Capital Assets

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

Capital assets are defined as assets with an initial individual cost of more than \$5,000 for general capital assets and \$100,000 for major infrastructure assets, and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the time received. Capital outlay is recorded as expenditures of the governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term, when the lease does not transfer ownership or include a bargained purchase option or the estimated useful life of the asset and is included in depreciation and amortization.

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

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

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

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

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

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

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

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

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Bargaining Unit		Hire Date (on or before)	Sick Leave Balance ¹ Frozen as of:	Rate of Pay ² Frozen as of:
Association of Building, Mechanical, and Electrical Inspectors	ABMEI	September 29, 2012	June 22, 2013	June 22, 2013
Association of Engineers and Architects, IFPTE Local 21	AEA	September 29, 2012	June 22, 2013	June 22, 2013
Association of Legal Professionals	ALP	September 29, 2012	June 22, 2013	June 22, 2013
Association of Maintenance Supervisory Personnel, IFPTE Local 21	AMSP	September 29, 2012	June 22, 2013	June 22, 2013
City Association of Management Personnel, IFPTE Local 21	CAMP	September 29, 2012	June 22, 2013	June 22, 2013
Confidential Employees' Organization, AFSCME Local 101	CEO	September 29, 2012	June 22, 2013	June 22, 2013
International Brotherhood of Electrical Workers, Local No. 332	IBEW	September 29, 2012	June 22, 2013	June 22, 2013
International Union of Operating Engineers, Local No. 3	OE#3	September 29, 2012	June 22, 2013	June 22, 2013
Municipal Employees' Federation, AFSCME Local 101	MEF	September 29, 2012	June 22, 2013	June 22, 2013
San José Police Officers' Association	SJPOA	July 6, 2013	July 6, 2013	July 6, 2013
San José Fire Fighters, IAFF Local 230	IAFF	September 13, 2014	June 20, 2015	June 21, 2014
Unrepresented Employees	Unit 99 Unit 81/82	September 29, 2012	June 22, 2013	June 22, 2013

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

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

13. Interfund Transactions

Interfund transactions are reflected as loans, services provided, reimbursements and/or transfers. Loans and balances related to unsettled service transactions are reported as receivables and payables as appropriate, are subject to elimination upon consolidation of similar fund types. The current portion of interfund loans and unsettled service transactions are reported as "due to/from other funds" and the non-current portion is reported as "advances to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

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

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14. Self-Insurance

The City is self-insured for workers' compensation, general liability, auto liability, and certain other risks, except as described in Note III.F.13. The City's workers' compensation activities are funded and accounted for separately in the fund financial statements based upon the activities of each fund. The current portion of claims liability is accounted for in the General Fund and the enterprise funds on the basis of settlements reached or judgments entered within the current fiscal year. In the government-wide financial statements and the enterprise fund financial statements, the estimated liability for all self-insurance liability claims is recorded as a liability.

15. Deferred Outflows/Inflows of Resources

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

16. Pensions

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

17. Net Position

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

- *Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt and deferred outflows/inflows of resources associated with the debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category represents net position that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2016, the government-wide statement of net position reported restricted net position of \$930,553,000 in governmental activities and \$76,709,000 in business-type activities. Of these amounts \$329,337,000 and \$23,712,000, respectively are restricted by enabling legislation.
- *Unrestricted Net Position* – This category represents net amounts that do not meet the criteria for "restricted" or "net investment in capital assets". When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed.

18. Fund Balances

Under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the financial statements reporting for governmental funds classify fund balances based primarily on

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the extent to which the City is bound to honor constraints on the specific purposes for which those funds can be spent. Fund balance for the City's governmental funds consists of the following categories:

- *Nonspendable Fund Balance* – includes amounts that are not in a spendable form, such as inventories, prepaid items, and long-term loans and notes receivables. It also includes amounts that are legally or contractually required to be maintained intact or required to be retained in perpetuity.
- *Restricted Fund Balance* – includes amounts reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* – includes amounts that have been limited to specific purposes as defined in the City Charter or through adoption of an ordinance by the City Council, the highest level of decision making authority of the City. These commitments may be changed or lifted, but only by the same formal action that was used to impose the constraint originally. City Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.
- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes that are neither restricted nor committed through City Council budgetary action, which include the approval of appropriations and revenue sources pertaining to the next fiscal year's budget. On June 21, 2011, the City Council adopted a resolution establishing the City's *Governmental Fund Balance Financial Reporting Policy*, which states that assigned fund balances are intended to be used for specific purposes through City Council budgetary actions. Intent is expressed by (a) the City Council or (b) the City Manager to which the City Council has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned Fund Balance* – includes amounts within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Unassigned amounts are technically available for any purpose. Other governmental funds may only report a negative unassigned balance that was created after classification in one of the other four fund balance categories.

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

19. Property Taxes

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

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

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

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

The City's net assessed valuation for the year ended June 30, 2016, was approximately \$150.9 billion, an increase of approximately 6.6% from the previous year. The City's tax rate was approximately \$0.178 per \$100 of assessed valuation, which included the 1% basic levy and additional levies for general obligation bonds Measures “O” and “P” (2000) and Measure “O” (2002).

20. Wastewater Treatment System

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

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

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City serves as the administering agency and is responsible for operating and maintaining the Plant. The cities share in the capital and operating costs on a pro rata basis determined by the ratio of each city's assessed valuation to the sum of both cities' assessed valuations. Annually, these percentages are determined and applied to the capital and operating costs on an accrual basis. For the fiscal year ended June 30, 2016, the City's portion of the capital and operating costs was approximately 81.7% and the City's interest in the net position of the Plant was approximately 83.7%.

II. Stewardship, Compliance, and Accountability

A. Deficit Net Position

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show on an annual basis that it had incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, the former Agency liabilities exceeded assets. Therefore, the Agency historically carried a deficit, which was expected to be reduced as future tax increment revenues were received and used to reduce its outstanding long-term debt. This deficit was transferred to the SARA on February 1, 2012. At June 30, 2016, the SARA has a deficit of \$1,761,240,000, which will be reduced when future redevelopment property tax revenues are distributed from the Redevelopment Property Tax Trust Fund administered by the County's Auditor-Controller to pay SARA's annual enforceable obligations.

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B. Deficit Unrestricted Net Position – Governmental Activities

At June 30, 2016, the City reports a deficit unrestricted net position in its Statement of Net Position – governmental activities in the amount of \$1,723,260,000. This deficit is primarily due to the City's accrual of certain long-term liabilities, such as the net pension liability, compensated absences, and estimated claims, that are recognized as expenses under the accrual basis of accounting as the liabilities are incurred; however, these expenses are not budgeted (funded) until the liabilities are anticipated to come due; and the City's recognition of OPEB obligations for OPEB costs in which the actuarial annual required contributions are greater than the amount paid into the OPEB plans to date (see Note IV.A.4.3)

III. Detailed Notes on All Funds

A. Cash, Deposits and Investments

As of June 30, 2016, total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds			Carrying Value
			Pension Trust	Private Purpose Trust	Agency	
Equity in pooled cash and investments	\$ 907,777	\$ 593,556	\$ -	\$ 481	\$ 5,166	\$ 1,506,980
Cash and investments	-	-	-	19,625	-	19,625
Restricted assets:						
Equity in pooled cash and investments	54,950	110,317	-	-	-	165,267
Cash and investments with fiscal agents	117,707	110,365	-	158,725	-	386,797
Other cash	7,973	-	-	-	-	7,973
Investments of retirement systems	-	-	5,198,203	-	-	5,198,203
Total deposits and investments	<u>\$ 1,088,407</u>	<u>\$ 814,238</u>	<u>\$ 5,198,203</u>	<u>\$ 178,831</u>	<u>\$ 5,166</u>	<u>\$ 7,284,845</u>
Deposits						\$ 497
Investments						7,284,348
Total deposits and investments						<u>\$ 7,284,845</u>

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

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

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

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

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

1. Governmental and Business-Type Activities

Interest Rate Risk. Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, debt investments with fixed coupons for longer 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 two years. Also, the City sets the maximum maturity for every investment at the time of purchase by asset class, with the longest not to exceed five years.

In practice, the City purchases a combination of shorter-term and longer-term investments and times the cash flows to meet liquidity needs for operations. The average maturity of the City's pooled cash and investments at June 30, 2016, was approximately 472 days.

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

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

At June 30, 2016, the City's pooled and fiscal agent investments in LAIF was approximately \$98,068,000 and the SARA's investments in LAIF was approximately \$14,564,000. The weighted average maturity of LAIF was 167 days at June 30, 2016. The total amount recorded by all public agencies in LAIF at June 30, 2016 was approximately \$22.7 billion. LAIF is part of the State's Pooled Money Investment Account ("PMIA"). The PMIA is not registered with the Securities Exchange Commission ("SEC"), but is required to invest according to California Government Code. The total amount recorded by all public agencies in PMIA at June 30, 2016 was approximately \$75.4 billion and of that amount, 58.91% was invested in U.S. Treasuries and agencies, 30.41% in depository securities, 9.93% in commercial paper, 0.67% in loans, and 0.08% in mortgages.

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

The City Council adopted an investment policy (the "Policy") on April 2, 1985, as last amended on June 7, 2016, related to the City's cash and investment pool, which is subject to annual review. The Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Per the Policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the Policy.

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The following table identifies the investment types that are authorized by the Policy as of June 30, 2016:

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

* Represents where the City's investment policy is more restrictive than the California Government Code.

Other restrictions on investments are summarized as follows:

- Purchases of United States government agency securities are limited to issues of Federal Agriculture Mortgage Corporation (Farmer Mac), Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. Investment in Farmer Mac may not exceed 10% of the total portfolio.
- Purchases of Supranationals are limited to International Bank for Reconstruction and Development, International Finance Corporation and Inter-American Development Bank. Securities shall be rated "Aa3, AA or AA" or higher by Moody's, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.
- Purchases of Bankers' Acceptances ("BAs") are limited to issues by domestic U.S. or foreign banks. The outstanding debt of the bank or its holding company must be rated "A3, A-, or A-" or higher by Moody's, S&P, or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.
- Deposits up to the Federal Deposit Insurance Corporation ("FDIC") of \$10,000,000 may be invested in, but are not limited to, banks and savings and loans with offices located in the San José area and deposits shall not exceed the net worth of that depository. Depositories must have a short-term rating of "P1, A1, or F1" or better by two of the three nationally recognized rating services: Moody's, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding

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company must be rated “A3, A-, or A-” or higher by Moody’s, S&P, or Fitch, respectively. Deposits shall be collateralized in the manner prescribed by State law for depositories.

- Commercial paper eligible for investment must be rated “P1, A1 or F1” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively. Issuing corporations must be organized and operating within the United States, have total assets in excess of \$500,000,000 and shall issue debt, other than commercial paper, if any, that is rated “A3, A- or A-” or higher, respectively, by Moody’s, S&P, or Fitch.
- Negotiable certificates of deposit are limited to banks and savings and loans with an issuer short-term rating of “P1, A1, F1” or better by two of the three nationally recognized rating services: Moody’s, S&P, or Fitch, respectively. The outstanding debt of the bank or its holding company must be rated “A3, A-, or A-” or higher by Moody’s, S&P or Fitch, respectively. No rating may be lower than any of the ratings listed in the preceding sentence.
- Repurchase agreements are to be executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions, which have entered into the City’s Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement. Securities accepted as collateral for the repurchase agreement are limited to U.S. Treasury or U.S. Federal Government Agencies permitted under the Policy. The market value of the securities that have been accepted as collateral shall, at the time of transfer, equal at least 102 percent of face value of the repurchase agreement. For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value to at least 102 percent of the repurchase agreement’s face value.
- Reverse repurchase agreements under the Policy are limited to the lesser of \$25,000,000 or 20% of the portfolio value and to those occasions where unanticipated short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to maturity.
- Corporate medium term notes eligible for investment must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.
- Funds invested in LAIF, a State of California managed investment pool, may be made up to the maximum dollar amount per separate legal entity in conformity with account balance limits authorized by the California State Treasurer. The current maximum amount authorized by the State Treasurer is \$65,000,000.
- Investments in money market mutual funds are limited to those funds registered with the SEC and for which either one of the credit criteria are met: (1) obtained the highest ranking or highest letter and numerical rating provided by no less than two nationally recognized rating services or (2) retained an investment advisor registered with the SEC or exempt from the SEC registration requirements with no less than five years of experience investing in securities and obligations authorized by California Government Code Section 53601 and managing money market mutual funds with assets under management in excess of \$500,000,000. Investments by the funds are restricted to U.S. Treasury and U.S. Government Agency backed securities permitted under the Policy and must be maintained at no less than \$1.00 per share.
- Municipal bonds under the Policy are limited to a total of no more than 20% of the portfolio value. The Policy establishes four municipal bond categories: (1) bonds issued by the City or its agencies (as defined in the Policy), (2) by the State of California, (3) by other California local agencies, and (4) by any of the other 49 states. Eligible securities must be rated “A3, A- or A-” or better by two of the three nationally recognized rating services; Moody’s, S&P, or Fitch, respectively.

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- Investment agreements may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures and in accordance with other safeguards outlined in the Policy to reduce the risk associated with a provider's inability to meet its contractual obligations.
- Mortgage backed securities and collateralized mortgage obligations must be issued by a United States government agency and must be AAA rated or better by a nationally recognized rating service.
- Asset backed securities must be AAA rated or better by a nationally recognized rating service. The issuer of any asset backed security must have an "A3, A- or A-" rating or better by Moody's, S&P, or Fitch, respectively, of its underlying debt.

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

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The following schedule indicates the interest rate risk, credit quality risk and concentration of credit risk of the City's investments, as of June 30, 2016 (dollars in thousands). The credit ratings listed are for Moody's and S&P, respectively.

Type of Investment	Credit Rating	Maturity				Carrying Value
		Under 30 Days	31 - 180 Days	181 - 365 Days	1 - 5 Years	
Pooled investments in the City Treasury:						
Treasury Notes	Aaa / AAA	\$ -	\$ 10,010	\$ -	\$ 10,489	\$ 20,499
Federal Farm Credit Banks	AA+ / AAA	-	15,392	10,001	79,099	104,492
Federal Home Loan Banks	AA+ / Aaa	50,000	17,999	55,151	102,606	225,756
Federal Home Loan Banks - Callable	AA+ / Aaa	-	-	-	13,506	13,506
Federal Home Loan Banks - Discount	AA+ / Aaa	10,000	861	-	-	10,861
Federal Home Loan Mortgage Corporation	AA+ / Aaa	-	41,039	20,115	70,160	131,314
Federal Home Loan Mortgage Corporation - Callable	Aaa / AA+	-	-	10,011	44,062	54,073
Federal National Mortgage Association	AA+ / Aaa	35,000	25,006	-	113,181	173,187
Federal National Mortgage Association - Callable	AA+ / Aaa	-	15,007	-	24,062	39,069
Federal National Mortgage Association - Discount	AA+ / Aaa	10,000	-	-	-	10,000
Farmer MAC	Aaa / AA+	-	-	-	10,049	10,049
Farmer MAC -Discount	Aaa / AA+	13,000	10,298	9,973	-	33,271
Muni Bonds	AA- / Aa3	15,010	-	-	40,946	55,956
Supranational	AAA / Aaa	-	-	10,826	151,118	161,944
Corporate Medium Term Notes	A-1 / A3	16,004	68,127	57,709	191,842	333,682
Commercial paper	P-1 / A-1	-	14,958	19,861	-	34,819
Commercial paper - Discount	P-1 / A-1+	10,000	26,979	29,856	-	66,835
Negotiable certificate of deposit	P-1 / A-1	57,001	20,019	25,019	-	102,039
Money market mutual funds	Aaa-mf	303	-	-	-	303
California local agency investment fund	Not Rated	-	98,068	-	-	98,068
Total pooled investments in the City Treasury		<u>216,318</u>	<u>363,763</u>	<u>248,522</u>	<u>851,120</u>	<u>1,679,723</u>
Investments with fiscal agents:						
Treasury Notes	Aaa / AA+	-	820	2,126	-	2,946
Federal Home Loan Banks - Discount	Aaa / AA+	-	2,908	-	-	2,908
Federal National Mortgage Association	Aaa / AA+	13,968	-	-	-	13,968
Federated Treasury Obligation	N/A	35	-	-	-	35
First American Gov't Obligation	N/A	6,147	-	-	-	6,147
First American Treasury Obligation	N/A	443	-	-	-	443
Money market mutual funds	N/A	17,627	-	-	-	17,627
California local agency investment fund	Not Rated	-	183,998	-	-	183,998
Total investments with fiscal agents		<u>38,220</u>	<u>187,726</u>	<u>2,126</u>	<u>-</u>	<u>228,072</u>
Total Citywide investments (excluding Retirement Systems and the SARA)		<u>\$ 254,538</u>	<u>\$ 551,489</u>	<u>\$ 250,648</u>	<u>\$ 851,120</u>	<u>1,907,795</u>
Trust Funds:						
Total investments in Retirement Systems (See page 67)						5,198,203
Total investments in the SARA (See page 152)						178,350
Total investments						<u>\$ 7,284,348</u>

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

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The City has the following recurring fair value measurements as of June 30, 2016:

	Carrying Value 6/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investments in the City Treasury:				
Investments by fair value level:				
Treasury Notes	\$ 20,499	\$ 20,499	\$ -	\$ -
Federal Farm Credit Banks	104,492	-	104,492	-
Federal Home Loan Banks	225,756	95,433	130,323	-
Federal Home Loan Banks - Callable	13,506	-	13,506	-
Federal Home Loan Banks - Discount	10,861	-	10,861	-
Federal Home Loan Mortgage Corporation	131,314	86,302	45,012	-
Federal Home Loan Mortgage Corporation - Callable	54,073	-	54,073	-
Federal National Mortgage Association	173,187	115,210	57,977	-
Federal National Mortgage Association - Callable	39,069	-	39,069	-
Federal National Mortgage Association - Discount	10,000	-	10,000	-
Farmer MAC	10,049	-	10,049	-
Farmer MAC - Discount	33,271	-	33,271	-
Corporate Medium Term Notes	333,682	281,833	51,849	-
Muni Bonds	55,956	19,946	36,010	-
Supranational	161,944	-	161,944	-
Commercial paper - Discount	66,835	-	66,835	-
Commercial paper	34,819	-	34,819	-
Negotiable certificate of deposit	102,039	-	102,039	-
Money market mutual funds	303	303	-	-
Total investments by fair value level	1,581,655	619,526	962,129	-
Investments by NAV:				
California local agency investment fund	98,068			
Total investments by NAV	98,068			
Total pooled investments in the City Treasury	1,679,723	619,526	962,129	-
Investments with fiscal agents:				
Investments by fair value level:				
Treasury Notes	2,946	2,946	-	-
Federal Home Loan Banks - Discount	2,908	-	2,908	-
Federal National Mortgage Association	13,968	13,968	-	-
Federated Treasury Obligation	35	35	-	-
First American Gov't Obligation	6,147	6,147	-	-
First American Treasury Obligation	443	443	-	-
Money market mutual funds	17,627	17,627	-	-
Total investments by fair value level	44,074	41,166	2,908	-
Investments by NAV:				
California local agency investment fund	183,998			
Total investments by NAV	183,998			
Total investments with fiscal agents	228,072	41,166	2,908	-
Total Citywide investments (excluding Retirement Systems and the SARA)	1,907,795	\$ 660,692	\$ 965,037	\$ -
Trust Funds:				
Total investments in Retirement Systems (See page 67)	5,198,203			
Total investments in the SARA (See page 152)	178,350			
Total investments	\$ 7,284,348			

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Government agency securities classified in Level 2 of the fair value hierarchy are valued using Interactive Data (IDC) institutional bond pricing techniques. Corporate notes and Supranational classified in Level 2 of the fair value hierarchy are valued using evaluated pricing applications and models, which gather the information from market sources and integrate

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

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

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker - dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure its deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by the depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged governmental securities and/or first trust deed mortgage notes held in the collateral pool must be at least 110% and 150% of the City's deposits, respectively. The collateral is held by the pledging financial institution's trust department and is considered held in the City's name. As of June 30, 2016, the City's deposits were collateralized at 110%. All investments in the City Treasury were in the City's name. Neither deposits nor investments held by the City were subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk that the failure of any one issuer would place an undue financial burden on the City. The City mitigates the concentration of credit risk by diversifying the portfolio and limiting investments in any one issuer to no more than 5% of the total portfolio unless discussed otherwise in the above table. Investments issued by or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from this requirement.

As of June 30, 2016, the City's pooled investments in the City Treasury have investments in U.S. Agencies that represents 5% or more of the total pooled investments in the following:

Federal Farm Credit Banks	6.22%
Federal Home Loan Banks	13.44%
Federal Home Loan Mortgage Corporation	7.82%
Federal National Mortgage Association	10.31%

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In addition, the following major funds hold investments with trustees that represent 5% or more of the funds' investments outside the City Treasury as of June 30, 2016:

Special Assessment Districts:	
Federal Home Loan Banks	9.32%
U.S. Treasury Note	9.44%
Airport:	
Federal Home Loan Banks	13.42%

Foreign Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2016, the City's investment policy does not permit investments in the pool to hold foreign currency; as such the investments in the City's investment pool were not subject to foreign currency risk.

2. Retirement Systems

Investment Policies – The City's Municipal Code delegates authority to the Boards of Administration of PFDRP and FCERS (the "Retirement Boards") to invest monies of the respective plans as provided in the Municipal Code. Each Retirement Board has adopted detailed investment guidelines consistent with the limitations set forth in the Municipal Code. At June 30, 2016, the Retirement Systems' investment target asset allocations are as follows:

Asset Class	PFDRP - Pension		
	Minimum	Target	Maximum
Global and private equity	25%	39%	50%
Global fixed income and private debt	15%	27%	35%
Real asset	12%	17%	25%
Absolute return and global tactical asset	10%	16%	30%
Cash	-	1%	5%

Note: The real assets category includes allocations to real estate, commodities, and other inflation-linked assets. The absolute return category includes allocations to relative value and global macro hedge fund strategies and global tactical asset allocation managers.

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

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

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The fair value of the separate real estate properties are based on annual independent appraisals. As of June 30, 2016, PFDRP's separate real estate property includes an office building in O'Fallon, MO. As of June 30, 2016, the office building in O'Fallon, MO had a mortgage payable with a fair value of \$7,836,000. On January 28, 2016, PFDRP sold the First American Title building located in San José, CA for \$23,300,000 before closing costs. The sale resulted in a net realized loss of \$1,556,000.

Asset Class	FCERS - Pension		
	Minimum	Target	Maximum
Global equity	20%	28%	36%
Private equity	4%	9%	14%
Global fixed income	9%	19%	29%
Private debt	-	5%	10%
Absolute return	6%	11%	16%
Global tactical asset allocation/ Opportunistic	-	5%	7%
Real assets	15%	23%	30%
Cash	-	-	5%

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

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

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

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At June 30, 2016, the Retirement Systems held the following investments (dollars in thousands):

	<u>PFDRP</u>	<u>FCERS</u>	<u>Total</u>
Securities and other:			
Fixed income:			
Global fixed income	\$ 572,394	\$ 446,795	\$ 1,019,189
Collective short term investments	228,612	133,295	361,907
Total fixed income	<u>801,006</u>	<u>580,090</u>	<u>1,381,096</u>
Absolute return	225,786	252,842	478,628
Global equity	877,122	811,341	1,688,463
Global tactical assets allocation	298,150	-	298,150
Private equity	261,118	87,036	348,154
Private debt	220,433	77,191	297,624
Real assets	440,167	259,408	699,575
Real estate	5,910	-	5,910
International currency contracts, net	505	98	603
Total investments	<u>\$ 3,130,197</u>	<u>\$ 2,068,006</u>	<u>\$ 5,198,203</u>

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

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

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The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) excluding any commingled funds based on duration as of June 30, 2016, concerning the fair value of investments and interest rate risk (dollars in thousands):

	PFDRP						Total Fair Value	Total Cost
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years		
Global fixed income:								
Commingled Funds	\$ 23,446	\$ -	\$ 75,877	\$ 107,874	\$ 264,303	\$ 41,888	\$ 513,388	\$ 498,820
Mortgage - backed securities	-	-	-	-	3,882	46,172	50,054	49,194
Corporate bonds	8	-	-	95	-	-	103	58
Other debt securities	-	-	-	2,278	3,972	2,599	8,849	8,596
Total global fixed income	<u>23,454</u>	<u>-</u>	<u>75,877</u>	<u>110,247</u>	<u>272,157</u>	<u>90,659</u>	<u>572,394</u>	<u>556,668</u>
Collective short-term investments	<u>228,612</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228,612</u>	<u>229,483</u>
Total fixed income	<u>\$ 252,066</u>	<u>\$ -</u>	<u>\$ 75,877</u>	<u>\$ 110,247</u>	<u>\$ 272,157</u>	<u>\$ 90,659</u>	<u>\$ 801,006</u>	<u>\$ 786,151</u>

	FCERS						Total Fair Value	Total Cost
	0 - 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	5 - 10 years	More than 10 years		
Global fixed income:								
Commingled Funds	\$ 35,326	\$ -	\$ -	\$ 127,152	\$ 88,683	\$ 31,140	\$ 282,301	\$ 270,585
Corporate Bonds	-	-	-	2	-	-	2	5
Mortgage-Backed Securities	-	-	-	-	3,538	41,860	45,398	45,445
Other Debt Securities	-	-	-	2,081	3,658	2,401	8,140	8,051
U.S. Treasury Inflation-Protected Securities	5,154	-	16,345	89,455	-	-	110,954	111,967
Total global fixed income	<u>40,480</u>	<u>-</u>	<u>16,345</u>	<u>218,690</u>	<u>95,879</u>	<u>75,401</u>	<u>446,795</u>	<u>436,053</u>
Collective short-term investments	<u>133,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,295</u>	<u>135,466</u>
Total fixed income	<u>\$ 173,775</u>	<u>\$ -</u>	<u>\$ 16,345</u>	<u>\$ 218,690</u>	<u>\$ 95,879</u>	<u>\$ 75,401</u>	<u>\$ 580,090</u>	<u>\$ 571,519</u>

Custodial Credit Risk – Custodial credit risk is the risk that the Retirement Systems will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party, if that outside party fails. The Retirement Systems do not have a policy regarding custodial credit risk. As of June 30, 2016, the Retirement Systems' investments are held in the Retirement Systems' names, and/or are not exposed to custodial credit risk.

Credit Quality Risk – The Retirement Systems' investment policies allow for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated. Investment managers may, as part of their investment strategy, invest in securities where the issuer's ability or willingness to pay is limited. At times, these debt securities may be converted into other debt, equity, or hybrid securities that have different risk and return characteristics than the securities initially purchased. The Retirement Systems may hedge against the possible adverse effects of currency fluctuations on the Retirement Systems' portfolios of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments. Nationally

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recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

Please note that the following table reflects only securities held in the Retirement System' names. The table provides information as of June 30, 2016 concerning credit risk (dollars in thousands):

S&P quality rating	PFDRP		FCERS	
	Fair Value	Fair value as a % of fixed income investments	Fair Value	Fair value as a % of fixed income investments
AAA	\$ 537	0.07%	\$ 479	0.08%
AA+	3,385	0.42%	114,389	19.72%
A+	2,010	0.25%	1,588	0.27%
A	515	0.06%	462	0.08%
A-	239	0.03%	210	0.04%
BBB+	1,214	0.15%	1,095	0.19%
BBB	2,703	0.34%	2,478	0.43%
BB+	1,437	0.18%	1,316	0.23%
BB	362	0.05%	322	0.06%
BB-	1,533	0.19%	1,385	0.24%
B+	2,726	0.34%	2,448	0.42%
B	2,461	0.31%	2,234	0.39%
B-	1,777	0.22%	1,592	0.27%
CCC	4,249	0.53%	3,845	0.66%
CCC-	1,310	0.16%	1,182	0.20%
D	9,961	1.24%	9,055	1.56%
Not rated	764,587	92.78%	436,010	75.14%
Total	<u>\$ 801,006</u>	<u>97%</u>	<u>\$ 580,090</u>	<u>100%</u>

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the Retirement Systems' investment policies permit individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuation on the underlying asset value. The Systems' investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Systems utilize these contracts to control exposure and facilitate the settlement of internal security purchase and sale transactions. At June 30, 2016, the Systems' net positions in these contracts are recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quote currency prices from national exchanges. The Systems' commitments relating to forward currency contracts are settled on a net basis.

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The following tables provide information as of June 30, 2016, concerning the fair value of investments and foreign currency risk (dollars in thousands):

PFDRP						
Currency Name	Cash	Private Equity	Global Equity	Real Assets	International Currency Contracts, Net	Total Exposure
Australian Dollar	\$ 29	\$ -	\$ 3,791	\$ -	\$ 19	\$ 3,839
British Pound Sterling	(183)	-	20,316	-	284	20,417
Canadian Dollar	396	-	5,241	-	106	5,743
China yuan reminbl	-	-	-	-	22	22
Denmark Krone	-	-	8,238	-	-	8,238
Euro Currency	(863)	-	13,672	12,306	64	25,179
Hong Kong Dollar	19	-	1,226	-	-	1,245
Japanese Yen	(388)	-	15,583	-	(44)	15,151
Norwegian Krone	-	-	1,296	-	-	1,296
South Korean Won	-	-	5,471	-	-	5,471
Swedish Krona	(34)	-	2,343	-	(43)	2,266
Swiss Franc	-	-	8,389	-	97	8,486
Total	<u>\$ (1,024)</u>	<u>\$ -</u>	<u>\$ 85,566</u>	<u>\$ 12,306</u>	<u>\$ 505</u>	<u>\$ 97,353</u>

FCERS						
Currency Name	Cash	Private Equity	Global Equity	Real Assets	International Currency Contracts, Net	Total Exposure
Australian Dollar	\$ 20	\$ -	\$ 2,158	\$ 15,206	\$ 7	\$ 17,391
Brazilian Real	-	-	-	330	-	330
British Pound Sterling	(127)	-	19,271	31,631	31	50,806
Canadian Dollar	(17)	-	4,149	36,339	29	40,500
Chile Peso	-	-	-	403	-	403
China Yuan Renminbi	-	-	-	-	27	27
Danish Krone	-	-	7,967	-	-	7,967
Euro Currency	(199)	4,370	10,417	24,609	(15)	39,182
Hong Kong Dollar	-	-	700	9,025	-	9,725
Hungarian Forint	-	-	-	55	-	55
Indonesian Rupiah	-	-	-	498	-	498
Israeli Shekel	-	-	-	410	-	410
Japanese Yen	(113)	-	8,887	3,992	4	12,770
Korean Won	-	-	6,686	473	-	7,159
Malaysian Ringgit	-	-	-	1,412	-	1,412
Mexican Peso	-	-	-	1,135	-	1,135
New Zealand Dollar	-	-	-	774	-	774
Norwegian Krone	-	-	1,560	1,742	-	3,302
Philippine Peso	-	-	-	28	-	28
Polish Zloty	-	-	-	370	-	370
Russian Ruble	-	-	-	123	-	123
Singapore Dollar	-	-	-	1,450	-	1,450
South African Rand	-	-	-	1,522	-	1,522
Swedish Krona	(44)	-	1,335	613	(27)	1,877
Swiss Franc	-	-	9,576	6,587	42	16,205
Taiwanese new dollar	-	-	-	167	-	167
Thailand Baht	-	-	-	275	-	275
Turkish Lira	-	-	-	19	-	19
Total	<u>\$ (480)</u>	<u>\$ 4,370</u>	<u>\$ 72,706</u>	<u>\$ 139,188</u>	<u>\$ 98</u>	<u>\$ 215,882</u>

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Investment Concentration Risk – The Retirement Systems’ investment policies specify that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies or industries. The Retirement Systems’ investment policies state that in addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 10% of the applicable plan’s assets without approval by the applicable Retirement Board, with the exception of passive management, where the applicable plan’s assets are not held in the applicable plan’s name at the applicable plan’s custodial bank, in which case the investment management firm can manage no more than 20% of the applicable plan’s assets without approval by the applicable Retirement Board. In addition as a general rule, assets placed with an investment manager should not represent more than 10% of the total assets of the applicable plan managed by that firm, without approval of the applicable Retirement Board. As of June 30, 2016, none of the plans held investments in any one issuer, excluding U.S. Government guaranteed investments that represented 5% or more of the total applicable plan’s net position or total investments.

Derivatives – The Retirement Systems’ investment policies allow for investments in derivative instruments that comply with the Retirement Systems’ objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The Retirement Systems are currently authorized to use derivative strategies to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to the applicable Board’s approved policy benchmark. In addition to the Retirement Systems’ internal derivative policies, it is understood that the mandates of certain investment managers retained by the Retirement Systems may use derivatives. Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable.

PFDRP’s investment policy states that the fair value of derivative investments that are not exchange traded, such as swaps and rights, is determined by the PFDRP’s custodian based on the base market value of similar instruments. FCERS’s investment policy states that investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds; the fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The investment policies of both PFDRP and FCERS provide that futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2016. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

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The fair values and notional amounts for a portion of derivative instruments outstanding as of June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (amounts in thousands):

PFDRP					
Investment Derivative Instruments	Net Appreciation in Fair Value of Investments through June 30, 2016		Fair Value at June 30, 2016		Notional Amount/Shares
	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment income	\$ 672	International currency contracts, net	\$ 505	\$ 129,400
Futures options bought/written	Investment income	1,125	Fixed income (domestic and foreign)	-	11,594
Warrants	Investment income	5	Equity income (domestic and foreign)	5	7
Total derivative instruments		<u>\$ 1,802</u>		<u>\$ 510</u>	

FCERS					
Investment Derivative Instruments	Net Appreciation in Fair Value of Investments through June 30, 2016		Fair Value at June 30, 2016		Notional Amount/Shares
	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment income	\$ 778	International currency contracts, net	\$ 98	\$ 61,803
Future options bought/written	Investment income	2,939	Fixed income, collective short-term investments	-	(25,354)
Rights / Warrants	Investment income	47	Global equity	5	24
Total derivative instruments		<u>\$ 3,764</u>		<u>\$ 103</u>	

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2016:

Counterparty Credit Risk – The Retirement Systems are exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The Retirement Systems' investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract.

As of June 30, 2016, PFDRP had total commitments in forward currency contracts to purchase and sell international currencies of \$129,400,000 and \$129,400,000, respectively, with fair values of \$128,766,000 and \$128,261,000, respectively, held by counterparties with an S&P rating of at least AA-.

As of June 30, 2016, FCERS had total commitments in forward currency contracts to purchase and sell international currencies of \$61,803,000 and \$61,803,000, respectively, with fair values of \$61,412,000 and \$61,314,000, respectively, held by counterparties with an S&P rating of at least A and above.

Fair Value Measurements – In Fiscal Year 2016, the Retirement Systems adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

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The Systems categorize its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Systems have the following recurring fair value measurements as of June 30, 2016:

PFDRP (In Thousands)	6/30/2016	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Global equity	\$ 254,308	\$ 254,308	\$ -	-
Private equity	15,002	7	-	14,995
Real estate	5,910	-	-	5,910
Global fixed income	73,775	14,872	57,785	1,118
Collective short term investments	228,611	228,287	103	221
Private debt	15,691	-	-	15,691
Real assets	7,119	7,119	-	-
International currency contracts, net	505	505	-	-
Global tactical assets allocation	186,046	186,046	-	-
Total investments by fair value level	\$ 786,967	\$ 691,144	\$ 57,888	\$ 37,935
Investments Measured at the Net Assets				
Value (NAV)				
Global equity	\$ 622,816			
Private equity	247,186			
Global fixed income	498,620			
Private debt	203,671			
Real assets	433,047			
Global tactical assets allocation	112,104			
Absolute return	225,786			
Total investments measured at the NAV	2,343,230			
Total investments measured at fair value	\$ 3,130,197			

FCERS (In Thousands)	6/30/2016	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level				
Global equity	\$ 462,326	\$ 462,326	\$ -	\$ -
Private equity	15,002	-	-	15,002
Global fixed income	181,872	128,333	52,511	1,028
Collective short term investments	133,294	71,958	60,915	421
Private debt	15,691	-	-	15,691
International currency contracts, net	98	98	-	-
Total investment by fair value level	808,283	662,715	113,426	32,142
Investments Measured at the Net Asset				
Value (NAV)				
Global equity	\$ 349,014			
Private equity	72,034			
Global fixed income	264,923			
private debt	61,501			
Real assets	259,408			
Absolute return	252,843			
Total investments measured at the NAV	1,259,723			
Total investments measured at fair value	\$ 2,068,006			

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Equity and Fixed Income Securities

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

Alternative Investments

Alternative investments include global equity, private equity, global fixed income, private debt, real assets, and absolute return investments. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner ("GP"). These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in the Retirement Systems' alternative investment programs are classified as Level 3 assets or at the NAV Level. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

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

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

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The valuation method for investments measured at the NAV per share (or its equivalent) is presented in the following tables:

PFDRP					
Investments Measured at the NAV As of June 30, 2016 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	
Global equity	\$ 622,814	\$ -	Daily, Monthly, Quarterly	1 - 90 Days	
Private equity	246,116	63,900	Daily, N/A	1 Day, N/A	
Global fixed income	498,619	-	Daily, Monthly, Quarterly	1 - 65 Days	
Private debt	204,742	116,650	N/A	N/A	
Real assets	433,048	112,950	Monthly, Quarterly, N/A (Closed-end funds)	3 - 90 Days, N/A (Closed-end funds)	
Global tactical assets allocation	112,104	-	Monthly	5 Days	
Absolute return	225,786	-	Weekly, Monthly, Quarterly	14 - 75 Days	
Total investments measured at the NAV	\$ 2,343,229	\$ 293,500			

FCERS					
Investments Measured at the NAV As of June 30, 2016 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	
Global equity	\$ 349,014	\$ -	Daily, Monthly, Quarterly	1 - 90 Days	
Private equity	72,034	14,400	N/A	N/A	
Global fixed income	264,923	-	Daily, Quarterly	1 - 65 Days	
Private debt	61,501	31,400	N/A	N/A	
Real assets	259,408	39,650	Monthly, Quarterly, Annual, N/A (Closed-end funds)	3 - 180 Days, N/A (Closed-end funds)	
Absolute return	252,842	-	Weekly, Monthly, Quarterly	14 - 75 Days	
Total investments measured at the NAV	\$ 1,259,722	\$ 85,450			

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B. Receivables, Net of Allowances

At June 30, 2016, receivables of the City's major individual funds and nonmajor funds taken in aggregate, including the applicable allowance for uncollectible accounts, are as follows (dollars in thousands):

Receivables – Governmental Activities:	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Special Assessment Districts	Nonmajor Funds	Internal Service Funds	Total Governmental Activities
Taxes	\$ 72,606	\$ -	\$ -	\$ -	\$ 7,802	\$ -	\$ 80,408
Accrued interest	629	123	1,558	31	2,453	47	4,841
Grants	1,352	843	-	-	9,203	-	11,398
Special assessments	-	-	-	37,515	-	-	37,515
Other	36,963	13	22	1,498	15,359	203	54,058
Less: allowance for uncollectibles	(28,759)	(3)	-	(5)	(3,744)	(10)	(32,521)
Total receivables, net	\$ 82,791	\$ 976	\$ 1,580	\$ 39,039	\$ 31,073	\$ 240	\$ 155,699

Receivables – Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	\$ 9,414	\$ 4,366	\$ 6,634	\$ 383	\$ 20,797
Accrued interest	374	926	57	51	1,408
Grants	1,920	-	-	-	1,920
Less: allowance for uncollectibles	(329)	(594)	(476)	(63)	(1,462)
Total receivables, net	\$ 11,379	\$ 4,698	\$ 6,215	\$ 371	\$ 22,663

Special assessment receivables in the amount of \$37,515,000 are not expected to be collected within the subsequent year.

C. Loans Receivable, Net of Allowances

The composition of the City's loans receivable balance for governmental activities, net of the allowance for uncollectible accounts, as of June 30, 2016 is as follows (dollars in thousands):

Type of Loan	General Fund	Housing Activities	Low and Moderate Income Housing Asset	Nonmajor Governmental Funds	Total Governmental Activities
Housing Program Developer, rehabilitation, second mortgage and relocation loans	\$ -	\$ -	\$ 506,215	\$ -	\$ 506,215
Loans funded by federal grants	-	75,623	-	5,857	81,480
Economic development, real estate developer and other loans	1,241	55,616	-	-	56,857
Less: allowance for uncollectibles	-	(56,570)	(278,854)	(2,446)	(337,870)
Total loans, net	\$ 1,241	\$ 74,669	\$ 227,361	\$ 3,411	\$ 306,682

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

City of San José
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Typical loans and related terms are summarized as follows:

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

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

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

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

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

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

The City's management believes the combined amount of the aforementioned risk and present value discount allowances is adequate to reflect the net realizable value of the Community Development Block Grant ("CDBG") loans, Home Investment Partnership Program ("HOME") loans, and Low and Moderate Income Housing Asset Fund loans receivable as of June 30, 2016.

In the normal course of operations for housing programs, the City has outstanding commitments to extend credit, which have been encumbered as of June 30, 2016. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans receivable. As of June 30, 2016, amounts committed to extend credit under normal lending agreements totaled approximately \$2,935,000.

City of San José
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D. Capital Assets

1. Summary Schedule

The following is a summary of capital assets activity for the fiscal year ended June 30, 2016 (dollars in thousands):

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2016</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 388,732	\$ 6,843	\$ -	\$ 10,762	\$ 406,337
Construction in progress	50,329	33,895	1,267	(51,546)	31,411
Total capital assets, not being depreciated	<u>439,061</u>	<u>40,738</u>	<u>1,267</u>	<u>(40,784)</u>	<u>437,748</u>
Capital assets, being depreciated:					
Buildings	1,592,494	3,408	-	50,221	1,646,123
Improvements, other than buildings	240,745	849	-	9,804	251,398
Infrastructure	11,420,427	19,518	-	636	11,440,581
Vehicles and equipment	115,956	14,478	5,210	2,143	127,367
Furnitures and fixtures	27,194	160	-	-	27,354
Property under capital leases	11,258	-	-	(11,258)	-
Total capital assets, being depreciated	<u>13,408,074</u>	<u>38,413</u>	<u>5,210</u>	<u>51,546</u>	<u>13,492,823</u>
Less accumulated depreciation for:					
Buildings	512,426	42,520	-	13,280	568,226
Improvements, other than buildings	35,210	6,725	-	(2,458)	39,477
Infrastructure	7,474,142	157,536	-	-	7,631,678
Vehicles and equipment	89,538	8,136	5,105	436	93,005
Furnitures and fixtures	26,643	145	-	-	26,788
Property under capital leases	11,258	-	-	(11,258)	-
Total accumulated depreciation	<u>8,149,217</u>	<u>215,062</u>	<u>5,105</u>	<u>-</u>	<u>8,359,174</u>
Total capital assets, being depreciated, net	<u>5,258,857</u>	<u>(176,649)</u>	<u>105</u>	<u>51,546</u>	<u>5,133,649</u>
Governmental activities capital assets, net	<u>\$ 5,697,918</u>	<u>\$ (135,911)</u>	<u>\$ 1,372</u>	<u>\$ 10,762</u>	<u>\$ 5,571,397</u>
Business-type Activities:					
Capital assets, not being depreciated:					
Land	\$ 134,926	\$ -	\$ -	\$ -	\$ 134,926
Intangible assets	12,882	-	-	-	12,882
Construction in progress	29,209	36,097	-	(10,752)	54,554
Total capital assets, not being depreciated	<u>177,017</u>	<u>36,097</u>	<u>-</u>	<u>(10,752)</u>	<u>202,362</u>
Capital assets, being depreciated:					
Buildings	1,634,330	205	-	15,869	1,650,404
Improvements, other than buildings	1,176,140	31,666	-	254	1,208,060
Vehicles and equipment	249,138	4,312	777	1,513	254,186
Property under capital leases	6,884	-	-	(6,884)	-
Total capital assets, being depreciated	<u>3,066,492</u>	<u>36,183</u>	<u>777</u>	<u>10,752</u>	<u>3,112,650</u>
Less accumulated depreciation for:					
Buildings	494,501	43,174	-	8,997	546,672
Improvements, other than buildings	553,519	29,674	-	(3,592)	579,601
Vehicles and equipment	157,445	11,151	758	456	168,294
Property under capital leases	5,808	53	-	(5,861)	-
Total accumulated depreciation	<u>1,211,273</u>	<u>84,052</u>	<u>758</u>	<u>-</u>	<u>1,294,567</u>
Total capital assets, being depreciated, net	<u>1,855,219</u>	<u>(47,869)</u>	<u>19</u>	<u>10,752</u>	<u>1,818,083</u>
Business-type activities capital assets, net	<u>\$ 2,032,236</u>	<u>\$ (11,772)</u>	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ 2,020,445</u>

City of San José
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2. Depreciation

Depreciation expense charged to various governmental and business-type activities of the City for the fiscal year ended June 30, 2016 is as follows (dollars in thousands):

Governmental activities:	
General government	\$ 9,324
Public safety	7,600
Capital maintenance	162,810
Community services	32,950
Capital assets held by City's internal service funds	2,378
Total depreciation expense - governmental activities	<u>\$ 215,062</u>
Business-type activities:	
Norman Y. Mineta San José International Airport	\$ 51,864
Wastewater Treatment System	27,795
Municipal Water System	2,645
Parking System	1,748
Total depreciation expense - business-type activities	<u>\$ 84,052</u>

3. Capitalized Interest

Interest costs that are related to the acquisition of buildings and improvements and equipment acquired with tax-exempt and taxable debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested tax-exempt debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. There was no capitalized interest cost for the fiscal year ended June 30, 2016.

4. Construction Commitments

Commitments outstanding as of June 30, 2016, related to governmental and business-type activities construction in progress totaled approximately \$30,016,000 and \$165,141,000, respectively.

E. Leases

1. Operating Leases as Lessee

The City has commitments under various operating lease agreements requiring annual rental payments, which are described as follows:

Governmental Activities

The City has ongoing commitments under operating lease agreements for business equipment, office facilities and land necessary for City operations, which expire at various dates through 2022. Each governmental fund includes the expenditures related to such lease agreements. There are both cancelable and non-cancelable lease agreements. Rental expenditures reported by the General Fund and the Nonmajor Governmental Funds under these operating lease agreements for the fiscal year ended June 30, 2016 amounted to approximately \$1,358,000 and \$421,000, respectively.

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The future minimum lease payments anticipated under the existing lease commitments, as of June 30, 2016, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	General Fund	Nonmajor Governmental Funds	Total Governmental Activities
2017	\$ 1,736	\$ 68	\$ 1,804
2018	1,445	-	1,445
2019	1,363	-	1,363
2020	525	-	525
2021	247	-	247
2022	73	-	73
Totals	<u>\$ 5,389</u>	<u>\$ 68</u>	<u>\$ 5,457</u>

Business-Type Activities

Airport Gas-Powered Buses. In September 2009, the City entered into a restated operating lease and maintenance agreement for ten compressed natural gas (“CNG”) powered buses for the Airport. The term of the agreement is from December 2007 to May 2017. Rental and maintenance expense for the Airport buses for the fiscal year ended June 30, 2016 was approximately \$1,322,000.

Future Minimum Payments. The future minimum lease and maintenance payments required under the existing agreement for the ten CNG powered buses, as of June 30, 2016, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Operating Leases
2017	<u>\$ 879</u>

2. Operating Leases as Lessor

Governmental Activities

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

Business-Type Activities - Airport

Airline-Airport Lease and Operating Agreements. The City entered into an Airline-Airport lease and operating agreement with various passenger and cargo airlines (“Signatory Airlines”) serving the Airport. The airline lease agreement, which took effect on December 1, 2007, was scheduled to expire on June 30, 2012. In August 2011, the City Council authorized the Director of Aviation to extend the term for five years through June 30, 2017, which allowed the airlines the ability to continue to conduct operations and occupy leased space through the extended term. The existing rates and charges structure, as well as all other terms and conditions, remain unchanged through the extended term. Negotiations for a new agreement with the airlines are currently underway.

The key provisions in the airline lease agreement include compensatory rate making for the terminal cost center and residual rate making for the airfield cost center. The terminal rate per square foot is

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

For the fiscal year ended June 30, 2016, the Airport's revenues as defined in its lease agreement exceeded its expenditures and reserve requirements by approximately \$37,115,000. The surplus for fiscal year ended June 30, 2016 will be distributed in accordance with the revenue sharing provisions of the lease agreement as described above and/or used in the budget balancing actions for fiscal year 2018.

Other Airport Leases. In December 2013, the City entered into a ground lease and operating agreement with Signature Flight Support Corporation (Signature), which constructed a full-service, fixed based facility on 29-acres of the Airport's west side. The term of the agreement is for 50 years from December 12, 2013 to December 11, 2063. Signature paid interim ground rental equal to 50% of the base ground rental until November 2015, when the last certificate of occupancy was received, which was earlier than the earlier than the first day of the twenty-fifth full calendar month from the agreement effective date. After the certificates of occupancy were issued, and continuing throughout the term of the agreement. Signature shall pay base ground rental of \$2.21 per square foot per year based upon the actual square footage of premises occupied. The base ground rental is subject to a consumer price index increase annually and by appraisal every five years. Rental revenues from the ground lease with Signature were \$2,310,000 for the fiscal year ended June 30, 2016.

The City also enters into leases with concessionaires, airline carriers, and other business entities for building space and/or the privilege of operating a concession at the Airport. As of June 30, 2016, the terms of these operating leases range from one month to 22 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount. Rental revenues from the operating leases were \$85,071,000 for the fiscal year ended June 30, 2016.

The future minimum rentals to be received from the Airport operating leases, as of June 30, 2016, are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Amount
2017	\$ 99,301
2018	38,749
2019	37,795
2020	37,174
2021	10,438
2022 - 2026	51,190
2027 - 2031	47,843
2032 - 2036	49,126
2037 - 2041	35,717
2042 - 2046	29,112
2047 - 2051	33,225
2052 - 2056	37,918
2057 - 2061	43,275
2062 - 2063	23,911
Total	<u>\$ 574,774</u>

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These future minimum rentals are based upon annual rates and charges currently agreed to by the airlines and other tenants. As of June 30, 2016, leased assets had historic costs of \$1,026,447,000 and accumulated depreciation of approximately \$203,222,000.

F. Long-Term Debt and Other Obligations

1. Summary Schedule of Long-Term Debt

The following is a summary of long-term debt of the City as of June 30, 2016 (dollars in thousands, unless otherwise noted):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (\$ millions)	Balance June 30, 2016
Governmental Activities							
City of San Jose							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	\$ 71,000	06/06/2001	09/01/2031	5.00-5.13%	2.37	\$ 37,840
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	4.25-5.00%	3.87	65,780
Series 2004 (Libraries, Parks, Public Safety)	Community Facilities	118,700	07/14/2004	09/01/2034	4.13-5.00%	3.96	75,190
Series 2005 (Libraries and Public Safety)	Community Facilities	46,300	06/23/2005	09/01/2035	4.00-4.50%	1.54-155	30,900
Series 2006 (Libraries and Parks)	Community Facilities	105,400	06/29/2006	09/01/2036	4.00-5.00%	3.51-3.52	73,810
Series 2007 (Parks and Public Safety)	Community Facilities	90,000	06/20/2007	09/01/2037	4.00-5.50%	3	66,000
Series 2008 (Libraries and Parks)	Community Facilities	33,100	06/25/2008	09/01/2038	4.00-5.00%	1.10-1.11	25,365
Series 2009 (Public Safety)	Community Facilities	9,000	06/25/2009	09/01/2039	4.00-5.00%	0.3	7,200
							<u>382,085</u>
HUD Section 108 Note (FMC)	Economic Development	25,810	02/10/2005	08/01/2024	Variable	0.00-0.24	<u>957</u>
City of San Jose Financing Authority							
Lease Revenue Bonds:							
Series 2001F (Convention Center)	Refunding	186,150	07/01/2001	09/01/2022	5.00%	10.53-14.73	89,730
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	4.00-4.70%	1.15-1.61	11,140
Series 2006A (Civic Center Project)	Refunding	57,440	06/01/2006	06/01/2039	4.25-5.00%	0.00-17.44	54,765
Series 2007A (Recreational Facilities)	Refunding	36,555	06/28/2007	08/15/2030	4.13-4.75%	1.22-2.22	24,910
Series 2008C (Hayes Mansion)	Refunding	10,915	06/26/2008	06/01/2027	Variable	0.11-4.57	10,915
Series 2008D (Taxable) (Hayes Mansion)	Refunding	47,390	06/26/2008	06/01/2025	Variable	2.79-3.90	23,540
Series 2008E-1 (Taxable) (Ice Centre)	Refunding	13,015	07/03/2008	06/01/2025	Variable	0.75-1.26	9,110
Series 2008E-2 (Taxable) (Ice Centre)	Refunding	13,010	07/03/2008	06/01/2025	Variable	0.75-1.26	9,100
Series 2008F (Taxable) (Land Acquisition)	Refunding	67,195	06/11/2008	06/01/2034	Variable	1.29-3.17	38,395
Series 2011A (Convention Center)	Convention Center	30,985	04/12/2011	05/01/2042	3.00-5.75%	0.43-2.17	30,555
Series 2013A (Civic Center Project)	Refunding	305,535	05/28/2013	06/01/2039	4.00-5.00%	4.11-21.3	297,775
Series 2013B (Civic Center Garage Project)	Refunding	30,445	06/19/2013	06/01/2039	3.00-5.00%	0.75-1.91	28,970
Revenue Bonds:							
Series 2001A (4th & San Fernando Garage)	Parking Facility	48,675	04/10/2001	09/01/2026	4.50-5.25%	1.90-3.21	<u>27,985</u>
							<u>656,890</u>
Special Assessment Bonds							
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/26/2001	09/02/2023	5.50-5.88%	1.31-2.03	13,505
Special Tax Bonds							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	5.60-5.70%	0.20-0.30	1,760
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2023	5.40-6.00%	0.56-0.87	5,765
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	5.80-6.65%	0.33-0.95	10,125
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	4.60-5.25%	0.64-0.94	6,360
Series 2011 (Convention Center)	Public Infrastructure	107,425	04/12/2011	05/01/2042	5.00-6.50%	1.76-7.71	<u>103,590</u>
							<u>141,105</u>
							<u>\$ 1,181,037</u>
Total Government Activities - Bonds and Notes Payable							
Business-Type Activities							
Norman Y. Mineta San Jose International Airport							
Revenue Bonds:							
Series 2007A (AMT)	Airport Facilities	\$ 545,755	09/13/2007	03/01/2047	5.00-6.00%	5.69-73.50	\$ 527,530
Series 2007B	Airport Facilities	179,260	09/13/2007	03/01/2037	4.25-5.00%	2.44-28.80	172,235
Series 2011A-1 (AMT)	Refunding	150,405	07/28/2011	03/01/2034	3.00-5.75%	3.36-21.12	132,970
Series 2011A-2 (Non-AMT)	Refunding	86,380	07/28/2011	03/01/2034	4.00-5.25%	1.91-12.22	76,430
Series 2011B (Taxable)	Refunding	271,820	12/14/2011	03/01/2041	3.72-5.75%	0.08-27.33	262,790
Series 2012A (Non-AMT)	Refunding	49,140	11/08/2012	03/01/2018	1.53%	8.34-8.59	17,045
Series 2014A (AMT)	Refunding	57,350	10/07/2014	03/01/2026	2.00-5.00%	0.05-9.18	56,185
Series 2014B (Non-AMT)	Refunding	28,010	10/07/2014	03/01/2028	5.00%	7.98-10.37	28,010
Series 2014C (Non-AMT)	Refunding	40,285	10/07/2014	03/01/2031	5.00%	7.30-8.86	<u>40,285</u>
							<u>1,313,480</u>
Clean Water Financing Authority							
Revenue Bonds:							
Series 2005A	Refunding	54,020	10/05/2005	11/15/2016	3.75%	5.13-5.80	5,130
Series 2009A	Refunding	21,420	01/29/2009	11/15/2020	3.00-3.50%	0.07-5.41	<u>21,420</u>
							26,550
State of California - Revolving Fund Loans	Wastewater Facilities	73,566	06/24/1997	05/01/2019	Variable	1.77-4.35	<u>10,399</u>
							<u>36,949</u>
							<u>\$ 1,350,429</u>
Total Business-Type Activity - Bonds and Loan Payable							
Grand Total							\$ 2,531,466

City of San José
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2. Debt Compliance

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

3. Legal Debt Limit and Margin

The City Charter limits bonded indebtedness for General Obligation bonds to 15 percent of the total assessed valuation of all real and personal property within the City. The total assessed value of taxable property on the City's 2015-2016 tax roll was \$155.9 billion, which results in a total debt limit of \$23.4 billion. As of June 30, 2016, the City had \$387,403,000 of General Obligation bonds outstanding which represents approximately 1.7% of the General Obligation bonds' debt limit.

4. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebate liabilities are not reported and paid to the Internal Revenue Service ("IRS") at least every five years. During the current year, the City performed calculations to determine the rebate liabilities for the City's tax-exempt bond issues listed above. However, as no bond issue with a positive rebate liability was due for a fifth-year payment, there was no rebate liability outstanding as of June 30, 2016.

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

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

As of June 30, 2016, the City has recorded approximately \$37,515,000 of deferred inflows of resources and related special assessments receivables in the Special Assessment Districts Fund. These balances consist primarily of property tax assessments and/or special taxes to be collected in the future by the County of Santa Clara for future debt service of the special assessment districts and the community facilities districts.

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

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6. Conduit Debt

The City has issued multi-family housing revenue bonds to provide funds for secured loans to builders of multi-family housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with IRS requirements in order to meet the tax-exempt status, the owner is required to set aside a certain percentage of all units built for very low to moderate-income households. The bonds are payable solely from payments made on the related secured loans. These tax-exempt housing bonds have maturity dates that are due at various dates through September 1, 2047. As of June 30, 2016, the outstanding conduit multi-family housing revenue bonds issued by the City aggregated approximately \$488,739,000.

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

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

Included in long-term debt is \$91,060,000 of variable-rate bonds, comprised of four series (Series 2008C, Series 2008D, Series 2008E and Series 2008F) issued by the Financing Authority. The Financing Authority issued these bonds to provide variable-rate exposure to the debt portfolio and to provide additional flexibility with respect to restructuring or redeeming the debt issued for certain projects. The source of repayment for each of these series is from lease payments from the City to the Financing Authority for the City's lease of the Dolce Hayes Mansion (Series 2008C and Series 2008D), the Ice Centre (Series 2008E) and real property located at 1125 Coleman Avenue in San José (Series 2008F).

In June 2016, the City Council and the Financing Authority Board each took action to authorize the City Manager to negotiate and execute a purchase and sale agreement to sell the Hayes Mansion real property and the associated furniture, fixtures, equipment, vehicles and art for the purchase price of \$47 million and to apply the purchase price proceeds to the redemption of the Series 2008C Bonds and Series 2008D Bonds and other outstanding bonds of the Financing Authority. The negotiations with the proposed purchaser have not concluded and the City is unable to predict if the purchase and sale of the Hayes Mansion real and personal property will be consummated.

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

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The principal balances of the Financing Authority's variable-rate bonds as of June 30, 2016 are as follows (dollars in thousands):

	Privately-Placed Bonds				
	Balance June 30, 2016	Purchaser	Agreement Expiration	Fixed Fee/ Spread	Interest Index Rate
City of San José Financing Authority:					
Lease Revenue Bonds:					
Series 2008C (Hayes Mansion)	\$ 10,915	U.S. Bank, N.A.	12/18/2016	0.530%	SIFMA (Weekly)
Series 2008D (Taxable) (Hayes Mansion)	23,540	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008E (Taxable) (Ice Centre)	18,210	U.S. Bank, N.A.	12/18/2016	0.530%	1-Month LIBOR
Series 2008F (Taxable) (Land Acquisition)	38,395	Bank of America, N.A.	6/26/2017	0.575%	1-Month LIBOR
Total variable rate lease revenue bonds	<u>\$ 91,060</u>				

Prior to the execution of the continuing covenant agreements on December 18, 2013 (for the Series 2008C, 2008D, and 2008E bonds) and June 26, 2014 (for the Series 2008F bonds), the variable-rate lease revenue bonds were publicly-marketed "demand" bonds supported by credit facilities and payable upon demand of the bondholder at a purchase price equal to principal plus accrued interest. Subsequently, the credit facilities were cancelled and the bonds were sold directly to U.S. Bank and BofA and are no longer remarketed on the open market.

The Financing Authority is required to pay a fixed fee, or spread, ranging from 0.530% to 0.575% (as noted above) based on the terms of the applicable governing document. Per the terms of the applicable governing document, the spread is subject to increase in the event that the long-term unenhanced ratings of the Financing Authority's lease revenue bonds are downgraded. The applicable interest rate index plus the fixed fee comprise the combined interest rate that is applied to outstanding principal and billed to the Financing Authority monthly. As of June 30, 2016, the continuing covenant agreements for the Series 2008C/D/E bonds had an expiration date of December 18, 2016 and the continuing covenant agreement for the Series 2008F bonds had an expiration date of June 26, 2017.

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

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

City of San José
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8. Summary of Changes in Long-term Obligations

Governmental Activities - The changes in long-term obligations for the year ended June 30, 2016 are as follows (dollars in thousands):

	July 1, 2015	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Principal Amounts Due Within One Year
Governmental Activities:					
Long-term debt payable:					
General Obligation bonds	\$ 401,735	\$ -	\$ (19,650)	\$ 382,085	\$ 19,655
Issuance premiums/discounts::					
For issuance premiums	5,597	-	(279)	5,318	279
HUD Section 108 loan	1,196	-	(239)	957	149
San Jose Financing Authority					
Lease revenue bonds	553,835	-	(14,660)	539,175	16,465
Issuance premiums/discounts:					
For issuance premiums	42,515	-	(1,780)	40,735	1,780
For issuance discounts	(607)	-	23	(584)	(23)
Lease revenue bonds with reimbursement agreement agreement (Convention Center)	100,260	-	(10,530)	89,730	11,050
Revenue bonds with pledge agreement (Fourth Street and San Fernando Garage)	29,880	-	(1,895)	27,985	1,980
Special assessment and special tax bonds with limited governmental commitment	145,895	-	(4,790)	141,105	5,035
Issuance premiums/discounts:					
For issuance discounts	(1,737)	-	66	(1,671)	(66)
Total long-term debt payable	<u>1,278,569</u>	<u>-</u>	<u>(53,734)</u>	<u>1,224,835</u>	<u>56,304</u>
Other Long-term obligations:					
Hayes Mansion construction loan	1,200	-	-	1,200	-
Lease-purchase agreements	19,173	-	(1,224)	17,949	1,286
NMTC Financing Obligation	19,677	-	(417)	19,260	428
Arbitrage liability	-	-	-	-	-
Accrued vacation, sick leave and compensatory time	65,126	41,469	(33,223)	73,372	34,810
Accrued landfill postclosure costs	6,045	-	(465)	5,580	465
Estimated liability for self-insurance	147,104	14,273	(18,906)	142,471	21,384
Net other postemployment benefits (OPEB) obligation	407,638	17,678	-	425,316	-
Pollution remediation obligation	483	-	(52)	431	-
Total other long-term obligations	<u>666,446</u>	<u>73,420</u>	<u>(54,287)</u>	<u>685,579</u>	<u>58,373</u>
Governmental activities long-term obligations	<u>\$ 1,945,015</u>	<u>\$ 73,420</u>	<u>\$ (108,021)</u>	<u>\$ 1,910,414</u>	<u>\$ 114,677</u>

General Obligation Bonds are issued pursuant to a two-thirds majority voter authorization. In 2000 and 2002, San José voters approved three ballot measures (Measures O and P in 2000 and Measure O in 2002) that authorized the total issuance of \$598,820,000 of general obligation (“GO”) bonds for library, parks and public safety projects. GO bonds are secured by a pledge of the City to levy ad valorem property taxes without limitation of rate or amount. The ad valorem property tax levy is calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. As of June 30, 2016, the City of San José had issued \$589,590,000 of GO bonds with proceeds split for three purposes: library projects (\$205,885,000), parks and recreation projects (\$228,030,000), and public safety projects (\$155,675,000). Total principal and interest remaining on the bonds as of June 30, 2016 is approximately \$564,861,000, with the final payment due on September 1, 2039.

The City did not issue any GO bonds in fiscal year 2016. A total of \$9,230,000 of the authorization remains un-issued for the library (\$5,905,000) and public safety programs (\$3,325,000). The proceeds of those bonds would be used to fund a portion of the library and public safety projects approved by voters in November 2000 and March 2002, respectively. The timing, size, and purpose

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of the issuance of this final series will depend upon the expenditure and encumbrance needs of the various projects to be financed.

Lease Revenue/Revenue Bonds are issued by the Financing Authority primarily to finance various capital improvements and, with the exception of the 2001A Bonds, the financed capital improvements are to be leased to the City and are secured by lease revenue from "lessee" departments in the General Fund, Non-major Governmental Funds, and the SARA. The lease revenue for each fiscal year is generally equal to 100% of annual debt service net of other available funding sources. Total principal and interest remaining on these bonds as of June 30, 2016 are approximately \$992,455,000, with the final payment due on May 1, 2042.

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

- **Convention Center Lease Revenue Bonds with Reimbursement Agreement.** In connection with the issuance of the 2001F Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement, which was assumed by the SARA, under which the SARA is obligated to use redevelopment property tax or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Series 2001F bonds (tax-exempt) mature in 2022 and have an outstanding balance of \$89,730,000 as of June 30, 2016.

Due to SARA's cash flow deficiencies, the City's General Fund paid \$9,800,000 to the SARA in order for the SARA to meet its obligation under the reimbursement agreement to the City.

- **4th and San Fernando Parking Facility Project Pledge Agreement.** In March 2001, the Financing Authority issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the Fourth Street and San Fernando Parking Facility Project. The Agency entered into an Agency Pledge Agreement with the Financing Authority, which was assumed by the SARA, whereby the payments are payable from and secured by surplus "Agency Revenues". Under the terms of the Agency Pledge Agreement, SARA's payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the parking facility. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the former Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution, or indenture pursuant to which the outstanding tax allocation bonds were issued; plus (ii) all legally available revenues of SARA.

SARA makes payments on the Financing Authority Series 2001A bonds pursuant to the amortization schedule attached as Exhibit A to the Agency Pledge Agreement. However, the City records debt payments pursuant to the annual debt service schedule, which results in a timing difference in the amount of \$1,980,000 for balances outstanding as of June 30, 2016. At June 30, 2016, the Financing Authority's bonds payable is \$27,985,000, whereas the corresponding receivable from the SARA is \$26,005,000.

Due to SARA's cash flow deficiencies in fiscal year ended June 30, 2016, the City's Parking System advanced \$1,682,000 to the SARA to make the payment under the Agency Pledge Agreement to the Financing Authority (see Note III.G.3).

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Special Assessment and Special Tax Bonds are issued by the City to finance public improvements in special assessment or tax districts established by the City and are secured by assessments or special taxes levied on properties located within the special districts. The assessments and special taxes, as applicable, are calculated for each fiscal year to generate sufficient revenue to pay 100% of annual debt service net of other available funding sources. Total principal and interest remaining on the bonds as of June 30, 2016 is approximately \$264,251,000, with the final payment due on May 1, 2042.

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

The City entered into a \$19,300,000 taxable Lease with the Lessor on May 29, 2014 to finance the acquisition and installation of energy conservation equipment at City-owned facilities including community centers, pools, joint community centers/libraries, the South Service Yard, the Museum of Art, and, most significantly, for the replacement of streetlights. Due to unanticipated cost increases of the streetlight replacement project, most of the Lease proceeds have been expended on the streetlight replacement project. Any unexpended Lease proceeds at the completion of the streetlight replacement project will be used to pay debt service on the Lease. The other projects that were to be funded under the Lease will be financed through the Finance Authority's Lease Revenue Commercial Paper Program described in Note III.F.11. The total blended interest rate for the 20-year taxable Lease was 5.01%, and interest rates ranged from 3.21% for improvements with 5-year useful lives to 6.01% for improvements with 20-year useful lives. Total principal and interest remaining on the Lease as of June 30, 2016 is approximately \$23,759,000, with the final payment due on June 1, 2034.

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

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Business-Type Activities - The changes in long-term obligations for the year ended June 30, 2016 are as follows (dollars in thousands):

	July 1, 2015	Additional Obligations and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Amounts Due Within One Year
Business-Type Activities:					
Norman Y. Mineta San Jose International Airport:					
Revenue bonds	\$ 1,337,140	\$ -	\$ (23,660)	\$ 1,313,480	\$ 24,700
Issuance premiums/discounts::					
For refunding	-	-	-	-	-
For issuance premiums	21,827	-	(88)	21,739	83
For issuance discounts	(9,702)	-	62	(9,640)	(72)
Clean Water Financing Authority:					
Revenue bonds	32,345	-	(5,795)	26,550	5,855
Issuance premiums/discounts::					
For issuance premiums	823	-	(235)	588	167
State of California - Revolving Fund Loan	14,597	-	(4,198)	10,399	4,275
Accrued vacation, sick leave and compensatory time	6,859	4,241	(3,946)	7,154	5,518
Estimated liability for self-insurance	6,924	998	(959)	6,963	1,231
Net other postemployment benefits (OPEB) obligation	41,890	1,036	-	42,926	-
Pollution remediation obligation	714	-	(714)	-	-
	<u>\$ 1,453,417</u>	<u>\$ 6,275</u>	<u>\$ (39,533)</u>	<u>\$ 1,420,159</u>	<u>\$ 41,757</u>
Business-type long-term obligations					

Airport Revenue Bonds are issued primarily to finance the construction of capital improvements at the Norman Y. Mineta San José International Airport. Pursuant to the Airport's Master Trust Agreement, the City has irrevocably pledged the general airport revenues and certain other funds held or made available under the Airport's Master Trust Agreement, first to the payment of maintenance and operation costs of the Airport, and second to the payment of principal and premium, if any, and interest on the bonds. General airport revenues generally include all revenues, income, receipts and monies derived by the City from the operation of the Airport with the exception of certain expressly excluded revenues. The net revenues available to pay debt service in fiscal year ended June 30, 2016 totaled \$151,238,000, which is comprised of \$72,691,000 of net general airport revenues and \$78,547,000 of other available funds. Bond debt service payable from general airport revenues totaled \$70,623,000, which is net of \$24,829,000 of bond debt service paid from the accumulated passenger facility charges ("PFC").

The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service for each fiscal year will be at least 125% of annual debt service for such fiscal year. Under the Master Trust Agreement, "debt service" means for any specified period the sum of (a) the interest falling due on any then outstanding current interest bonds, assuming that all principal installments are paid when due, but excluding any interest funded from the proceeds of any series of bonds and applied toward payment of interest on such bonds, and (b) the principal installments payable on any then outstanding bonds. Under the Master Trust Agreement, annual debt service excludes Available PFC Revenues, as defined in the Master Trust Agreement, for such fiscal year. Total principal and interest remaining on the bonds as of June 30, 2016 is approximately \$2.5 billion, with the final payment due on March 1, 2047.

As of June 30, 2016, the reserve requirement in the general account of the Bond Reserve Fund is satisfied, in part, by approximately \$4,300,000 surety bond from Ambac Indemnity Corporation (currently known as Ambac Assurance Corporation, the principal operating subsidiary of Ambac Financial Group Inc., "Ambac") that expires March 1, 2018. A surety bond, previously provided by National Public Finance Guaranty Corporation ("NPF"), as successor to MBIA Insurance Corporation in the amount of approximately \$6,600,000 expired on March 1, 2016. The ratings of Ambac and NPF were downgraded or withdrawn subsequent to the deposit of the respective surety

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bonds in the general account. The Master Trust Agreement does not require that the rating of any surety bond held in the general account be maintained after the date of deposit.

In connection with the issuance of the Airport Revenue Bonds Series 2014A, 2014B and 2014C in October 2014, the City deposited additional cash in the amount of \$6,600,000 into the general account held with the trustee to account for the expiration of the NCFG surety bond in March 2016. If no additional bonds are issued and no additional amount is deposited in the general account prior to March 1, 2018, the City would have to make a deposit to the general account from the accumulated Airport surplus funds or provide new qualified reserve facility to replace the amount of the expiring Ambac surety bond. The City will also be obligated to replenish the general account prior to the expiration date of the Ambac surety bond in the event of non-payment or cancellation of the Ambac surety bond including upon the liquidation of Ambac. See Note III.F.10 regarding Ambac Financial's filing for bankruptcy protection and other proceedings.

San José-Santa Clara Clean Water Financing Authority Sewer Revenue Bonds are issued primarily to finance the construction of capital improvements at the Plant and the City has pledged its net system revenues as security for its obligations under the Improvement Agreement to make base payments and additional payments with respect to the Clean Water Financing Authority sewer revenue bonds. The net system revenues available to pay debt service in the fiscal year ended June 30, 2016 totaled approximately \$94,107,000. Bond debt service, plus debt service on the State Revolving Fund Loans (subordinate to the outstanding Clean Water Financing Authority sewer revenue bonds), payable from net system revenues in the fiscal year totaled approximately \$11,379,000. The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service on the outstanding parity obligations under the Improvement Agreement. The City's allocable percentage of annual debt service is currently 100%. Total principal and interest remaining on (1) the bonds as of June 30, 2016 is approximately \$29,245,000, with the final payment due on November 15, 2020 and (2) the loans as of June 30, 2016 is approximately \$10,732,000 with the final payment due on May 1, 2019.

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9. Annual Requirements to Maturity

The annual requirements to amortize all bonds and loans outstanding as of June 30, 2016 are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Governmental Activities					
	City of San José General Obligation Bonds and HUD Loan [1]		City of San José Financing Authority Bonds [1,2,3]		Special Assessment & Tax Bonds with Limited Governmental Commitment	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 19,804	\$ 17,851	\$ 29,495	\$ 28,111	\$ 5,035	\$ 8,476
2018	19,900	16,964	31,875	26,972	5,305	8,204
2019	19,900	16,081	35,610	25,658	5,580	7,918
2020	19,900	15,176	36,180	24,185	5,885	7,613
2021	19,748	14,260	38,025	22,657	6,205	7,287
2022 - 2026	98,295	57,264	157,545	91,958	27,230	31,280
2027 - 2031	98,265	33,354	117,550	65,822	20,905	25,059
2032 - 2036	73,215	11,114	122,150	40,016	25,215	17,792
2037 - 2041	14,015	728	86,295	10,062	32,035	9,015
2042 - 2046	-	-	2,165	124	7,710	501
Total	<u>\$ 383,042</u>	<u>\$ 182,792</u>	<u>\$ 656,890</u>	<u>\$ 335,565</u>	<u>\$ 141,105</u>	<u>\$ 123,145</u>

Fiscal Year Ending June 30,	Governmental Activities		Business-Type Activities			
	Lease-Purchase Agreement		Airport Revenue Bonds [3]		Wastewater Treatment System Revenue Bonds and Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 1,286	\$ 884	\$ 24,700	\$ 71,022	\$ 10,130	\$ 1,122
2018	1,352	818	25,910	70,107	9,498	847
2019	1,420	750	24,280	69,104	6,737	591
2020	1,460	678	25,660	67,873	5,175	352
2021	1,500	605	27,620	66,562	5,410	116
2022 - 2026	8,723	1,801	165,120	309,657	-	-
2027 - 2031	1,808	238	240,290	259,735	-	-
2032 - 2036	400	36	487,500	170,272	-	-
2037 - 2041	-	-	242,290	49,693	-	-
2042 - 2046	-	-	40,495	10,456	-	-
2047 - 2051	-	-	9,615	577	-	-
Total	<u>\$ 17,949</u>	<u>\$ 5,810</u>	<u>\$ 1,313,480</u>	<u>\$ 1,145,058</u>	<u>\$ 36,950</u>	<u>\$ 3,028</u>

[1] Projected interest payments for variable rate debt are based on the following rates in effect on June 30, 2016:
- HUD Loan (0.87305%)
- Financing Authority Lease Revenue Bonds: Series 2008C (0.92%), Series 2008D (0.987%), Series 2008E (0.987%), and Series 2008F (1.0317%)

[2] Includes fixed spread/fee in addition to index rate in effect on June 30, 2016. Does not include projection of future spreads/fees or expenses.

[3] Does not include commercial paper notes.

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

10. Ambac Assurance Surety Bonds Held in Bond Reserve Funds

Ambac Assurance, a subsidiary of Ambac Financial, issued a reserve fund surety bond that is on deposit in the General Account of the Bond Reserve Fund, securing the Series 2011A-1, Series 2011A-2, Series 2012A, and Series 2014A/B/C Airport Revenue Bonds. According to the Master Trust Agreement for these bonds, in the event that such surety bond for any reason terminates or expires, and the remaining amount on deposit in the General Account is less than the Required Reserve (as defined in the Master Trust Agreement), the Airport is to address such shortfall by delivering to the trustee a surety bond or a letter of credit meeting the criteria of a Qualified Reserve

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Facility under the Master Trust Agreement, or depositing cash to the General Account in up to twelve equal monthly installments.

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

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

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

11. New Debt Issuances and Short-Term Debt Activities

Governmental Activities

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

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

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

The Financing Authority issues the CP Notes under State law pursuant to an Amended and Restated Trust Agreement between the Financing Authority and Wells Fargo Bank, National Association (as amended and supplemented, the “Trust Agreement”) and an Amended and Restated Issuing and Paying Agent Agreement between the Financing Authority and Wells Fargo Bank, National

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Association. Barclays Capital Inc. currently serves as the dealer for the CP Notes pursuant to an Amended and Restated Commercial Paper Dealer Agreement. The City has leased to the Financing Authority various City-owned facilities pursuant to a Site Lease, as amended (the "Site Lease"). The Financing Authority subleased these same facilities back to the City pursuant to a Sublease, as amended (the "Sublease") in exchange for the rental payments, which support repayment of the CP Notes. The facilities subject to the Site and Sublease (pursuant to the Fifth Amendments to the Site Lease and to the Sublease, both dated as of November 1, 2015, are: the Animal Care Center, Fire Station No. 1, Fire Station No. 3, the Police Communications Center, the South San José Police Substation, and the Tech Museum (the "Pledged Properties").

The annual commitment fee payable to each Bank equals 0.52% per annum of the daily average Stated Amount of the Letter of Credit; provided, however, that in the event that the long-term unenhanced lease revenue debt ratings of the City are downgraded as specified in the agreements with the Banks, the annual commitment fee shall increase from a range of 0.62% to a maximum of 2.37%, depending on the level of rating downgrade.

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

Interest on any Term Loan (draws that are not reimbursed by the City one hundred eighty-one days after a Principal Advance or the Letter of Credit Expiration Date, whichever comes first) are payable at the Term Loan Rate from the date of such Term Loan Conversion Date, payable monthly in arrears on the first day of each calendar month and on the date on which the final installment of the principal of the Term Loan is payable. The principal amount of each Term Loan is amortized over such a three-year period; provided, however, that the unpaid amount of each Term Loan shall be paid by the City in each year only to the extent of the then fair rental value with respect to the Pledged Property subject to the Sublease for such Base Rental Period, and to the extent not so repaid, such Term Loan shall be paid by the City during each subsequent Base Rental Period, to the extent owed, to the extent of the then fair rental value with respect to the Components subject to the Sublease for each such Base Rental Period, and such Term Loan shall continue to be an obligation of the City pursuant to the Sublease to be paid on or before the expiration of the three-year amortization period. Per the terms of the Letter of Credit and Reimbursement Agreements, the Banks have the right to require that the rent payable for any of the Pledged Properties be redetermined in order to increase the amount of the rent payable. Additionally, each of the Letter of Credit and Reimbursement Agreements specifies other terms in order to promote prompt repayment to the Banks.

As of June 30, 2016, \$28,040,000 of tax-exempt commercial paper notes was outstanding at an interest rate of 0.49% and \$9,477,000 of taxable commercial paper notes was outstanding at an interest rate of 0.72%. The changes in commercial paper notes during the fiscal year ended June 30, 2016 are as follows (dollars in thousands):

July 1, 2015	Deletions	June 30, 2016
\$43,843	\$6,326	\$37,517

2015 Tax and Revenue Anticipation Note

The City issued a short-term note (the "2015 Note") to facilitate the prefunding of employer retirement contributions in fiscal 2016. The \$100,000,000 note was purchased by Bank of America, N.A. on July 1, 2015 at a variable interest rate. Security for repayment of the 2015 Note was a pledge of the City's 2015-2016 secured property tax plus all other legally available General Fund revenues available to the City, if required. The City fully repaid the 2015 Note on March 8, 2016.

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Business-Type Activities

Airport Commercial Paper Notes Payable

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

In February 2014, the City entered into a letter of credit and reimbursement agreement (the Reimbursement Agreement) with Barclays Bank PLC (“Barclays”). Pursuant to the Reimbursement Agreement, Barclays issued a \$65,000,000 LOC supporting the Subordinated Commercial Paper Notes, effective on February 11, 2014. On September 16, 2015, the City reduced the stated amount of the LOC from \$65,000,000 to approximately \$41,000,000. The LOC provided by Barclays is stated to expire on February 10, 2017, unless such letter of credit is extended or terminated earlier pursuant to its terms.

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

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

In connection with the LOC issued by Barclays, the City entered into a fee letter with Barclays to specify the facility fee rate and other charges payable by the Airport. The facility fee rate under the fee letter was established based on the underlying credit rating of the Airport Revenue Bonds and is applied to the stated amount of the LOC. The facility fee rate is subject to increase in the event that the underlying credit rating of the Airport Revenue Bonds is withdrawn, suspended, or downgraded or upon an event of default under the Reimbursement Agreement. The facility fee rate in effect is 0.425% as of June 30, 2016.

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The change in Airport commercial paper notes payable during fiscal year 2016 was as follows (dollars in thousands):

<u>July 1, 2015</u>	<u>Deletions</u>	<u>June 30, 2016</u>	<u>Interest Rate</u>
\$37,912	\$3,240	\$34,672	0.52% - 0.54%

12. Landfill Postclosure Costs

The City has five closed landfills for which postclosure and monitoring services may be required for approximately a 30 year period, which began in fiscal year 1996, coinciding with the closure of the last landfill. An estimated liability of \$5,580,000 related to the closed landfills is recorded in the government-wide Statement of Net Position as of June 30, 2016. The City's Environmental Compliance Officer performs an annual evaluation of the aforementioned liability. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The City does not own or operate any open landfills at this time.

13. Estimated Liability for Self-Insurance

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees, unemployment claims, and employee health and dental insurance. During fiscal year 2016, the City maintained an all-risk property policy including boiler and machinery exposures, coverage for loss due to business interruption and flood. The City did not carry earthquake insurance as it was not available at reasonable rates. A summary of insurable coverage for the policy period October 1, 2015 to October 1, 2016 is provided below:

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

For the policy period of October 1, 2015 to October 1, 2016, the City maintained an airport liability policy covering the Airport, including operation of vehicles on premises, which provides a \$200,000,000 combined single limit for bodily injury and property damage subject to a deductible of \$0 each occurrence and annual aggregate, with a sublimit of \$50,000,000 each occurrence and in the annual aggregate for personal injury, and a sublimit of \$100,000,000 each occurrence and in the annual aggregate for war liability. A separate automobile policy provided coverage for the off-premise operations of Airport vehicles including shuttle bus fleets with a limit of \$1,000,000 per occurrence, combined single limit for bodily injury and property damage, and no deductible. Physical damage coverage was available for the Airport Shuttle Bus Fleet and is subject to a \$10,000 comprehensive and \$25,000 collision deductible. As part of general support services, the City charges the Airport for the cost of liability and property insurance coverage. Settled claims have not exceeded the City's commercial insurance coverage in any of the past three years.

For the policy period of December 18, 2015 to December 18, 2016, the City purchased government fidelity/crime coverage for City losses arising from employee bad acts. Coverage is for financial or property losses and provides a \$5,000,000 per occurrence limit for losses resulting from employee

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theft, forgery or alteration and inside the premises- theft of money and securities, and provides for a \$1,000,000 per occurrence limit for computer fraud, funds transfer fraud, money orders and counterfeit money. All claims have a \$100,000 deductible per occurrence.

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

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2016. The City Attorney and, with respect to workers' compensation claims, the City's Department of Human Resources have reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or range of potential loss to the City. The City has included a provision for losses in its claims liability for loss contingencies that are both probable and can be reasonably estimated.

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

Liability as of June 30, 2014	\$	142,526
Claims and changes in estimates during 2015		34,091
Claims payments		(22,589)
		154,028
Liability as of June 30, 2015		154,028
Claims and changes in estimates during 2016		15,271
Claims payments and other adjustments		(19,865)
		\$ 149,434

Owner Controlled Insurance Programs - On March 31, 2004, the City bound certain liability insurance coverage for the major components of the Airport's North Concourse Project through an owner-controlled insurance program ("OCIP") with Chartis, formerly American International Group ("AIG"), AIU Holdings, Inc. and AIU LLC ("AIU"). The OCIP is a single insurance program that provides commercial general liability, excess liability and worker's compensation insurance coverage for construction jobsite risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

The City was also required to establish a claims loss reserve for the North Concourse Project in the aggregate amount of \$3,900,000 available in a cash working fund. The full amount of the claims loss reserve had been deposited with the insurance carrier and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. The claims loss reserve funds are available to Chartis to pay claims within the City's deductible of up to \$250,000 per occurrence to an aggregate maximum loss exposure within coverage limits to the City of \$3,900,000. The City was able to negotiate the return of a large portion of the unused claims reserve in advance of the 10-year coverage term. Since March 2010, Chartis has returned \$2,599,500 to the Airport. The balance of the North Concourse reserve fund as of June 30, 2016 is \$851,000.

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The North Concourse Project has been completed and the policies expired December 31, 2008. Closeout procedures on the North Concourse Project are in process. Chartis will continue to hold the remaining funds in the claims loss reserve fund until such time as the exposure to risk of claims ceases or the City opts to cash out the remaining funds in exchange for accepting responsibility for potential future claims.

On March 15, 2007, the City obtained additional liability insurance through Chartis for major components of the Airport's Terminal Airport Improvement Program ("TAIP") through another OCIP (the TAOP OCIP). The coverage for this program is as follows:

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

The liability under the TAIP OCIP is based upon an estimated payroll of \$92,500,000 for the covered projects and a construction period of 45 months, commencing on March 15, 2007 through December 31, 2010. The terms of the TAIP OCIP require the City to fund a claims loss reserve fund with Chartis in the amount of \$8,900,000. The claims loss reserve fund is available to Chartis to pay claims within the City's deductible subject to an aggregate maximum loss exposure within coverage limits to the City of \$8,900,000. The City was able to negotiate to fund 74% of the claims loss reserve and interest generated remains in the fund. The full amount of \$6,500,000 was deposited with Chartis in fiscal year 2009 and was recorded as advances and deposits in the accompanying Airport enterprise fund statement of net position. Since August 2013, as part of the annual loss reserve analysis by Chartis, a total amount of \$1,629,000 has been returned to the Airport. The balance of the TAIP reserve fund as of June 30, 2016 is \$2,116,000.

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

14. Net Other Postemployment Benefits (OPEB) Obligation

The City implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City did not have a net OPEB obligation at transition, July 1, 2007. The PFDRP and FCERS calculated a net OPEB obligation in accordance with GASB 45 as discussed in Note IV.A.3. At June 30, 2016, the City recorded net OPEB obligations totaling \$468,242,000 in the government-wide financial statements, of which \$425,316,000 is in governmental activities and \$42,926,000 is in business-type activities.

15. Pollution Remediation Obligations

The City is currently responsible for the management and cleanup of pollution remediation activities at several City sites including three active leaking petroleum storage tank sites: Fire Station #5, Las Plumas Warehouse, Family Shelter. As discussed in Note IV.B.1., remediation work related to fuel farms at the Airport was completed as of June 30, 2016. Although the City has significant experience in estimating these types of cleanups, the calculation of the expected outlays related to this pollution remediation is based on estimates provided by both City engineers and consultants hired by the City. The amount of the estimated pollution remediation liability assumes that there will be no major

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increases in the cost of providing these cleanup services. As of June 30, 2016, the government-wide statement of net position reported a net pollution remediation obligation in the amount of \$431,000 in governmental activities.

16. New Market Tax Credit (“NMTC”) Financing Obligation

In connection with the City’s NMTC financing transaction to construct the San José Environmental Innovation Center (“EIC”), the City has a long-term lease obligation for its possession and beneficial use of the EIC facility. This master lease agreement commenced on November 8, 2011 has a 35-year term with a one-time renewal option of 10 years. Rental payment made by the City for the use of the EIC facility for the year ended June 30, 2016 was \$417,000. The future minimum lease payments anticipated under the master lease agreement, as of June 30, 2016, are as follows (in thousands):

Fiscal Year Ending June 30,	Amount
2017	\$ 428
2018	438
2019	449
2020	461
2021 - 2025	2,482
2026 - 2030	2,811
2031 - 2035	3,183
2036 - 2040	3,603
2041 - 2045	4,078
2046 - 2047	1,327
Total	<u>\$ 19,260</u>

G. Interfund Transactions

The composition of interfund balances as of June 30, 2016, with explanations of transactions, is as follows (dollars in thousands):

1. Due from/Due to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 1,450 (1)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	3,696 (2)
		<u>\$ 5,146</u>

(1) \$1,004 represents accrual of gas tax transfers, \$25 represents loan payment for convention and cultural facilities, \$421 represents accrual of construction and conveyance tax transfer

(2) Represents short-term borrowing for working capital

2. Advances to/Advances from other funds

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

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

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3. Long-term Receivables from SARA

On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of \$2,050,000,000 of property tax increment in county Supplemental Educational Revenue Augmentation Funds ("SERAF") to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's SERAF obligation was \$62,200,000 in fiscal year 2009-2010 and \$12,800,000 in fiscal year 2010-2011. Payments were made by May 10 of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of \$74,816,000 to make the SERAF payments ("SERAF Loan"). Sources of the loan were from the City's Low and Moderate Income Housing Fund (\$64,816,000) which was specifically authorized by the legislation, and idle moneys from City special funds (\$10,000,000). The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA. As such, the \$10,000,000 portion of the SERAF Loan and its related accumulated interest in the amount \$160,000 from the City made by funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA's extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of \$2,940,000 was also invalidated in 2012.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan made from the Low and Moderate Income Housing Asset Fund administered by the City in the amount of \$52,000,000 should not be reported in the ROPS as an enforceable obligation.

On May 26, 2016, the Oversight Board approved the repayment schedule for the SERAF Loan borrowed in 2011 in the amount of \$12,816,000 plus accrued interest, and also approved a partial reinstatement of the Loan Agreement to restore the moneys from the City special funds. Additionally, the Oversight Board determined that the remaining portion of the SERAF Loan borrowed in 2010 in the amount of \$52,000,000 plus accrued interest in the amount of \$905,000 is not an enforceable obligation. As a result, the Low and Moderate Income Housing Asset Fund wrote off a portion of the SERAF Loan in the amount of \$52,905,000. The General Fund paid \$10,000,000 plus interest to the City special funds that had funded a portion of the SERAF Loan in fiscal year 2014-2015. Consequently, the General Fund has reinstated an advance to the SARA for portion of the SERAF Loan in the amount of \$10,000,000 of principal and \$217,000 of accrued interest in fiscal year 2015-2016. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

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As of June 30, 2016, total long-term receivables from SARA are as follows (dollars in thousands):

Description	
Advances receivable from SARA:	
SERAF Loan	\$ 23,246 (1)
Housing obligations funded by commercial paper proceeds	9,477 (2)
Other long-term receivables from SARA:	
Revenue bonds with pledge agreement	26,005 (3)
Lease revenue bonds with reimbursement agreement	89,730 (4)
Reimbursement advance	22,249 (5) *
Total long-term receivables from SARA	\$ 170,707

(1) The amount includes \$13,029,000 from Low and Moderate Income Housing Asset Fund and \$10,217,000 from the General Fund.

(2) The Financing Authority has a receivable from SARA, which assumed the obligation from the Low and Moderate Income Housing Asset Fund, related to the commercial paper proceeds used for housing activities in the amount of \$9,341,000, and accrued interest from the Financing Authority of \$136,000.

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

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

(5) The long-term receivables related to advances to SARA under the Reimbursement Advance are as follows: \$6,284,000 from the Parking System for the 2001A bond debt service payments and accrued interest; \$9,800,000 from the General Fund for the 2001F bond debt service payments and accrued interest; \$1,615,000 and \$4,550,000 from the General Fund for ERAF payments and administrative costs for SARA, respectively.

* The amount includes \$6,095,000 and \$172,000 from the General Fund and the Low and Moderate Income Housing Asset Fund, respectively, for administrative and support service costs. An allowance for collectability was recorded for both amounts.

4. Long-term Advances from SARA

The City has a payable and SARA has a receivable related to an Agency advance of a portion of a loan made by the City's Housing Department to a third party for a transitional housing project. The SARA is entitled to 24.5% of the total loan repayment and therefore has a long-term receivable of \$459,000 due from the City as of June 30, 2016.

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5. Transfers in/Transfers out

Transfers are indicative of funding for capital projects, lease payments or debt service and subsidies of various City operations. The following schedules summarize the City's transfer activity for the year ended June 30, 2016 with explanations of transactions (dollars in thousands):

Between governmental and business-type activities:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General fund	Municipal Water System	\$ 22 (1)
Housing Activities	Parking System	31 (2)
Norman Y. Mineta San José International Airport	General Fund	128 (3)
Wastewater Treatment System	General Fund	387 (4)
	Nonmajor Governmental Funds	2,033 (5)
Municipal Water System	General Fund	28 (6)
	Nonmajor Governmental Funds	134 (7)
Parking System	General Fund	819 (8)
	Nonmajor Governmental Funds	199 (9)
	Internal Service Funds	5 (10)
		<u>\$ 3,786</u>

- (1) *Transfer for the overpayment of late fee collections from water utility customers*
- (2) *Transfer for costs associated with availability of public usage facilities in San José downtown*
- (3) *Transfer for payroll system upgrade*
- (4) *Transfer for administrative costs*
- (5) *Transfer for City Hall debt service payments*
- (6) *Transfer for late fee collections from water utility customers*
- (7) *Transfer for City Hall debt service payments*
- (8) *Transfer of San José Arena parking revenue*
- (9) *Transfer of \$121 for City Hall debt service payments and \$78 for the Downtown Property and Business Improvement District*
- (10) *Transfer for operating expenses*

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Between governmental activities:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	San José Financing Authority Debt Service	\$ 1,643 (1)
	Nonmajor Governmental Funds	25,381 (2)
	Internal Service Funds	1,000 (3)
Housing Activities	General Fund	4 (4)
	Nonmajor Governmental Funds	42 (5)
Low and Moderate Income Housing Asset	General Fund	25 (6)
	Nonmajor Governmental Funds	379 (7)
Special Assessment Districts	General Fund	162 (8)
	San José Financing Authority Debt Service	3,813 (9)
San José Financing Authority Debt Service	Special Assessment Districts	12 (10)
Nonmajor Governmental Funds	General Fund	8,319 (11)
	Nonmajor Governmental Funds	18,473 (12)
	San José Financing Authority Debt Service	34,028 (13)
Internal Service Funds	General Fund	381 (14)
	Nonmajor Governmental Funds	171 (15)
		<u>\$ 93,833</u>

- (1) *Transfer for debt service payment for the 2008F bond series*
(2) *Transfer of \$18,186 for City Hall debt service, \$7,195 for debt service payments, operations, and subsidies*
(3) *Transfer to fund vehicle and fleet replacement purchases*
(4) *Transfer for planning and administrative expenditures*
(5) *Transfer for production, improvement, or preservation of low- and moderate-income housing*
(6) *Transfer for planning and administrative expenditures*
(7) *Transfer for City Hall debt service payment*
(8) *Transfer for administrative services*
(9) *Transfer for interest, principal and fees for the Series 2011 Convention Center bonds payments*
(10) *Transfer for interest, principal and fees for payments*
(11) *Various transfers for operations, interest earnings, and capital projects*
(12) *Transfer of \$3,153 for City Hall debt service payments and \$15,320 for operations, capital projects, and project savings*
(13) *Transfer of \$8 for fees reimbursement and \$34,020 for debt service payments*
(14) *Transfer of \$22 for interest income, \$20 for operations, and \$339 to close out the Repair and Demolition Fund*
(15) *Transfer for City Hall debt service payment*

H. Deferred Inflows of Resources

As of June 30, 2016, total deferred inflows of resources in the governmental funds related to the following unavailable resources (dollars in thousands):

<u>Description</u>		
General Fund loans receivable	\$	10,217
Housing Activities loans receivable		19,768
Low and Moderate Income Housing Asset loans receivable		5,615
Special Assessments receivables		37,515
Community Development Block Grant (CDBG) loans receivable		1,407
Total deferred inflows of resources	<u>\$</u>	<u>74,522</u>

City of San José
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I. Governmental Fund Balances

As of June 30, 2016, total fund balances for the City's major and nonmajor governmental funds are as follows (dollars in thousands):

	General Fund	Housing Activities	Low & Moderate Income Housing Asset Fund	Special Assessment Districts	San José Financing Authority Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term Receivable	-	-	-	-	-	-	-
Advances & Deposits	186	-	-	5	-	238	429
Subtotal	186	-	-	5	-	238	429
Restricted for:							
Affordable Housing	-	86,377	348,460	-	-	-	434,837
Animal Shelter Project	108	-	-	-	-	-	108
Capital Projects & Improvements	857	-	-	44,263	-	227,913	273,033
Employment/ Training Services	-	-	-	-	-	1,214	1,214
Drug Abuse Prevention & Control	-	-	-	-	-	4,189	4,189
Community Development Services	-	-	-	-	-	4,886	4,886
Crime Prevention & Control	300	-	-	-	-	-	300
Library Services & Facilities	-	-	-	-	-	11,747	11,747
Small Business Loans	-	-	-	-	-	7	7
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	73,504	73,504
Underground Utility Projects	-	-	-	-	-	5,378	5,378
Storm Drainage Projects	-	-	-	-	-	50,649	50,649
Supplemental Law Enforcement Services	-	-	-	-	-	29	29
Debt Service	-	-	-	-	17,825	33,292	51,117
Subtotal	1,265	86,377	348,460	44,263	17,825	412,808	910,998
Committed to:							
Affordable Housing	-	-	-	-	-	-	-
Building Development Fee Program	15,420	-	-	-	-	-	15,420
Capital Maintenance	-	-	-	-	-	-	-
Capital Projects and Improvements	16,286	-	-	-	-	1,541	17,827
Parks, Recreation, & Neighborhood Development	-	-	-	-	-	2,597	2,597
Development Enhancement	-	-	-	-	-	375	375
Convention Center, Auditorium, Theaters	-	-	-	-	-	12,532	12,532
Employee Compensation Planning	7,876	-	-	-	-	-	7,876
Fire Development Fee Program	5,166	-	-	-	-	-	5,166
Development Fee Program Technology	295	-	-	-	-	-	295
Residential Program Administration	-	-	-	-	-	1,845	1,845
Government Functions/Services	17,413	-	-	-	-	-	17,413
Libraries	-	-	-	-	-	-	-
Police Department Staffing	1,550	-	-	-	-	-	1,550
Public Safety	2,902	-	-	-	-	-	2,902
Community Development Services	8,355	-	-	-	-	8,244	16,599
Fee Supported Programs- Public Works	3,721	-	-	-	-	-	3,721
Sanitation Projects	14	-	-	-	-	28,301	28,315
Sick Lv Pmt Upon Retir	6,000	-	-	-	-	-	6,000
Subtotal	84,998	-	-	-	-	55,435	140,433
Assigned to:							
Financing Authority Debt Service	3,297	-	-	-	-	-	3,297
SARA Debt Service	26,182	-	-	-	-	-	26,182
Development Enhancement	-	-	-	-	-	20	20
Community & Culture Projects	-	-	-	-	-	4,020	4,020
Hayes Mansion Operations	-	-	-	-	-	12,582	12,582
Ice Center Operations	-	-	-	-	-	-	-
Loans to Other Agencies	1,700	-	-	-	-	-	1,700
Capital Projects & Improvements	-	-	-	-	-	66,163	66,163
San Jose Arena Projects	-	-	-	-	-	-	-
Government Functions/Services	136,060	-	-	-	-	-	136,060
Subtotal	167,239	-	-	-	-	82,785	250,024
Unassigned							
	65,351	-	-	-	-	-	65,351
Total Fund Balance	\$ 319,039	\$ 86,377	\$ 348,460	\$ 44,268	\$ 17,825	\$ 551,266	\$ 1,367,235

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City Reserves Policy. The City adopted the Reserves Policy in October 2004. It formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. A contingency reserve fund was established in the General Fund to account for one-time purposes or as part of multi-year financial plan to balance the budget and avoid operating deficits. In addition, cash and emergency reserve funds were established by the City Charter to address known but unspecified expenses and emergency needs. The minimum requirements for each fund were also established accordingly. The Reserves Policy was amended in May 2013.

The **Contingency Reserve Fund** was created to meet unexpected circumstances arising from financial and/or public emergencies that require immediate funding that cannot be met by any other means. The policy established a minimum of three percent of the operating budget as the reserve balance. Any use of the General Fund Contingency Reserve shall require a two-third vote of approval by the City Council. As of June 30, 2016, the contingency amount accounts for \$34,500,000 of the unassigned fund balance.

The **Cash Reserve Fund** was created for the payment of any authorized expenditures of the City for any fiscal year in anticipation of and before the collection of taxes and other revenues of the City for such fiscal year, and for the payment of authorized expenses of the City for any fiscal year, which became due and payable and must be paid prior to the receipt of tax payments and other revenues for such fiscal year. A reserve shall be built up in said fund from any available sources other than restricted sources in an amount which the Council deems sufficient for said purposes. As of June 30, 2016, the cash reserve amount accounts for \$6,000 of the unassigned fund balance.

The **Emergency Reserve Fund** was created for the purpose of meeting any public emergency involving or threatening the lives, property or welfare of the people of the City or property of the City. A reserve shall be built up in said fund from any available sources, other than restricted sources, in an amount which the Council deems desirable. As of June 30, 2016, the emergency reserve amount accounts for \$3,392,000 of the unassigned fund balance.

IV. Other Information

A. Defined Benefit Retirement Plans

A. 1. City Sponsored Defined Benefit Pension Plan

1. General Information about the Pension Plans

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

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

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The separately issued annual reports of PFDRP and FCERS, together with the City's Municipal Code Title 3 chapters 3.28 and 3.36, provide more detailed information about the Retirement Systems. Those reports may be obtained from the City of San José Office of Retirement Services, 1737 North First Street, Suite 600, San José, California 95112.

Benefits

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

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

On June 5, 2012, San José voters adopted Measure B, which enacted the Sustainable Retirement Benefits and Compensation Act ("Measure B"). Measure B amended the City Charter to, among other changes, (1) increase pension contribution requirements for current employees effective June 23, 2013; (2) require the City to establish an alternative voluntary plan with reduced benefits for current employees (the "Voluntary Election Plan" or "VEP") subject to Internal Revenue Service (IRS) approval; (3) place limitations on disability retirements; (4) authorize the City Council to temporarily suspend the cost of living adjustments if the City Council adopts a resolution declaring a fiscal and service level emergency; (5) require the elimination of the Supplemental Retirement Reserve within the Retirement Systems; (6) codify in the City Charter contribution requirements for current employees for the retiree health and dental benefits and provide for a reservation of rights for the City Council to terminate or modify any retiree healthcare plan; (7) require the establishment of Tier 2 plans for new employees within the Retirement Systems; and (8) reserve to the voters the right to approve future changes to retirement benefits.

Significant portions of Measure B are currently subject to legal challenge by bargaining units representing current employees and retirees. Additionally, various bargaining units representing current employees have filed unfair labor practice charges with the California Public Employment Relations Board related to Measure B and other lawsuits related to Measure B and changes made to retiree healthcare benefits are pending. The status of the legal challenges to Measure B and settlement of these legal challenges is discussed in Note IV.B.8.

PFDRP members are categorized into four membership types based on when they entered PFDRP. Police Tier 1 members are those members who entered PFDRP prior to August 4, 2013. Fire Tier 1 members are those members who entered PFDRP prior to January 2, 2015. Police Tier 2 members are those employees who were hired, rehired or reinstated on or after August 4, 2013. Fire Tier 2 members are those employees who were hired, rehired or reinstated on or after January 2, 2015.

FCERS members are categorized into four membership types based on when they entered FCERS. Tier 1 members are those members who entered FCERS prior to September 30, 2012. Tier 2A members are those employees who were hired, rehired or reinstated on or after September 30, 2012, but before September 27, 2013. Tier 2A members are eligible for the City's defined benefit retiree healthcare plan. Tier 2B members are those employees who were hired, rehired or reinstated on or after September 27, 2013.

Tier 2B members are not eligible for the City's defined benefit retiree healthcare plan. The ordinance of the City Council establishing Tier 2B benefits specifies that the City shall bear an amount equal to the additional costs incurred by the FCERS that the City and the Tier 2B members would have otherwise paid as contributions had those employees been eligible for retiree healthcare defined benefits. Tier 2C members are City employees who were Tier 1 members that separated from City employment and who later were rehired as Tier 2A or Tier 2B employees, but during the period that

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these employees were Tier 1 employees, they vested in the retiree dental benefit provided under Tier 1.

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

	PFRP			
	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
<i>Pension</i>				
Hire Date	Prior to August 4, 2013	Hired, rehired or reinstated on or after August 4, 2013	Prior to January 2, 2015	Hired, rehired or reinstated on or after January 2, 2015
Minimum Service to Leave	10 years of service (20 years must have elapsed from date of entry into retirement system to collect pension)	10 years of service	10 years of service (20 years must have elapsed from date of entry into Retirement System to collect pension)	10 years of service
Age/Years of Service	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	60 with 10 years of service 50 with 10 years of service and actuarial equivalent reduction	50 with 25 years of service 55 with 20 years of service 30 years of service at any age (with reciprocity, must be 50 years of age) Mandatory retirement at 70 years of age	60 with 10 years of service 50 with 10 years of service and actuarial equivalent reduction
Early Retirement	50- 54 with 20 years of service (Discounted pension)	N/A	50- 54 with 20 years of service (Discounted pension)	N/A
Deferred Vested	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying members can begin receiving benefits at age 50 with least 25 years of service.)	At least 10 years of service (This applies to members who separate from service before retirement and leave their contributions in the Plan.) Can begin at age 50 with actuarial equivalent reduction	55 with 10 years of service only if 20 years have elapsed from date of membership. (Qualifying member can begin receiving benefits at age 50 with least 25 years of service.)	At least 10 years of service (This applies to members who separate from service before retirement and leave their contributions in the Plan.) Can begin at age 50 with actuarial equivalent reduction
Benefit Formula	First 20 years of service: 50% of final compensation (2.5% per year) Next 21- 30 years service: 4% per year of service X final compensation (90% max) •Years of service (year of service = 2080 hours worked)	2.0% x years of service x final compensation (65% max) •Years of service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation	First 20 years of service: 50% of final compensation (2.5% per year) Beginning of 21st year of service: 3% per year of service X final compensation (90% max) – All years convert to 3% after 20 years of service. •Years of service (year of service = 2080 hours worked)	2.0% x years of service x final compensation(65% max) •Years of service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation
Cost of Living Adjustments	Retirees are eligible for a 3% annual cost-of- living adjustment (COLA). Regular COLA's are compounded and paid each February. There is no proration of COLA.	Retirees are eligible for annual cost-of- living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose- San Francisco- Oakland, U.S. Bureau of Labor Statistics index, CPI- U, December to December), capped at 1.5% per fiscal year. The first COLA will be prorated based on the number of months retired.	3% per year	Retirees are eligible for annual cost-of- living adjustment (COLA) limited to the increase in the Consumer Price Index (San Jose- San Francisco- Oakland, U.S. Bureau of Labor Statistics index, CPI- U, December to December), capped at 1.5% per fiscal year. The first COLA will be prorated based on the number of months retired.
Final Compensation	Highest one- year average	Highest three- year average	Highest one- year average	Highest three- year average

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	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
<i>Disability Retirement (Service Connected)</i>				
Minimum Service Allowance	None <20 years of service: 50% of final compensation Next 21-30 years of service: 4% per year of service X final compensation (90% max)	None 50% of final compensation	None <20 years service: 50% of final compensation Beginning of 21st year of service: 3% per year of service X final compensation (90% max)	None 50% of final compensation
<i>Disability Retirement (Non- Service Connected)</i>				
Minimum Service Allowance	2 years of service <20 years of service: 32% of final compensation plus 1% for each full year in excess of 2. (50% max) >20 years of service: 2.5% x first 20 years of service x final compensation Next 21-30 years of service: 4% per year of service X final compensation (90% max)	5 years of service 2% x years of service x final compensation. (Minimum of 20% and maximum of 50%)	2 years <20 years of service: 32% of final compensation plus 1% for each full year in excess of 2. (50% max) Beginning of 21st year of service: 3% per year of service X final compensation (90% max)	5 years of service 2% x years of service x final compensation. (Minimum of 20% and maximum of 50%)

Police Tier 1

Death Before Retirement

Nonservice- Connected Death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or \$1,000, whichever is greater
Nonservice- Connected Death with more than 2 yrs of service, but not eligible for a service retirement	To surviving spouse/domestic partner: 24% + .75% for each year in excess of 2 x final compensation (37.5% maximum) and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000 whichever is greater
Death before retirement, but while eligible for service retirement - Non- Service Connected Death	To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on years of service For example: Member's benefit = 76% Survivorship benefit = 38% of final compensation Member's benefit = 80% Survivorship benefit = 40% of final compensation Member's benefit = 82% Survivorship benefit = 41% of final compensation Member's benefit = 85% Survivorship benefit = 42.5% of final compensation and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000, whichever is greater

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Police Tier 1

Death Before Retirement (continued)

Service- Connected Death To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on
regardless of year of service years of service
and to surviving children :
1 Child: Final compensation x 25%
2 Children: Final compensation x 50%
3 Children: Final compensation x 75%
If no surviving spouse/domestic partner nor surviving children:
Return of contributions, plus interest, to estate or \$1,000 whichever is greater

Death After Retirement

Service- Connected Disability To surviving spouse/domestic partner: 37.5% to 42.5% of member's final compensation depending on
years of service
and to surviving children:
1 Child: Final compensation x 25%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50%
If no surviving spouse/domestic partner nor surviving children:
\$1,000 death benefit to estate

Nonservice- Connected Disability To surviving spouse/domestic partner:
Final Comp x 24% + .75% for each year in excess of 2 (37.5% maximum)
and to surviving children:
1 Child: Final compensation x 25%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50%
If no surviving spouse/domestic partner nor surviving children:
\$1,000 death benefit to estate

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

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

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

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Police Tier 2

Death Before Retirement

<p>Nonservice- Connected Death - Not Eligible for Retirement and less than two years of service</p>	<p>Return of accumulated employee contributions, plus interest, to spouse, domestic partner, children or estate</p>
<p>Nonservice- Connected Death - Not Eligible for Retirement and two or more years of service</p>	<p>To surviving spouse/domestic partner: Monthly allowance based on annual amount equal to the greater of: • 2.0% x years of service x final compensation (30% max) or • 10% of final compensation If no surviving spouse/domestic partner: Amount divided among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest</p>
<p>Nonservice- Connected Death - Eligible for Retirement</p>	<p>To surviving spouse/domestic partner: Monthly benefit equivalent to pension the employee would have received if retired at the time of death. If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest</p>

Police Tier 2

Service- Connected Death

<p>Service- Connected Death</p>	<p>To surviving spouse/domestic partner: Monthly allowance based on annual benefit equal to the greater of: • 50% of final compensation or • Benefit employee would have been eligible for, if member had retired at the time of death If no surviving spouse/domestic partner: Amount divided equally among the eligible surviving children If no children: Member's estate will receive the accumulated employee contributions, plus interest</p>
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Death After Retirement

<p>Service Retirees</p>	<p>At time of retirement, employee may elect 50%, 75% or 100% survivorship benefits to a spouse/domestic partner or children. Amount to be determined by the Board's actuary.</p>
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Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

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Fire Tier 1

<i>Death Before Retirement</i>	
Service- Connected Death regardless of years of service	To surviving spouse/domestic partner 37.5% to 45% of member's final compensation depending on years of service and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 50% 3 Children: Final compensation x 75% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000 which ever is greater
Nonservice- Connected Death with less than 2 years of service	Return of contributions, plus interest, to surviving spouse/domestic partner, surviving children, or estate or \$1,000, which ever is greater
Nonservice- Connected Death with more than 2 years of service, but not eligible for a service retirement	To surviving spouse/domestic partner: 24% + .75% for each year in excess of 2 x final compenstion (45% maximum) and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000 which ever is greater
Death before retirement, but while eligible for service retirement nonservice-connected death	To surviving spouse/domestic partner 37.5% to 45% of member's final compensation depending on years of service For example: Member's benefit = 81% Survivorship benefit = 40.5% of final compensation Member's benefit = 84% Survivorship benefit = 42% of final compensation Member's benefit = 87% Survivorship benefit = 43.5% of final compensation Member's benefit = 90% Survivorship benefit = 45% of final compensation and to surviving children: 1 Child: Final compensation x 25% 2 Children: Final compensation x 37.5% 3 Children: Final compensation x 50% If no surviving spouse/domestic partner nor surviving children: Return of contributions, plus interest, to estate or \$1,000 which ever is greater

City of San José
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Fire Tier 1

Death After Retirement

Service Retirees Service-
Connected Death

To surviving spouse/domestic partner:
37.5% to 45% of member's final compensation depending on years of service
and to surviving children:
1 Child: Final compensation x 25%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50%
If no surviving spouse/domestic partner nor surviving children:
\$1,000 death benefit to estate

Nonservice- Connected
Death

To surviving spouse/domestic partner:
Final compensation x 24% + .75% for each year in excess of 2 (37.5% maximum)
and to surviving children:
1 Child: Final compensation x 25%
2 Children: Final compensation x 37.5%
3 Children: Final compensation x 50%
If no surviving spouse/domestic partner nor surviving children: \$1,000 death benefit to estate

Optional Settlements

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

Post-Retirement Marriage

If a retiree marries after retirement, the retiree can elect to take a reduction of their pension benefit in order to allow for a survivorship benefit to the surviving spouse/domestic partner.

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

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Fire Tier 2

Death Before Retirement

Nonservice- Connected Death Not Eligible for Retirement and less than two years of service Return of accumulated employee contributions, plus interest, to spouse, domestic partner, children or estate

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

To surviving spouse/domestic partner:
 Monthly allowance based on annual amount equal to the greater of:
 • 2.0% x years of service x final compensation (30% max) or
 • 10% of final compensation
 If no surviving spouse/domestic partner:
 Amount divided among the eligible surviving children
 If no children:
 Member's estate will receive the accumulated employee contributions, plus interest

Nonservice- Connected Death Eligible for Retirement

To surviving spouse/domestic partner:
 Monthly benefit equivalent to the pension the employee would have received if retired at the time of death
 If no surviving spouse/domestic partner:
 Amount divided equally among the eligible surviving children
 If no children:
 Member's estate will receive the accumulated employee contributions, plus interest

Service- Connected Death

Service- Connected Death

To surviving spouse/domestic partner:
 Monthly allowance based on annual benefit equal to the greater of:
 • 50% of final compensation or
 • Benefit employee would have been eligible for, if the member had retired at the time of death
 If no surviving spouse/domestic partner:
 Amount divided equally among the eligible surviving children
 If no children:
 Member's estate will receive the accumulated employee contributions, plus interest

Death After Retirement

Service Retirees

At time of retirement, employee may elect 50%, 75% or 100% survivorship benefits to a spouse/domestic partner or children. Amount to be determined by the Board's actuary

Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. However, the survivorship allowance will last until death if deceased member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

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		FCERS			
		Federated Tier 1	Federated Tier 2	Federated Tier 2B	Federated Tier 2C
<i>Pension</i>					
Hire Date	Prior to September 30, 2012	Hired, rehired or reinstated between September 30, 2012 and September 27, 2013	Hired, rehired or reinstated after September 27, 2013*	Hired, rehired or reinstated after September 27, 2013**	
Minimum Service to Leave Contributions in System	5 years	5 years Federated City Service			
Age/Years of Service	55 with 5 years service 30 yrs service at any age	65 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction			
Deferred Vested	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)	May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)			
Benefit Formula	2.5% x Years of Service x Final Compensation (75% max) •Final Compensation is the average monthly (or biweekly) base pay for the highest year of Federated City Service (year of service = 1739 hours worked)	•2.0% x Years of Federated City Service x Final Compensation (65% max) •Final Compensation is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service (year of service = 2080 hours worked) •Excludes premium pay or any other forms of additional compensation			
Cost of Living Adjustments	3% per year	CPI up to 1.5% per year			
Final Compensation	Highest one- year average	Highest three- year average			
<i>Disability Retirement (Service Connected)</i>					
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)	50% of Final Compensation less any deductions for income from service performed for other employers or for non- Federated City Service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.			

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	Federated Tier 1	Federated Tier 2	Federated Tier 2B	Federated Tier 2C
<i>Disability Retirement (Non- Service Connected)</i>				
Minimum Service	5 years	5 Years Federated City Service		
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) If under 55 years old, subtract 0.5% for every year under age 55. ** For those entering the System 9/1/98 or later, the calculation is as follows: 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 service. (Maximum 75% of Final Compensation)	2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 50%, less any deductions for income from service performed for other employers or for non-Federated City Service for member who has not yet attained age 65 if this income exceeds the amount that the member would receive if member had remained an active employee.)		
<p>* <i>Members who have not met the City's eligibility for either retiree healthcare or dental benefits prior to September 27, 2013, will not be eligible for retiree healthcare or dental benefits. Spouses, domestic partners and dependents will also be ineligible for retiree healthcare and dental benefits.</i></p> <p>** <i>Members who have not met the City's eligibility for retiree healthcare prior to September 27, 2013, will not be eligible for retiree healthcare benefits. Spouses, domestic partners and dependents will also be ineligible for retiree healthcare benefits. Employees who have met the eligibility requirement for retiree dental benefits will receive the retiree dental benefits.</i></p> <p>*** <i>At age 65, Members of FCERS will be required to enroll in Medicare Parts A & B. If a Member does not meet this requirement within 6 months of the date Member turns 65, health care benefits will cease until such requirements are met.</i></p>				

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Federated Tier 1

Death Before Retirement

Nonservice- Connected Death with less than 5 years of service Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)

Greater than 5 years of service or Service-Connected Death To surviving spouse/domestic partner:
 Years of Service x 2.5% x Final Compensation (40% minimum, 75% maximum, except that "deferred vested" members not eligible for 40% minimum)
 *If no surviving spouse/domestic partner, to surviving children:
 1 Child: 25% of spousal/domestic partnership allowance
 2 Children: 50% of spousal/domestic partnership allowance
 3 Children: 75% of spousal/domestic partnership allowance
 If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)

Death After Retirement

Standard allowance to surviving spouse/domestic partner or children (Minimum 5 years of service) To surviving spouse/domestic partner:
 50% of Retiree's Allowance
 *If no surviving spouse/domestic partner, to surviving children:
 1 Child: 25% of spousal/domestic partnership allowance
 2 Children: 50% of spousal/domestic partnership allowance
 3 Children: 75% of spousal/domestic partnership allowance
 If no surviving spouse/domestic partner or surviving children:
 estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.

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

Special Death Benefit \$500 death benefit paid to estate or designated beneficiary in addition to benefits above.
 Note: For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. For members who were at least 55 and had at least 20 years of service at the time of death, or 30 years of service regardless of age, the survivorship allowance to surviving spouse/domestic partner lasts until death.
 *If there is an allowance payable to a surviving spouse/domestic partner, no allowance will be paid to surviving children. Surviving children receive a monthly survivorship allowance only when there is no surviving spouse/domestic partner.

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Federated Tier 2, 2B, and 2C

Death Before Retirement

Nonservice- Connected Death Not Eligible for Retirement	Return of employee contributions, plus interest.
Nonservice- Connected Death Eligible for Retirement	To surviving spouse/domestic partner: 2.0% x Years of Federated Service x Final Compensation (65% max) If no surviving spouse/ domestic partner: Member's estate receives employee's contributions, plus interest.
Service- Connected Death	To surviving spouse/domestic partner: Monthly benefit equivalent to 50% of Final Compensation

Death After Retirement

Survivorship allowance to surviving spouse/domestic partner or children that was elected by the member at retirement. (Minimum 5 years of service)

Retiree may choose survivorship allowance at retirement that reduces the retiree's allowance to provide a survivorship allowance determined by the System's actuary for a 50%, 75% or 100% continuance that is actuarially equivalent to the spouse/domestic partner or child(ren) designated at the time of retirement. No additional retirement benefits.

Employees Covered - The current membership in the Defined Benefit Pension Plans as of June 30, 2016, is as follows:

FCERS	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 2B</u>	<u>Tier 2C</u>	<u>Totals</u>
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits*	4,002	-	-	1	4,003
Terminated and/or vested members not yet receiving benefits**	1,038	52	114	2	1,206
Active members***	<u>2,162</u>	<u>212</u>	<u>910</u>	<u>13</u>	<u>3,297</u>
Total	<u><u>7,202</u></u>	<u><u>264</u></u>	<u><u>1,024</u></u>	<u><u>16</u></u>	<u><u>8,506</u></u>
	<u>Police</u>		<u>Fire</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>	<u>Totals</u>
PFDRP					
Defined Benefit Pension Plan:					
Retirees and beneficiaries currently receiving benefits*	1,304	-	845	-	2,149
Terminated and/or vested members not yet receiving benefits	234	37	44	2	317
Active members	<u>789</u>	<u>122</u>	<u>604</u>	<u>67</u>	<u>1,582</u>
Total	<u><u>2,327</u></u>	<u><u>159</u></u>	<u><u>1,493</u></u>	<u><u>69</u></u>	<u><u>4,048</u></u>

* *The combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count.*

* *1 deferred vested member in Tier 2 have a portion of their benefit under Tier 1*

** *3 retired members in Tier 2 have a portion of their benefit under Tier1.*

*** *35 active members in Tier 2 have a portion of their benefit under Tier 1.*

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

2. Contributions

Under GASB Statement No. 68, the City's and the participating employees' contributions to the Defined Benefit Pension Plans are based upon an actuarially determined percentage of each employee's pensionable and earnable salary to arrive at an actuarially determined contribution ("ADC) sufficient to provide adequate assets to pay benefits when due. Prior to GASB Statement No. 68, the contributions to the Defined Benefit Pension Plans were known as the annual required contribution ("ARC").

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for pension benefits to PFDRP and FCERS. The lump sum prepayment for the fiscal year ended June 30, 2016 was calculated to be actuarially equivalent to the bi-weekly payments that would otherwise have been the City's required contributions to the pension plans. The Boards of Administration for the PFDRP and FCERS approved the actuarially determined prepayment amount for the Tier 1 members to be paid by the City at the beginning of the fiscal year ended June 30, 2016.

As noted above, the San José Municipal Code has been amended to set forth Police Tier 2 pension benefits, Fire Tier 2 pension benefits, and FCERS Tier 2 pension benefits. The new tiers include significant benefit changes from the existing PFDRP and FCERS Tier 1 plans. In addition, the contribution rates for PFDRP and FCERS Tier 2 members are calculated based on a 50/50 split of all costs, including unfunded actuarial accrued liability (UAAL). Currently, PFDRP and FCERS Tier 1 members split normal cost with approximately 72.7% paid by the City and approximately 27.3% paid by Tier 1 members. The responsibility for funding the UUAL is generally not shared with the Tier 1 employees.

The contribution rates for the Defined Benefit Pension Plans for the City and the participating employees for the fiscal year ended June 30, 2016 were based on the actuarial valuations performed as of June 30, 2014, except for the period of June 19 through June 30, 2016, which were based on the June 30, 2015 valuation. The contribution rates in effect and the amounts contributed to the pension plans for the fiscal year ended June 30, 2016 are as follows (dollars in thousands):

Defined Benefit Pension Plan	PFDRP							
	City				Participants			
	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2	Police Tier 1	Police Tier 2	Fire Tier 1	Fire Tier 2
Actuarial Rate:								
06/19/16-06/30/16	80.40%	10.97%	81.61%	10.61%	10.59%	10.97%	11.07%	10.61%
07/01/15-06/18/16 ⁽¹⁾	73.01%	11.27%	74.95%	11.17%	11.26%	11.27%	11.83%	11.16%

Defined Benefit Pension Plan	FCERS			
	City		Participants	
	Tier 1	Tier 2	Tier 1	Tier 2
Actuarial Rate:				
06/19/16-06/30/16	78.06%	6.04%	6.47%	6.04%
07/01/15-06/18/16 ⁽¹⁾	66.16%	5.70%	6.33%	5.70%

(1) For Tier 1 members, the actual contribution rates paid by the City for PFDRP and FCERS for fiscal year ended June 30, 2016 differed due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

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<u>Defined Benefit Pension Plan</u>	<u>Annual Pension Contribution</u>		
	<u>City</u>	<u>Participants</u>	<u>Total</u>
PFDRP	\$ 132,480	\$ 21,508	\$ 153,988
FCERS	\$ 129,456	\$ 15,920	\$ 145,376

In fiscal year 2010-2011, the Retirement Systems' Boards approved the establishment of a "floor funding method", commencing with fiscal year 2011-2012, for payment of actuarially determined contribution ("ADC") for pension benefits to address unexpected shortfalls in contributions that may result when payroll does not grow at the rate assumed by the actuaries. The "floor funding method" interprets the ADC as the greater of the annual dollar contribution amount established in the valuation, or the ADC that would result from applying the employer contribution rate determined from that same valuation to the actual emerging payroll of Retirement Systems members throughout the fiscal year. The resolutions adopted by the Retirement Systems' Boards setting the contribution rates for the pay periods in fiscal year ended June 30, 2016 provide that the employer's contribution rates for the Tier 1 members may be adjusted in order to achieve a minimum dollar contribution for that fiscal year. The "floor funding methodology" does not apply to Tier 2 members of PFDRP and FCERS.

The City's ADC for PFDRP determined in the June 30, 2014 valuation for the fiscal year ended June 30, 2016 was the greater of \$129,769,000 (if paid at the beginning of the fiscal year) or 73.01% for Police Tier 1 members and 74.95% for Fire Tier 1 of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The total actuarial payroll for Police Tier 1 and Fire Tier 1 for the fiscal year was \$181,851,000 (\$105,928,000 for Police Tier 1 and \$75,923,000 for Fire Tier 1). The actual payroll for the fiscal year of \$175,506,000 was less than the actuarial payroll of \$181,851,000, resulting in an annual contribution of \$129,769,000, as of July 1, 2015.

The City's ADC for FCERS Tier 1 determined in the June 30, 2014 valuation for fiscal year ended June 30, 2016 was the greater of \$119,438,000 (if paid at the beginning of the fiscal year) or 66.16% of actual Tier 1 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$188,343,000 was greater than the actuarial payroll of \$186,762,000 resulting in an additional contribution of \$1,046,000 as of July 1, 2015, including year end accruals, contributions receivable and prior year contribution adjustments.

On May 7, 2015, the PFDRP Board approved a funding policy for Police Tier 2 and Fire Tier 2 setting the Police Tier 2 ADC to be 11.27% of actual payroll and Fire Tier 2 annual required contribution to be 11.17% of actual payroll. The actual payroll for Police Tier 2 for the fiscal year of \$8,928,000 resulted in an annual contribution of \$1,006,000, excluding year end accruals, contributions receivable and other adjustments. The actual payroll for Fire Tier 2 for the fiscal year of \$2,143,000 resulted in an annual contribution of \$239,000, excluding year end accruals, contributions receivable and prior year contribution adjustments.

The FCERS Board approved ADC for FCERS Tiers 2, 2B and 2C for fiscal year ending June 30, 2016 was 5.7% of actual payroll, as determined in the June 30, 2014 valuation. Actual employer contributions for the fiscal year ended June 30, 2016 were \$3,968,000, allocated to Tiers 2, 2B and 2C in the amount of \$880,000, \$3,034,000 and \$54,000, respectively, including year end contributions receivable and prior year accruals, contribution adjustments.

In January and February 2016, the Retirement Systems' Boards approved a revised funding methodology to calculate the payment of ADC for FCERS and PFDRP Tier 1 pension benefits. The revised funding methodology calculates the unfunded actuarial liability portion of the ADC as a dollar amount as recommended by the actuary in the annual valuation report and approved by the applicable Board, and calculates the Normal Cost (including administrative expense) portion of the ADC as the greater of (1) the dollar amount for Normal Cost as recommended by the actuary in the annual valuation report and approved by the applicable Board or (2) the employer Normal Cost contribution rate in the annual actuarial valuation report multiplied by the actual pensionable payroll

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in the applicable fiscal year. The revised funding methodology, referred to as a “split funding method” applies to the ADC for the payroll periods in fiscal year 2016-2017, commencing on June 19, 2016.

3. Net Pension Liability

The City's net pension liability for each Defined Pension Plan is measured as the total pension liability, less the pension plans' fiduciary net position as of the measurement date of June 30, 2015. The City's net pension liability as of June 30, 2016 of each of the Defined Pension Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 and rolled forward to June 30, 2015 using standard update procedures by the actuary for the respective plans. In summary, the City's net pension liability at June 30, 2016 is as follows (dollars in thousands):

PFDRP	\$	866,447
FCERS		1,410,743
CalPERS		1,037
Total net pension liability	<u>\$</u>	<u>2,278,227</u>

Changes in Net Pension Liabilities - The components of the net pension liabilities of the PFDRP and FCERS plans (i.e., the PFDRP's and FCERS's liabilities determined in accordance with GASB Statement No. 68 less the plans' fiduciary net positions) as of the measurement date, June 30, 2015, were as follows¹ (dollars in thousands):

	Increase (Decrease)		
	Total	Plan	Net Pension
	Pension Liability (a)	Fiduciary Net Position (b)	Liability (a-b)
PFDRP			
Balance at 6/30/2014	\$ 3,737,364	\$ 3,168,173	\$ 569,191
Changes for the Year:			
Service costs	74,895	-	74,895
Interest	262,738	-	262,738
Contributions-employer	-	129,279	(129,279)
Contributions-employees	-	20,747	(20,747)
Expected return on assets	-	220,725	(220,725)
Difference between expected and actual experience	21,457	-	21,457
Net difference between projected and actual investment earnings	-	(248,415)	248,415
Changes of assumptions	56,311	-	56,311
Benefit payments, including refunds of member contributions	(176,253)	(176,253)	-
Administrative expenses	-	(4,191)	(4,191)
Net Changes	<u>239,148</u>	<u>(58,108)</u>	<u>297,256</u>
Balance at 6/30/2015	<u>\$ 3,976,512</u>	<u>\$ 3,110,065</u>	<u>\$ 866,447</u>

¹ The schedules of changes in the net pension liability as of June 30, 2016 are presented in the Required Supplementary Information.

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	Increase (Decrease)		
	Total	Plan	Net Pension
	Pension Liability (a)	Fiduciary Net Position (b)	
FCERS			
Balance at 6/30/2014	\$ 3,115,648	\$ 1,987,237	\$ 1,128,411
Changes for the Year:			
Service costs	46,795	-	46,795
Interest	221,690	-	221,690
Contributions-employer	-	114,751	(114,751)
Contributions-employees	-	13,621	(13,621)
Expected return on assets	-	137,727	(137,727)
Difference between expected and actual experience	13,005	-	13,005
Net difference between projected and actual investment earnings	-	(154,369)	154,369
Changes of assumptions	108,674	-	108,674
Benefit payments, including refunds of member contributions	(164,562)	(164,562)	-
Administrative expenses	-	(3,898)	(3,898)
Net Changes	<u>225,602</u>	<u>(56,730)</u>	<u>282,332</u>
Balance at 6/30/2015	<u>\$ 3,341,250</u>	<u>\$ 1,930,507</u>	<u>\$ 1,410,743</u>

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

The following presents the net pension liabilities, calculated using the discount rates of 7.00% in effect as of the measurement date, as well as what the net pension liabilities would be if they were calculated using discount rates that are one percentage point lower (6.00%) or one percentage point higher (8.00%) than the rates used, for the PFDRP and FCERS plans, respectively (dollars in thousands):

	1% Decrease (6.00%)	Measurement Date Rate (7.00%)	1% Increase (8.00%)
PFDRP - Sensitivity Analysis			
Total pension liability	\$ 4,544,353	\$ 3,976,512	\$ 3,512,652
PFDRP fiduciary net position	3,110,065	3,110,065	3,110,065
Net pension liability	<u>\$ 1,434,288</u>	<u>\$ 866,447</u>	<u>\$ 402,587</u>
PFDRP fiduciary net position as a percentage of the total pension liability	68.4%	78.2%	88.5%

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FCERS - Sensitivity Analysis	1% Decrease (6.00%)	Measurement Date Rate (7.00%)	1% Increase (8.00%)
Total pension liability	\$ 3,792,738	\$ 3,341,250	\$ 2,969,798
FCERS fiduciary net position	1,930,507	1,930,507	1,930,507
Net pension liability	<u>\$ 1,862,231</u>	<u>\$ 1,410,743</u>	<u>\$ 1,039,291</u>

FCERS fiduciary net position as a percentage of the total pension liability	50.9%	57.8%	65.0%
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For their respective actuarial valuations as of June 30, 2015, both FCERS and PFDRP utilized a discount rate of 7.00%. For more details on the current discount rate, please refer to the separately issued annual reports of FCERS and PFDRP.

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

Pension Expense – For the year ended June 30, 2016, the City recognized pension expenses as follows (dollars in thousands):

	FCERS	PFDRP	Total
Service costs	\$ 46,795	\$ 74,895	\$ 121,690
Interest	221,690	262,738	484,428
Difference between expected and actual experience	3,251	4,291	7,542
Changes of assumptions	27,169	11,262	38,431
Contributions-employee	(13,621)	(20,747)	(34,368)
Expected return on assets	(137,727)	(220,725)	(358,452)
Current year amortization of net difference between projected and actual investment earnings	3,408	8,254	11,662
Administrative expenses	3,898	4,191	8,089
Total pension expense	<u>\$ 154,863</u>	<u>\$ 124,159</u>	<u>\$ 279,022</u>

Deferred outflows/inflows of resources – As of June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources (dollars in thousands):

Deferred Outflows - PFDRP						
	Contributions subsequent to measurement date	Difference Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments		Changes of Assumptions	Total
2017	\$ 132,480	\$ 4,292	\$ 8,254	\$ 11,262	\$ 156,288	
2018	-	4,292	8,254	11,262	23,808	
2019	-	4,291	8,254	11,262	23,807	
2020	-	4,291	49,683	11,262	65,236	
	<u>\$ 132,480</u>	<u>\$ 17,166</u>	<u>\$ 74,445</u>	<u>\$ 45,048</u>	<u>\$ 269,139</u>	

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Deferred Outflows - FCERS							
Contributions subsequent to measurement date	Difference Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments			Changes of Assumptions	Total	
2017	\$ 126,045	\$ 3,251	\$ 3,408	\$ 27,169	\$ 159,873		
2018	-	3,251	3,408	27,169	33,828		
2019	-	3,251	3,408	27,169	33,828		
2020	-	-	30,873	-	30,873		
	<u>\$ 126,045</u>	<u>\$ 9,753</u>	<u>\$ 41,097</u>	<u>\$ 81,507</u>	<u>\$ 258,402</u>		

As of June 30, 2016, \$132,480,000 and \$126,045,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the PFDRP and FCERS, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense shown in the tables above (dollars in thousands).

Long-term Expected Rate of Return on Plan Investments - The assumption for the long-term expected rates of return on PFDRP and FCERS investments of 7.00% was selected by estimating the median nominal rates of return based on long-term capital market assumptions provided by the PFDRP's and FCERS's investment consultants, including nominal expected rates of return for each of the asset classes, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the returns. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for each plan as of the measurement date of June 30, 2015, are summarized in the following tables:

	PFDRP	
	Target Asset Allocation	Long-Term Expected Real Rate of Return (net of fees)
Global equity	31%	5.0%
Private equity	8%	6.3%
Global fixed income	16%	1.7%
Private debt	11%	4.8%
Real assets	17%	3.8%
Absolute return	6%	3.5%
Global tactical asset allocation	10%	3.7%
Cash	1%	0.0%
Total	<u>100%</u>	

	FCERS	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	28%	7.8%
Private equity	9%	9.6%
Global fixed income	19%	3.0%
Private debt	5%	7.0%
Real assets	23%	6.7%
Absolute return	11%	6.5%
Global tactical asset allocation	5%	5.1%
Cash	0%	2.2%
Total	<u>100%</u>	

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

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4. Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used to compute the total pension liability as of June 30, 2016 are from the actuarial valuation report with a valuation date of June 30, 2014:

<u>Description</u>	<u>PFDRP</u> <u>Method/Assumption</u>	<u>FCERS</u> <u>Method/Assumption</u>
Measurement date	June 30, 2015	June 30, 2015
Valuation date	June 30, 2014	June 30, 2014
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Actuarial assumptions:		
Inflation rate	3.00%	2.50%
Discount rate	7.00% per annum (net of investment expenses)	7.00% per annum
Post-retirement mortality		
(a) Service:	RP-2000 Combined Healthy Mortality Table with no collar adjustment, projected to 2010 using scale AA and set back 3 years for male and no setback for females	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality table projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees
(b) Disability:	RP-2000 Combined Healthy Male Mortality Table with no collar adjustment, projected to 2010 scale AA and set back 2 years	
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2014, actuarial experience analysis	Tables based on current experience
Salary increases		
Wage Inflation	3.25% for all years	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Merit Increase	Merit component added based on an individual year's of service ranging from 9.25% to 2.00%	For the amortization schedule, payroll is assumed to grow 2.85% per year.
Cost of Living Adjustment	Tier 1 – 3% per year Tier 2 – 1.5% per year	Tier 1 – 3% per year Tier 2 – 1.5% per year

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

Plan Description. The Mayor and members of the City Council are eligible to participate in the Public Employees' Retirement Fund ("Fund") of the State of California's Public Employees' Retirement System ("CalPERS"), a cost-sharing multiple-employer plan. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability and death benefits based on the employee's years of service, age and final compensation. Benefit provisions and other requirements are established by the California Public Employees' Retirement Law, employer contract with CalPERS and by City resolution. Retiree health benefits are not provided to Mayor/Councilmembers. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on a final average compensation period of 36 months. Members with five years of total service are eligible to retire at age 50 for Classic members and at age 52 for the Public

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Employees' Pension Reform Act of 2013 plan ("PEPRA") members with statutorily reduced benefits. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law, California Government Code Sections 20000-21703.

The CalPERS plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Classic Plan</u>	<u>PEPRA Plan</u>
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.003% + \$98,312 for unfunded liability	6.24%

As of June 30, 2016, there were four current San José City Council members enrolled in the Classic Plan and four current members in PEPRA Plan.

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

For the year ended June 30, 2016, the amount contributed to the CalPERS plans' were as follows (dollars in thousands):

	<u>Classic Plan</u>	<u>PEPRA</u>	<u>Total</u>
Contributions - employer	\$ 135	\$ 21	\$ 156
Contributions - employee (paid by employer)	26	21	47
Total	<u>\$ 161</u>	<u>\$ 42</u>	<u>\$ 203</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions²

As of June 30, 2016, the City reported net pension liabilities of \$1,037,000 for its proportionate shares of the net pension liability of the Plan.

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation

² Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2015 prepared by CalPERS.

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as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures by CalPERS' actuary. The City's proportion of the net pension liability was actuarially determined at the valuation date. The City's proportionate share of the net pension liability as of June 30, 2014 and 2015 was as follows (dollars in thousands):

	Classic Plan
Proportion - June 30, 2014	\$ 1,056
Proportion - June 30, 2015	1,037
Change - Increase (Decrease)	\$ (19)

For the year ended June 30, 2016, the City recognized pension expense of \$31,000. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 156	\$ -
Differences between actual and expected experience	6	-
Changes in assumptions	-	(60)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(106)
Net differences between projected and actual earnings on plan investments	155	(175)
Total	\$ 317	\$ (341)

\$156,000 reported as deferred inflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

Year ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	\$ 197	\$ (118)
2018	\$ 41	\$ (117)
2019	\$ 40	\$ (106)
2020	\$ 39	\$ -
Total	\$ 317	\$ (341)

Actuarial Assumptions³ – The total pension liability in the June 30, 2014 actuarial valuations was determined for the Classic and PEPRA Plans using the following actuarial assumptions:

³Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2015 prepared by CalPERS.

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	Classic Plan
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Method
Actuarial Assumptions Discount	
Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power Applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumption⁴ – According to Paragraph 68 of GASB Statement 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate* – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from CalPERS.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10

⁴Information in this section is derived from the GASB 68 Accounting Valuation Report for miscellaneous risk pool at the measurement date of June 30, 2015 prepared by CalPERS.

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years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51%	5.25%	5.71%
Global Debt Securities	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

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

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

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

Classic Plan - Sensitivity Analysis	1% Decrease (6.65%)	Measurement Date Discount Rate (7.65%)	1% Increase (8.65%)
Net pension liability	\$ 1,741	1,037	458

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports as of June 30, 2015.

A. 3. Defined Contribution Retirement Plan

In December 2012, the City adopted Ordinance No. 29184 amending Title 3 of the San José Municipal Code to amend various Sections of Chapter 3.28 and to add a new Chapter 3.49 for the purpose of establishing an option between the Tier 2 defined benefit plan and a defined contribution 401(a) plan that excludes participation in retiree healthcare, for Unclassified Executive Management and Professional Employees (Unit 99) who are hired on or after January 20, 2013. An employee is eligible to participate in 401(a) plan if the employee is hired directly into Unit 99 on or after January 20, 2013 and must not have previously been a member of either of City’s defined benefit plans. An eligible employee must sign an irrevocable election form on his or her first day of employment with the City electing to participate in 401(a) plan. If no irrevocable election form is signed, the employee will be automatically placed into the Tier 2 defined benefit plan.

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

There were 53 participants in the 401(a) plan as of June 30, 2016. In 2015-2016, the City and the participating employees contributed \$113,000 to the 401(a) plan. As of June 30, 2016, the balance of the 401(a) plan was \$507,000.

A. 4. Postemployment Healthcare Plans

1. Plan Description

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

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

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

The current membership in the Postemployment Healthcare Plans as of June 30, 2016, is as follows:

PFDRP	Police		Fire		Totals
	Tier 1	Tier 2	Tier 1	Tier 2	
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits*	1,222	-	798	-	2,020
Terminated and/or vested members not yet receiving benefits	10	-	1	-	11
Active members	790	121	604	67	1,582
Total	2,022	121	1,403	67	3,613

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

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FCERS	Tier 1	Tier 2	Tier 2B	Tier 2C	Totals
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits**	3,461	-	-	-	3,461
Terminated and/or vested members not yet receiving benefits	151	-	-	-	151
Active members***	2,162	212	13	-	2,387
Total	<u>5,774</u>	<u>212</u>	<u>13</u>	<u>-</u>	<u>5,999</u>

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

*** 35 active members in Tier 2 have a portion of their benefit under Tier 1

2. OPEB Funding Policy

Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of events far into the future. For Postemployment Healthcare Plans, examples include assumptions about future employment, mortality, healthcare cost trend, and investment rates of return. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

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

On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.36 and 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum prepayments of City required contributions for postemployment healthcare benefits to PFDRP and FCERS. The Boards of Administration for PFDRP and FCERS approved the actuarially determined prepayment amount for the Tier 1 members to be paid by the City at the beginning of the fiscal year ended June 30, 2016.

Contributions to the Postemployment Healthcare Plans are made by both the City and the participating members. Effective June 28, 2009, the bargaining units representing the FCERS members entered into agreements (“Retiree Healthcare Agreements”) with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 43 annual required contributions (“ARC”) over a five-year period ending in fiscal year 2012-2013. The Retiree Healthcare Agreements also provide that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the Retiree Healthcare Agreements further provided that by the end of the five-year phase-in the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

Effective June 18, 2013, the bargaining units representing the FCERS members entered into an amendment to the Retiree Healthcare Agreements that extended the incremental increase limitation of not more than 0.75% of pensionable pay for the fiscal year ending June 30, 2014. The 0.75% limitation was initially extended to December 20, 2014, and then to December 2015. In December 2015, the FCERS Board approved to extend the fiscal year 2014-2015 healthcare rates until the implementation of the settlement of the Measure B litigation, referred to as the “Alternative Pension Reform Framework Settlement Agreement.” The Alternative Pension Reform Framework Settlement

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Agreement provided that, if it had not been implemented by June 19, 2016, that the City may decide that the City and employees would begin to contribute the full ARC on June 19, 2016. As discussed more fully below in Note IV B.8 the Alternative Pension Settlement Framework was not implemented on or before June 19, 2016. The City decided that it would not implement the full ARC on June 19, 2016. The FCERS Board approved the extension of the phase-in rates in March 2016.

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

In both agreements, the City and members of the PFDRP agreed that the member and City cash contribution rate shall not have an incremental increase of more than 1.25% and 1.35%, of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for the members or 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11%, respectively. On February 24, 2015, the City and the Police bargaining unit agreed to roll back the Police employee contributions rates from a total of 10.0% to 9.51% and the employer contribution rates from a total of 11% to 10.31%, effective March 15, 2015 and through fiscal year 2015-2016. The contribution rates applicable to the City and the Police and Fire members for pay periods in fiscal year 2016-2017 commencing with June 19, 2016 remain unchanged from fiscal year 2015-2016 pending the implementation of the Alternative Pension Reform Framework Settlement Agreement. These contribution rates for both the City and the PFDRP members are not sufficient to fully fund the ARC.

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

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

During the fiscal year ended June 30, 2016, the PFDRP and FCERS's GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation studies as of June 30, 2014 was prepared by the actuary for the respective plans. For PFDRP, the annual contribution determined in the June 30, 2014 valuation for fiscal year ended June 30, 2016 was the greater of \$18,353,000 (if paid at the beginning of the fiscal year), or 10.31% for Police Tier 1 members and 10.62% for Fire Tier 1 members, of actual payroll for the fiscal year. For FCERS, the annual contribution determined in the June 30, 2014 valuation for fiscal year ended June 30, 2016 for Tier 1 was the greater of \$16,990,000 (if paid at the beginning of the fiscal year) or the 9.41% of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll.

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The total actuarial payroll for Police Tier 1 and Fire Tiers 1 members for the fiscal year was \$181,851,000 (\$105,928,000 for Police Tier 1 and \$75,923,000 for Fire Tiers 1 members). The actual payroll for the fiscal year of \$175,506,000 was less than the actuarial payroll of \$181,851,000, resulting in an annual contribution of \$18,353,000, as of July 1, 2015, excluding the implicit subsidy, year end accruals, contribution receivable and prior year contribution adjustments.

The actual payroll for FCERS Tier 1 for the fiscal year of \$188,343,000 was greater than the actuarial payroll of \$186,762,000 resulting in an additional annual contribution of \$149,000 as of June 30, 2016, excluding the implicit subsidy and prior year contribution adjustments.

In May 2015, the PFDRP Board approved a funding policy for Police Tier 2 and Fire Tier 2, setting the Police Tier 2 annual required contribution to be 10.31% based on actual payroll, and Fire Tier 2 annual required contribution to be 10.62% based on actual payroll for fiscal year 2015-2016. The actual payroll for Police Tier 2 for the fiscal year 2015-2016 was \$8,928,000, resulting in an annual contribution of \$920,000, excluding year end accrual, contributions receivable and prior year contribution adjustments. The actual payroll for Fire Tier 2 for the fiscal year 2015-2016 of \$2,143,000, resulting in an annual contribution of \$228,000, excluding year end accruals, contributions receivable and prior year contribution adjustments.

The actual payroll for FCERS Tier 2 for the fiscal year ending June 30, 2016 was \$69,428,000, allocated to Tiers 2, 2B and 2C in the amount of, \$15,392,000, \$53,093,000, and \$906,000 respectively. The contribution rate for Tiers 2, 2B and 2C for fiscal year ending June 30, 2016 was 9.41%, 12.66%, and 12.86%, respectively, as determined in the June 30, 2014 valuation. Actual employer contributions for the fiscal year ending June 30, 2016 were \$8,293,000, allocated to Tiers 2, 2B and 2C in the amount of \$1,450,000, \$6,722,000 and \$121,000, respectively, including year end accruals, contributions receivable and prior year contribution adjustments.

The contribution rates in effect for PFDRP and the FCERS for the fiscal year ended June 30, 2016 are as follows:

PFDRP	City - Board Adopted *		Participant	
	Police	Fire	Police	Fire
Actuarial Rate:				
Postemployment Healthcare Plan:				
07/01/15 - 06/30/16	10.31%	10.62%	9.51%	9.74%

** For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2016 differed due to the City funding the annual required contribution amount based on the greater of the dollar amounts reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.*

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FCERS	City*			Participant		
	Tier 1 and Tier 2	Tier 2B	Tier 2C	Tier 1 and Tier 2	Tier 2B	Tier 2C
Actuarial Rate:						
Postemployment Healthcare Plan:						
07/01/15 - 06/30/16	9.41%	12.66%	12.86%	8.76%	0.00%	0.39%

* For Tier 1 members, the actual contribution rates paid by the City for fiscal year ended June 30, 2016 differed due to the City funding the annual required contribution amount based on the greater of the dollar amounts 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.

For the PFDRP, the June 30, 2014 valuation establishes, for the fiscal year ended June 30, 2016, the City's ARC rate as a percentage of pay on a GASB valuation basis to be 17.69% compared to the contribution rates listed above on a phase-in funded basis.

For the FCERS, the June 30, 2014 valuation establishes, for the fiscal year ended June 30, 2016, the City's ARC rate as a percentage of pay on a GASB valuation basis to be 15.19% compared to the contribution rates listed above on a phase-in funded basis.

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

The City's annual other postemployment benefit cost and net OPEB obligation for PFDRP and FCERS as of and for the fiscal year ended June 30, 2016, were as follows (dollars in thousands):

	PFDRP	FCERS
Annual required contribution	\$ 32,694	\$ 42,684
Interest on net OPEB obligation	15,748	11,411
Adjustment to annual required contribution	(13,192)	(14,671)
Annual OPEB cost	35,250	39,424
Contributions made	(19,676)	(30,465)
Implicit rate subsidy	(1,389)	(4,430)
Increase in net OPEB obligation	14,185	4,529
Net OPEB obligation – beginning of year	262,462	187,066
Net OPEB obligation – end of year	<u>\$ 276,647</u>	<u>\$ 191,595</u>

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

	Fiscal year ended	Annual OPEB Cost	Total Employer Contributions	Percent Annual OPEB Cost Contributed	Net OPEB Obligation
PFDRP	6/30/14	\$ 35,494	\$ 20,131	57%	\$ 249,622
	6/30/15	35,798	22,958	64%	262,462
	6/30/16	35,250	21,065	60%	276,647
FCERS	6/30/14	\$ 49,382	\$ 24,031	49%	\$ 184,853
	6/30/15	33,306	31,093	93%	187,066
	6/30/16	39,424	34,895	89%	191,595

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4. OPEB Funded Status and Funding Progress

As summarized in the table below, as of June 30, 2015, the most recent actuarial valuation date, PFDRP and FCERS was 15.5% and 25.7% funded, respectively.

As of June 30, 2015, the most recent actuarial valuation of PFDRP's Postemployment Health Plan within the valuation, shows the Postemployment Healthcare Plan's Unfunded Actuarial Accrued Liability ("UAAL") increased by \$12,100,000 primarily due to the change in health assumptions and the change in demographic experience. The discount rate used for GASB purposes remained the same at 6.00% in the June 30, 2015 OPEB valuation and in the June 30, 2014 OPEB valuation. The Postemployment Healthcare Plan's discount rate is based on a blended rate between the expected return on the City's unrestricted assets (3.50%) and the expected return on the PFDRP's invested assets (7.00%) resulting in a blended discount rate of 6.00%. Changes in health assumptions refers to the changes in expected current healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumption, and plan and tier election percentage for future retirees. Change in demographic experience refers to the change in actual data and elections from June 30, 2014 to June 30, 2015 as compared to the changes expected in the prior valuation.

As of June 30, 2015, the most recent valuation of FCER's Postemployment Health Plan, the UAAL increased by \$78,000,000 primarily due to changes in the pension and health assumptions. The OPEB discount rate decreased from 6.30% used in the June 30, 2014 OPEB valuation to 6.10% used in the June 30, 2015 OPEB valuation. The Plan's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (3.0%) and the expected return on the Plan's invested assets (7.0%) resulting in a blended discount rate of 6.1%. Change in pension assumptions refers to the change in demographic assumptions used in both the pension and postemployment healthcare plan valuations. These assumptions are based on the results of the experience study covering plan experience during the period from July 1, 2010 through June 30, 2015 and were adopted at the November 19, 2015 Board meeting. Change in health assumptions refers to the change in expected current and future healthcare claims and expense costs based on the 2015 and 2016 medical premium experience. This item also includes the effect of updating the claims cost trend assumptions, and plan and tier election percentages for future retirees.

The specific funding status for each OPEB plan is summarized in the table below, as of the June 30, 2015 valuation date (dollars in thousands):

	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>UAAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
PFDRP	6/30/2015	\$ 114,565	\$ 739,753	\$ 625,188	15%	\$ 184,733	338%
FCERS	6/30/2015	209,761	817,673	607,912	26%	251,430	242%

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

5. OPEB Actuarial Methods and Assumptions

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrual liabilities and the actuarial value of assets,

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consistent with the long-term perspective of the calculations. The contribution rates for fiscal year ended June 30, 2016, were based on the actuarial valuations performed on June 30, 2014 except for the period June 19, 2016 through June 30, 2016, which were based on the June 30, 2015 valuation.

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

PFDRP		
<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry age normal, level of percent of pay	Entry age normal, level of percent of pay
Amortization method	30 years, level percent of pay	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2014, open	30 years as of June 30, 2014, open
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor
Discount rate*	6.00%	6.00%
Projected total payroll increases:		
Wage inflation:	3.25% for FY 2015 and for all years	3.25% for FY 2015 and for all years
Merit increase:	Merit component added based on an individual's years of service ranging from 6.75% to 1.00%	Merit component added based on an individual's years of service ranging from 9.25% to 2.00%
Healthcare cost trend rate:		
Medical	Future medical inflation assumed to be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.	Future medical inflation assumed to be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.00%	Dental inflation is assumed to be 4.00%

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

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

FCERS		
<u>Description</u>	<u>Method/Assumption</u>	<u>Method/Assumption</u>
Valuation date	June 30, 2015	June 30, 2014
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level dollar	Level dollar
Remaining amortization period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period
Actuarial asset valuation method	Market value	Market value
Assumed rate of return on investments (net)	7.00% per annum	7.00% per annum
Discount rate (net)*	6.10%	6.30%
Wage inflation rate	2.85%	2.85%
Salary increases	The assumption of 2.85% wage inflation plus a rate increase for merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more year of service.	The assumption of 2.85% wage inflation plus a rate increase for merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more year of service.
Projected total payroll increases	N/A	N/A
Healthcare cost trend rate:		
Medical	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 8.5% to 4.25% per annum graded down over a 15 year period for medical-pre age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical-post age 65.
Dental	Dental inflation is assumed to be 4.0%	Dental inflation is assumed to be 4.0%

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

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B. Commitments and Contingencies

1. Norman Y. Mineta San José International Airport

Purchase Commitments. As of June 30, 2016, the Airport was obligated for purchase commitments of approximately \$21,000,000 primarily for terminal area development, airfield geometric study, pavement maintenance, and various operating and maintenance agreements. The Airport has projected that it will expend or encumber \$92,000,000 on capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from federal grants, bond proceeds, and other Airport revenues.

Completed City Jet Fuel Tank Farm Remediation. As of June 30, 2016, the remediation work for the closed City Jet Fuel Tank Farms was completed. In May 2016, the Airport made the final payment to Chevron U.S.A., Inc. (Chevron) in an amount of \$136,000, bringing the total payments to \$2,160,000, which is 50% of the total remediation costs associated with the coordinated corrective action at the closed City Jet Fuel Tank Farms. Chevron has received a reimbursement from the State Water Resources Control Board Underground Storage Tank Commingled Plume Fund (Plume Fund) amounting to a total of \$3,000,000. In June 2016, the Airport received \$1,490,000 from Chevron, which represents 50% of the reimbursement, less a deductible.

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

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

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FAA Audit of Use of Revenue. Federal law requires all airport owners that receive federal assistance, such as the City, to use airport revenues for the capital or operating costs of the Airport. As a general rule, any use of airport revenues by an airport owner for costs that cannot properly be considered airport capital or operating costs is deemed to be improper revenue diversion. On June 2, 2010, auditors from the FAA provided the City with a draft of its audit findings alleging improper use of Airport revenues by the City in three areas of expenditure. On August 14, 2015, as the result of discussions and correspondence with City staff, the FAA notified the City that it has closed two of the three audit issues. The remaining audit issue is described below.

Cost Allocations - The City uses both direct and indirect methodologies to allocate costs to the Airport. The FAA auditors found the direct cost allocations to be acceptable. The FAA contends that the City's indirect methodology does not correlate to the cost of services actually provided by the City to the Airport. Consequently, the auditors have recommended that the City re-allocate its costs charged to the Airport for fiscal years 2005 through 2010 using an allocation methodology that reflects services actually provided to the Airport and repay any overcharges to the Airport, with interest. The City believes the allocation methodology used to allocate costs to the Airport is in compliance with federal cost allocation guidance. In an effort to resolve the issue, the City proposed and implemented a cap on the indirect cost allocations for certain City departments at 10%, which was the approximate rate charged to the Airport in pre-capital intensive years. This resulted in a total credit of \$5,600,000 that would be applied equally to the Airport cost allocation plan over a seven year period beginning in fiscal year 2012-2013. The City also proposed to adjust its indirect cost allocation methodology commencing with fiscal year 2014-2015 in an effort to address FAA concerns, including removal of debt expenditures from the relative expenditures base, continuing with the 10% cap, and monitoring a rolling five-year average of the relative expenditure base to smooth out expenditure fluctuations, which were implemented in fiscal year 2015-2016.

On August 14, 2015, the FAA accepted the corrective actions that the City has already taken, however, the FAA, disagrees with the City's inclusion of capital expenditures in the allocation of indirect costs. The City will continue discussions with the FAA, but cannot predict the final outcome of the audit.

Litigation. Between May 2013 and January 2014, SJJC Aviation Services, LLC filed three lawsuits seeking to block the Signature fixed base operation project at the Airport. SJJC Aviation Services, LLC is an incumbent tenant at the Airport that conducts fixed base operations under the name "Atlantic Aviation," and the Signature fixed base operation, which commenced operations at the Airport in late 2015, is in competition with Atlantic Aviation at the Airport.

The first lawsuit (the "RFP lawsuit"), filed in May 2013 in the Superior Court of the State of California in Santa Clara County, challenged the City's request for proposal ("RFP") process and the resulting award of the lease and operating agreement to Signature. The Superior Court entered judgment dismissing the RFP lawsuit with prejudice on May 2, 2014, and SJJC Aviation Services subsequently filed an appeal to the Sixth District Court of Appeal on May 16, 2014. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

The remaining two lawsuits filed in May and December 2013 in the Superior Court of the State of California in Santa Clara County, seek to block the Signature project under the California Environmental Quality Act ("CEQA"). In both CEQA lawsuits, SJJC Aviation Services alleges that the City violated CEQA by approving the Signature project without adequate environmental review. The Superior Court subsequently consolidated the two CEQA lawsuits. The City successfully defended its CEQA environmental review and received a judgment in its favor on December 23, 2014, and SJJC Aviation Services subsequently filed an appeal to the Sixth District Court of Appeal on February

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5, 2015. The parties have fully briefed the appeal, but a hearing date for the appeal has not yet been set.

The City believes that the SJJC Aviation Services challenges to the RFP process and the environmental review for the Signature project are without merit.

There are several pending lawsuits in which the Airport is involved in the normal course of its operation. The Airport's and the City's management believe that any potential exposure will not have a material effect on the Airport's financial position or changes in financial position.

2. San José – Santa Clara Regional Wastewater Facility

For fiscal years 2017-2021, the Five Year capital improvement program includes approximately \$4,177,000 for the South Bay Water Recycling ("SBWR") project, a regional water reclamation program to recycle highly treated wastewater for irrigation and industrial uses in the cities of San José, Santa Clara, and Milpitas, California. This program is part of an action plan, developed by the City and other agencies tributary to the Plant and adopted by the Regional Water Quality Control Board ("RWQCB"), to control the amount of effluent discharged by the Plant into San Francisco Bay.

The SBWR distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately \$140,000,000 funded by the tributary agencies, grants, and bond proceeds.

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which described the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 million gallons per day and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I non-potable reuse system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated cost for implementing these projects was \$127,500,000. As of June 30, 2016, \$117,113,000 has been expended or encumbered on the expansion of Phase I of the SBWR. These costs were funded by the City, Santa Clara, and the tributary agencies using the Plant through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

In fiscal year 2015-2016, the City and the Santa Clara Valley Water District ("SCVWD") accepted a report that had been commissioned by both the City and the SCVWD related to SBWR, entitled: "South Bay Water Recycling Strategic and Master Planning ("Strategic Report"). The Strategic Report contemplates near term projects (fiscal years 2017 to 2021) at an estimated cost of \$49 million and long term improvements and expansion of the existing system (fiscal years 2020 to 2035) at an estimated cost of \$243.2 million for long-term nonpotable reuse projects and an additional \$522 million for long-term potable use projects. No specific plan for the development or source of financing of the other near term improvements, nor the long-term improvements identified in the Strategic Report has been developed to date. Further, the responsibility for the development of the long-term improvements has not been established and may involve the formation of a separate entity responsible for the oversight and funding of these improvements.

Plant Master Plan. In November 2013, the City Council approved the Plant Master Plan ("PMP"), a 30-year planning-level document focused on long-term rehabilitation and modernization of the Plant. The PMP recommends more than 114 capital improvement projects to be implemented over a 30-year planning period at an estimated investment level of approximately \$2 billion. On September 24, 2013, the City Council approved a consultant agreement with MWH Americas, Inc. to assist and support the City in developing and implementing this Capital Improvement Program ("CIP"). Over

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the last year, City staff has worked with program management and financial consultants to develop a long-term funding strategy to provide sustained funding for implementing the CIP program. On June 2, 2015, a funding strategy was recommended to and approved by the City Council. An update to the strategy was approved by the City Council on January 12, 2016. For the next five years, the City's portion of the funding for the Adopted CIP is programmed into the 2017-2021 sewer rate models with moderate rate increases beginning 2015-2016.

Revenues for the 2016-2020 Adopted CIP are derived from several sources: utilization of available resources in the City of San José Sewer Service and Use Charge sub-fund and Sewage Treatment Plant Connection Fee sub-fund; contributions from the City of Santa Clara and other tributary agencies for the treatment of sewage from their respective jurisdictions by the Plant; interest earnings; Calpine Metcalf Energy Center Facilities repayments; federal grants from the U.S. Bureau of Reclamation; and bond and commercial paper proceeds.

Contributions from the City of Santa Clara and the tributary agencies are made pursuant to agreements with each agency based on the anticipated operation and maintenance, and capital budget. The tributary agencies' proportional contribution for the operation and maintenance cost is based on the amount and characteristics of the sewage discharged into the Plant. Each tributary agency's capital contribution is based on each agency's reserved capacity in the Plant. The balance of the Plant budget is shared between the cities of San José and Santa Clara based on the respective City's assessed property value relative to the total assessed property value in both jurisdictions. In the 2017-2021 Adopted CIP, contributions from the City of Santa Clara and other agencies total \$288,400,000.

The prior CIP assumed that all agencies would participate in short-term financing (i.e. commercial paper program) and State of California Revolving Fund ("SRF") loans. Although the tributary agencies expressed initial interest in short-term financing and the SRF, to date, they have not provided the interim commitments required through execution of the Amended and Restated Master Agreement by February 1, 2016. As a result, San José and Santa Clara are continuing the SRF loan application process for the Digester and Thickener Facilities Upgrade Project and will adjust the loan amount based on the number of agencies that commit to repayment of the loan at the time of the loan approval. Staff will continue to pursue SRF loans for all eligible projects, either for the co-owners or for all agencies, based on future commitments from the tributary agencies. However, it should be noted that state-wide interest and competition for these low-cost loans have increased significantly and funding for all projects is not guaranteed; therefore, staff is developing a long-term bond financing plan for San José's share of the CIP's cost. The City plans to gradually build required operating reserves in anticipation of securing long-term bonds independently. The 2017-2021 Proposed CIP assumes the need to issue bonds in 2017-2018. The timing and amount of the issuance will depend upon the approval and availability of SRF funding. The City will also continue to evaluate a short-term financing program, such as a commercial paper program, to provide supplemental financing flexibility.

Pursuant to an agreement executed between San José and Santa Clara in 1959 (the "1959 Agreement"), San José is co-owner and administering agency of the San José Santa Clara Water Pollution Control Plant ("Plant"). The Plant also provides wastewater treatment services to other neighboring agencies through five outside user agreements ("Master Agreements"). On January 22, 2016 and September 7, 2016, San José, as the administering agency, received claims from these outside user agencies (City of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District, and CSD 2-3 ("Tributary Agencies") alleging a breach of contract and inequity under the Master Agreements. The administrative claims primarily arise out of disagreements regarding the interpretation of how the capital cost to rehabilitate the Plant as generally described in the Plant Master Plan should be apportioned, and whether the Master Agreements must be amended to require the Tributary Agencies to pay for their respective portions of the capital cost. The Tributary Agencies have fully paid their portion of the capital cost for the projects to rehabilitate the Plant to date.

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The Master Agreements require that any allegation of breach of contract or inequity (“Claim”) be filed with the legislative bodies of the agency(ies) that committed the alleged breach, and with the Treatment Plant Advisory Committee (“TPAC”). TPAC is an advisory body, comprised of representatives of San José, Santa Clara and three of the Tributary Agencies that was established by the Master Agreements to provide policy and budget guidance to San José, as the Plant’s administering agency.

The Master Agreements specify the procedures for consideration of the Claim. TPAC is required to conduct a hearing regarding the Claim within two (2) months. TPAC is then required to prepare a full report of its findings and recommendations to the San José and Santa Clara City Councils. The report is advisory. If any of the parties to the Claim disagree with the report, the legislative bodies of the agencies that are parties to the Claim are required to meet jointly within two (2) months of receiving the report. If the joint meeting fails to resolve the Claim, the agency alleging the Claim can file a lawsuit in court after giving the other party or parties to the Claim three (3) months to cure the breach or alleged breach.

TPAC conducted a hearing on March 24, 2016, and issued its report on June 9, 2016 to deny the January 22, 2016 Claim. The Tributary Agencies disagreed with the report, and requested a joint meeting of the legislative agencies of the City, Santa Clara and all of the Tributary Agencies. San José, Santa Clara, and the Tributary Agencies have agreed to mediate Tributary Agencies’ Claims and potential amendments to the Master Agreements. Two mediation sessions have occurred on September 14, 2016 and October 6, 2016. A third mediation session is scheduled for December 2016. In the interim, the parties have agreed to toll the time limit for scheduling the TPAC hearing on the September 7, 2016 Claim, and the joint meeting of the legislative bodies for the January 22, 2016 Claim.

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

Recycled Water Facilities and Programs Integration Agreement between the City of San José and the Santa Clara Valley Water District (“SCVWD”). The City and the SCVWD entered into an agreement on March 2, 2010 (“Integration Agreement”) to collaborate on design, construction and operation of an advanced treated recycled water facility and related facilities now called the Silicon Valley Water Treatment Facility (“SVWTF”). In 2003, the City and SCVWD began collaborating on design, construction and operation of an advanced treated recycled water facility and related facilities, to be located on lands owned by the Plant, in order to demonstrate the treatment capability of a local facility to produce highly purified water that could be blended with existing recycled water to expand irrigation and industrial uses. The City, as the administering agency for the Plant, and the SCVWD desired to financially support the production and use of recycled water in Santa Clara County consistent with each party’s separate and distinct interests: for wastewater treatment and disposal for the City, and water quality and supply for the SCVWD, as well as to coordinate and cooperate to achieve the most cost effective, environmentally beneficial utilization of recycled water to meet both agencies’ needs. The term of the Integration Agreement is from July 1, 2010 through June 30, 2050, and co-terminus with the Ground Lease and Property Use Agreement between the City and SCVWD for construction and operation of the SVWTF on Plant lands.

SCVWD and the City agreed to capital investment towards the construction of the SVWTF in the amount of \$70,000,000 and \$11,000,000, respectively, as of the date of the signed agreement on March 2, 2010. SCVWD determines the operational and maintenance budget for the SVWTF, and operates the facility. Separate formulas were established to determine each party’s respective share of the annual operation and maintenance cost for the SVWTF following the first full fiscal year the SVWTF becomes operational, which was fiscal year 2014-2015. The formula provides that for each fiscal year when the SBWR is operating at a net loss, the City would pay to the SCVWD an amount to support SCVWD’s operational cost up to \$2,000,000. In the event that the SBWR operates at net revenue, the City would share its revenue with the District with the first 50% towards the District’s

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costs and the second 50% divided between the two agencies based on their respective capital investment in the recycled water infrastructure. The City and the SCVWD are confirming each agency's final total capital investment. The City's estimated investment in the SBWR system and SVWTF is \$250,000,000, and the SCVWD's estimated investment in SVWTF is \$70,000,000.

Under the Integration Agreement, commencing in January 2016, the City and SCVWD are to provide the other agency with audited financial statements for the prior fiscal year (June 30, 2014 – June 30, 2015) for the operation of the SBWR and the SVWTF. Since the definition of net operating cost and revenue under the Integration Agreement excludes certain costs and revenues that might otherwise be considered in either party's overall budget, each party must prepare a separate statement following the publication of each party's annual audited financial statements, to establish each party's respective cost share for the operation of the SVWTF. The City and SCVWD have each provided the other with its audited financial statements for the operations of the SBWR and the SVWTF, respectively, for the fiscal year ended June 30, 2015. The parties, however, have not determined their respective cost share of the SVWTF for the fiscal year ended June 30, 2015 under the terms of the Integration Agreement. In January 2017. The audit report for the second year of full operations or Fiscal Year Ended June 30, 2016 will be completed and issued as per the terms of the Integration Agreement in January 2017.

3. Bay Area Water Supply and Conservation Agency

The City belongs to the Bay Area Water Supply and Conservation Agency ("BAWSCA"), which represents the interests of 24 cities and water districts, and two private utilities that purchase water wholesale from the San Francisco regional water system. On January 31, 2013, BAWSCA issued bonds in the amount of \$335,800,000 to raise the funds necessary to prepay capital commitments owed to the City and County of San Francisco by BAWSCA member agencies thereby realizing a present value savings of approximately \$62,300,000 over all member agencies. For the City, this translates into an annual net savings of purchased water cost of approximately \$107,000.

Prior to the bond issuance, there were \$356,000,000 in capital cost recovery payments that were outstanding and being repaid as a part of San Francisco's wholesale commodity charge. The capital cost recovery payments were being repaid at a fixed interest rate of 5.13% and were part of the Wholesale Revenue Requirement to the Water Supply Agreement negotiated with San Francisco in 2009. The bonds refinanced this debt at an average interest rate of 3.14%.

The BAWSCA issued revenue bonds that are secured by a surcharge on BAWSCA member agencies. San Francisco will collect the surcharge and send the amount to BAWSCA for payment to bond holders. The surcharge will be in place for the term of the bonds, which ends in 2034. The surcharge is on the San Francisco wholesale water bill and is accounted for by the City as operational costs.

BAWSCA's annual debt service amount is \$24,675,000. The City's annual bond surcharge is estimated to be \$751,000 based on all member agencies actual wholesale water use in fiscal year ended June 30, 2014. The annual surcharge for each agency will be based on the actual wholesale water purchase percentage from the last full year for which data is available with an annual reconciliation based on the actual water purchased. A true-up adjustment based on the actual fiscal year ended June 30, 2014 water use will be included in the fiscal year ending June 30, 2016 bond surcharge. The current best projection on the City's annual surcharge for the future is \$782,000.

4. New Market Tax Credit

In November 2011, the City participated in the federal New Markets Tax Credit program ("NMTC") to secure additional funds to finance the construction of the Environmental Innovation Center ("EIC") on City owned property. The NMTC program allocates community development entities ("CDEs") tax

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credits to be claimed by investors when the investment is made available for community development in the form of a loan. The following describes the City's participation in the financing transaction.

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

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

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

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

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

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5. Retirement Systems – Unfunded Commitments

As of June 30, 2016, PFDRP had unfunded commitments to contribute capital for private debt investments in the amount of \$116,650,000, private equity investments in the amount of \$63,900 and real assets investments in the amount of \$112,950,000. FCERS had unfunded commitments to contribute capital for private market fund investments in the amount of \$85,450,000.

6. Federal Financial Assistance Programs

The City participates in a number of federally assisted grant programs, primarily with the U.S. Department of Housing and Urban Development (HUD), the Federal Aviation Administration (FAA), the US Department of Transportation, and the US Department of Labor. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City’s grant programs are audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the fiscal year ended June 30, 2016, these programs are still subject to financial and compliance audits by Federal auditors, and to resolution of identified findings and questioned costs. At this time, the amount of expenditures, if any, which may be disallowed by the granting agencies cannot be determined.

7. Encumbrances

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to contracts not yet performed and purchase orders not yet filled (executory contracts; and open purchase orders). Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year-end are not accounted for as expenditures and liabilities but, rather, as restricted or committed governmental fund balance. As of June 30, 2016, total governmental fund encumbrance balances for the City are as follows (dollars in thousands):

General Fund	\$	39,758
Housing Activities		8,528
Low and Moderate Income Housing Asset		2,639
Special Assessment Districts		1,584
Nonmajor governmental funds		85,053
Total governmental funds	\$	137,562

8. Lawsuits and Other Proceedings Related to Measure B

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

In connection with the litigation related to Measure B, the City has agreed to delay implementation of the increased pension contributions from current employees from June 23, 2013 (the date specified in Measure B) to a date no sooner than the resolution of all appeals. In June 2015, the IRS notified

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the City that it declined to issue a private letter ruling requested by the City related to implementation of the VEP referenced above in Note IV.A.1.1.

As discussed below, the City and the bargaining units representing current employees reached agreements to resolve the Measure B litigation and the PERB proceedings. The settlement terms included placement of measure on the November 8, 2016 ballot, designated as Measure F, to amend the City Charter's provisions related to retirement benefits. The voters approved Measure F. The consequences of Measure F's approval are outlined below.

Cases Under SJPOA Caption

On April 30, 2014, a consolidated judgment for the cases under the SJPOA Caption was filed ("Consolidated Judgment") and is summarized as follows:

- The 4% increase in employee pension contributions towards the UAL, up to a maximum of 16% (or 50% of the total liability, whichever is less) was found to be invalid as were the alternative plans (the "VEP") to which existing employees could elect to opt in because they were tied to the 4% increase. However, the savings provision specifying a mandatory compensation reduction in lieu of additional employee pension contributions was upheld.
- The modified disability retirement provisions were upheld.
- The elimination of the Supplemental Retirement Benefit Reserve ("SRBR") in both Retirement Systems was upheld.
- The minimum contribution toward retiree healthcare was upheld with respect to the inclusion of unfunded liabilities, but the judgment modified Measure B's language to delete the term "minimum of" to reflect that employees are required to only pay 50% of the cost as opposed to a higher percentage.
- The definition of Low Cost Plan as applied to the retiree healthcare benefit was upheld.
- The ability to suspend the retirement COLA provisions for up to five years in a fiscal and service level emergency was found to be invalid.
- The provision related to voter approval of retirement benefit increases and the severability provision were upheld.

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

Writ and Quo Warranto Actions

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

On April 15, 2013, the California Attorney General issued an opinion granting the SJPOA's application to bring a Quo Warranto action on behalf the People of the State of California alleging that the City

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violated the Meyers-Milias-Brown Act by failing to meet and confer in good faith with respect to the City's placement of Measure B on the ballot in June 2012. The SJPOA filed its complaint in the Quo Warranto action on April 29, 2013 and the City subsequently filed its answer. The status of this case is discussed below in connection with the settlement frameworks.

San José Retired Employees Association Litigation

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

The City filed a demurrer to the complaint, but this litigation is currently stayed, by stipulation of the parties, to allow for ongoing settlement negotiations.

PERB Proceedings Related to Measure B

Various bargaining units have filed unfair practice charges against the City with PERB related to the placement of Measure B on the June 2012 ballot. These charges were issued pursuant to State regulations governing PERB procedures. Under these provisions, the bargaining unit, an individual, or the employer may file unfair labor practice charges with PERB, and PERB is required to issue a complaint "if the charge...is sufficient to establish a prima facie case." PERB accepts the allegations of the charging party as true in determining whether to issue the complaint and there is no factual determination by PERB of the accuracy or validity of the allegations prior to the issuance of a complaint. Following the issuance of a complaint, the subject of the complaint files an answer and the matter is assigned to an administrative law judge for a hearing and proposed decision. Both parties have the right to appeal the administrative law judge's decision to the PERB Board, and the right to seek subsequent appellate review in the Court of Appeals and California Supreme Court.

On November 10, 2014, the City received service of the administrative law judge's proposed decision in two of these cases brought by the International Association of Firefighters, Local 230 ("Local 230") and the International Federation of Professional and Technical Engineers, Local 21 ("Local 21"), on behalf of three of the City's bargaining units. In both proposed decisions, the administrative law judge ruled that the City had violated the Meyers-Milias-Brown Act by adopting the resolution placing Measure B on the ballot without satisfying its duty to meet and confer in good faith with the applicable bargaining units. The administrative law judge's proposed decision in each of these cases would, among other remedies, order the City to rescind the resolution that placed Measure B on the June 2012 ballot. Both proposed decisions recognize that PERB does not have the authority to rescind the results of the June 2012 election at which the voters approved Measure B.

On May 6, 2015, a different administrative law judge issued a proposed decision in the PERB cases brought by the International Union of Operating Engineers, Local No. 3 ("OE#3") and the American Federation of State, County and Municipal Employees, Local No. 2620 ("AFSCME"), on behalf of two of the City's bargaining units, alleging that the City failed to negotiate in good faith the terms of Measure B as well as non-ballot retirement benefits, including retiree healthcare for new employees, mandatory Medicare enrollment for those eligible, and healthcare plan design and cost-sharing. The

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administrative law judge in the OE#3 and AFSCME cases found that the City had not violated its good faith obligations in negotiating Measure B. The administrative law judge did find that the City failed to negotiate the non-ballot retirement benefit issues in good faith by prematurely declaring impasse.

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

Measure B - Settlement Frameworks

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

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

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

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

- modifies Tier 2 pension benefits for non-sworn employees to levels similar to other San Francisco Bay Area agencies to attract and retain non-sworn employees;
- provides allows Tier 1 employees who terminated employment with the City and either subsequently returned or who return in the future to return as members of Tier 1;
- preserves 50/50 risk sharing with employees in Tier 2 through the cost sharing of a 50/50 split in normal costs and any future unfunded liability associated with the Tier 2 benefit subject to a ramp up of 0.33% increments per year for employee contributions towards unfunded liability costs until the costs are shared 50/50;
- closes the defined benefit retiree healthcare plan to new and existing Tier 2 employees, and allows an opt-out for Tier 1 employees and Tier 2 employees in the OE#3 and ABMEI bargaining units who are contributing to the defined benefit retiree healthcare plan into a defined contribution VEBA subject to legal and IRS approval;
- new and current Tier 2 employees (except those represented by OE#3 and ABMEI who are making contributions into the defined benefit plan) will be automatically placed into a defined contribution VEBA;
- implements a new lowest cost healthcare plan in order to reduce retiree healthcare costs;
- continues the elimination of the SRBR, and, in lieu of the SRBR, establishes a “Guaranteed Purchasing Power” provision, to apply prospectively, in order to maintain the monthly allowance for current and future Tier 1 retirees at 75% of the purchasing power in effect as of the date of retirement;
- reinstates the FCERS’s previous definition of disability, which is comparable to other agencies; and creates an Independent Medical Panel to be appointed by the FCERS Retirement Board, which will determine disability eligibility instead of the FCERS Retirement Board.

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

Both Settlement Frameworks contemplated that there would be a global settlement with all parties involved in Measure B litigation (including retirees) related to seeking a stipulated order from the trial court in the Quo Warranto action declaring that the City Council’s resolution placing Measure B on the June, 2012 ballot is null and void solely on the basis that the City should have engaged in further negotiation of final language with the bargaining units prior to placing the measure on the ballot, thereby invalidating the election result approving Measure B. Additionally, both Settlement Frameworks provide that in the event that trial court in the Quo Warranto action invalidates Measure B, the parties would agree to place a Charter amendment on the November 2016 ballot that includes the following: (1) a requirement for voter approval of defined benefit pension enhancements; (2) a requirement for actuarial soundness; (3) prohibiting retroactivity of defined benefit pension enhancements; and (4) other provisions within the Settlement Frameworks that the parties mutually agree to include. Further, under both Settlement Frameworks, the parties agreed to seek stays of the appeal of the case under the SJPOA Caption as well as the PERB proceedings.

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In the event that a global settlement with all parties did not result, or the invalidation of Measure B through the Quo Warranto action did not occur, then the parties to the Settlement Frameworks agreed to pursue implementation of their terms through a Charter amendment at the November 2016 election.

Under both Settlement Frameworks, the City agreed to pay the litigants attorneys' fees: \$1,500,000 to SJPOA and Local 230 and \$1,257,000 for the non-sworn litigants. The City has made these payments. Further, the City agreed to binding arbitration to resolve any additional claims for attorneys' fees of the SJPOA and Local 230, and OE#3 and the bargaining units represented by IFPTE, Local 21 (AEA, AMSP and CAMP) related to the Measure B litigation and administrative proceedings. The bargaining units represented by AFSCME (MEF and CEO) do not have this right under the Federated Settlement Framework. To date, none of the bargaining units have made additional requests for attorneys' fees.

Quo Warranto Action Following Approval of Settlement Frameworks

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

Measure F -- November 2016 Ballot Measure

The City and its eleven bargaining units negotiated the provisions of Measure F to amend the City Charter to supersede the provisions implemented by Measure B with the retirement provisions agreed to in the Settlement Frameworks. The City Council placed Measure F on the November 2016 ballot and the voters approved it.

Approval of Measure F

Once the Charter amendment approved through the passage of Measure F becomes effective, the City Council will enact the ordinances that will be necessary to implement the changes to PFDRP and FCERS. The City anticipates that the appeal of the lawsuits under the SJPOA Caption, the writ action filed by the SJPOA and the PERB proceedings will be dismissed. The City also anticipates that the Quo Warranto Action will likely become moot. In the event that the appeal of the Quo Warranto Action proceeds, the issues will be procedural because Measure F will supersede Measure B.

9. Overpayment of Pensions

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

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City has an obligation to reimburse FCERS for the overpayments; however, the City has determined to pay to FCERS the amount of the overpayment, including accrued interest, under protest. The City is considering making a liability claim against FCERS and its insurer. The City cannot predict the outcome of pursuing its liability claim.

10. Consent Decree with San Francisco Baykeeper

San Francisco Baykeeper (“Baykeeper”) filed a lawsuit in federal district court against the City in February, 2015, and served its complaint on the City in April, 2015. Baykeeper’s complaint alleged violations of the federal Clean Water Act. Specifically, the complaint alleged that the City was not in compliance with trash reduction requirements under its Municipal Separate Storm Sewer System (MS4) Stormwater Permit (“Stormwater Permit”), and that there were discharge violations of sewage from the City’s Sanitary Sewer System that infiltrated into the MS4.

In order to settle the lawsuit, the City and Baykeeper agreed to a ten year consent decree that was approved by the court in August, 2016 (“Consent Decree”). The Consent Decree’s terms will require the City to:

- Comply with trash provisions of the current Stormwater Permit including installing full trash capture devices, supporting additional creek cleanup efforts, and monitoring of trash in receiving waters;
- Rehabilitate, replace, or repair 65 miles of high risk sanitary sewer system pipes at an average of 6.5 miles per year, based on the City’s existing program with some changes in the priority of segments of this work;
- Monitor and report fecal indicator bacteria (“FIB”) in receiving waters for a five-year period;
- Comply with green infrastructure planning as required in the Stormwater Permit, adding FIB as a pollutant for planning purposes;
- Bring forward new revenue measure options for Council consideration by December 2017;
- Appropriate, contingent upon the receipt of sufficient new revenues, \$100,000,000 over a ten-year period for various green infrastructure projects with the goal of reducing pollutants and/or flows from the City’s urban areas into receiving waters, with expenditures anticipated to occur as follows:
 - Identify and design \$25,000,000 in total projects by September 2024;
 - Award \$25,000,000 in total projects by September 2025;
 - Identify and design an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by September 2025;
 - Award an additional \$10,000,000 (\$35,000,000 in the aggregate) in total projects by the termination date of the consent decree;
 - Identify and design an additional \$15,000,000 (\$50,000,000 aggregate) in total projects by the termination date of the consent decree.

The Consent Decree also provides for ongoing oversight by Baykeeper and a dispute resolution process. The Consent Decree specifies limits on Baykeeper’s ability to pursue additional litigation

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against the City during the Consent Decree's term and litigation fees that can be claimed by Baykeeper for dispute resolution are capped at \$200,000.

In addition to the expenditures outlined above, the City has or will incur the following expenditures during the Consent Decree's term: (1) lump sum payment of attorney's fees and costs to Baykeeper in the amount of \$425,000, which payment has been made; (2) ongoing oversight costs payable to Baykeeper in the amount of \$10,000 per year for a total of \$100,000; and (3) \$200,000 per year for 5 years (a total of \$1,000,000) for supplemental environmental mitigation to be administered by the San José Parks Foundation for trash clean up grants, habitat restoration, or projects that generally improve the water quality in the Guadalupe and Coyote creeks and associated watershed areas.

11. Workers' Compensation Program Audit

The City's Workers' Compensation Program is currently undergoing two audits by the State's Department of Industrial Relations ("DIR"): a routine three-tier Profile Audit Review ("PAR") of randomly selected claims conducted every five years and a Target Utilization Review audit triggered by workers' complaints regarding the City's utilization review and procedures for requests for authorization of medical treatment of work-related injuries and illnesses. The City's utilization review process is conducted by a vendor under contract with the City.

The PAR audit, consisting of three tiers, has proceeded to a more comprehensive Full Compliance Audit with an additional and expanded selection of files, including denied claims. The City failed each of the three tiers of the Full Compliance Audit. On November 15, 2016, the City received the DIR's written report entitled: "Preliminary Notice of Penalty Assessments and Notice(s) of Intention to Issue Notice of Compensation Due" ("Preliminary Audit report"). The City is still reviewing the Preliminary Audit report and has not yet determined whether it will challenge any of its findings. The Preliminary Audit report assesses the following amounts, which arise from the City's delay in processing claims: (1) a penalty in the amount of \$153,015; (2) additional disability payments in the amount of \$38,163.42 and (3) additional medical and medical legal payments owed to providers in the approximate amount of \$16,000, on which interest at the rate of 7% per annum continues to accrue until the date of payment.

The DIR will issue its final report 14 calendar days after the preliminary report and the City will have 30 days from that date to contest the findings or make the penalty payment. The DIR will be monitoring the City's claim review process through calendar year 2017.

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

The Target Utilization Review audit will review files from the first phase of the routine audit, but with a focus on the City's utilization review process and procedure. This audit commenced on October 26, 2016. The City anticipates receipt of the written draft report of the Target Utilization Review audit's findings in the near future.

In addition to these audits, the State DIR's Administrative Director of the Division of Workers' Compensation issued an Order to Show Cause, assessing \$120,000 in administrative penalties for the City's failure to properly address independent medical review appeals of utilization review non-certifications of medical treatment requests in 24 claims. The penalties have been assessed,

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primarily, for failure to timely provide responsive documents to the company under contract with the State that performs independent medical review. The penalties are assessed at the rate of \$500 per day for each day the response is untimely, up to a maximum of \$5,000 per claim. The City paid the penalties on November 4, 2016.

The City believes the failures identified in the Full Compliance Audit are largely attributable to the staffing levels in the City's Workers' Compensation Program. Since June 2013, a combination of in-house City staff and a Third Party Administrator ("TPA") has administered the City's workers' compensation claims. Only the portion of the City's Workers' Compensation Program administered by the in-house City staff is subject to the Full Compliance Audit. Both the in-house staff and the TPA are subject to the Target Utilization Review.

While the adjuster caseloads for the TPA are within an industry standard of 150 cases per adjuster, the adjuster caseloads for the in-house staff are well above this level, with caseloads that have periodically reached close to or in excess of 500 cases per adjuster. To address the in-house staffing needs and compliance with State law requirements, the following adjustments have been made: all four (4) budgeted Workers Compensation Adjuster positions will be filled with permanent staff rather than temporary employees, which the City believes should improve the recruitment and retention of adjusters; and six (6) temporary adjuster and administrative support positions have been added with previously approved one-time funds to address the current workload and backlog issues. In addition, the City has filled a management position within the City's Workers' Compensation Program which the City believes will improve day-to-day management of the program. The City also believes that the addition of adjusters and the management position within the City's Workers' Compensation Program will reduce the current caseload, enable the City's in-house staff to address and correct the State audit findings, and prospectively better manage new claims and ensure compliance with State requirements.

C. Successor Agency to the Redevelopment Agency of the City of San José

1. Cash and Investments Held by SARA

The SARA's cash and investments consist of the following at June 30, 2016 (dollars in thousands):

Cash and investments	\$ 19,625
Restricted cash and investments	<u>158,725</u>
Total cash and investments	<u><u>\$ 178,350</u></u>

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A summary of SARA's cash and investments at June 30, 2016 is as follows:

	Moody's Credit Rating	Maturity (in Days)			Balance at Jun 30
		Under 30	31-180	181-365	
Investments:					
State of California Local					
Agency Investment Fund	Not Rated	\$ -	\$ 39,951	\$ -	\$ 39,951
Federal Home Loan Mortgage Corporation	Aaa	97,832	-	-	97,832
Federal National Mortgage Association	Aaa	17,213	-	-	17,213
Money Market Mutual Fund	Aaa	-	9,239	-	9,239
Treasury Obligation Fund	Aaa	-	4,549	-	4,549
Subtotal investments		<u>\$ 115,045</u>	<u>\$ 53,739</u>	<u>\$ -</u>	<u>\$ 168,784</u>
Certificates of Deposit					4,025
Bank Deposits					5,541
Total Cash & Investments					<u>\$ 178,350</u>

The SARA has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Measurements Using			Balance at June 30
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by Fair Value Level:				
Federal Home Loan Mortgage Corporation	\$ -	\$ 97,832	\$ -	\$ 97,832
Federal National Mortgage Association	-	17,213	-	17,213
Money Market Mutual Fund	9,239	-	-	9,239
Treasury Obligation Fund	4,549	-	-	4,549
Total Investments by Fair Value Level	<u>\$ 13,788</u>	<u>\$ 115,045</u>	<u>\$ -</u>	<u>128,833</u>
State of California Local				
Agency Investment Fund				\$ 39,951
Total Investments				<u>\$ 168,784</u>

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

2. Property Held for Resale and Capital Assets Held by SARA

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

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A summary of changes of the property held for resale during the year ended June 30, 2016 is as follows:

<u>Property Description</u>	<u>July 1, 2015</u>	<u>Addition</u>	<u>Disposal</u>	<u>June 30, 2016</u>
N. San Pedro Housing site ⁽¹⁾	\$ 19,096	\$ 10,377	\$ -	\$ 29,473
Hoffman Via Monte ⁽²⁾	660	-	(660)	-
Central Place Garage ⁽³⁾	850	-	(850)	-
Total Property Held for Resale	<u>\$ 20,606</u>	<u>\$ 10,377</u>	<u>\$ (1,510)</u>	<u>\$ 29,473</u>

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

(2) *Valuation is based on the appraisal report prepared by Gregory D. Rinehart & Associates on December 9, 2014.*

(3) *Valuation is based on the appraisal report prepared by Carneghi and Partners, Inc. on November 17, 2014.*

On June 15, 2016, the SARA sold Hoffman Via Monte (Gallup Drive and Mesa Street) for \$1,160,000 and recognized a gain, after closing costs of \$2,000, in the amount of \$498,000.

On June 15, 2016, the SARA sold Central Place Garage for \$3,576,000 and recognized a gain, after closing costs of \$10,000, in the amount of \$2,715,000.

As security for payments due to the County of Santa Clara under the County Settlement Agreement executed in March 2011 ("County Settlement Agreement"), the Agency also (i) executed and recorded for the benefit of the County, subordinated Deeds of Trust on various Agency-owned real estate asset, (ii) assigned to the County one-half (1/2) of the Agency sales proceeds from the sale of the North San Pedro properties under two separate Disposition and Development Agreements with private developers, and (iii) executed and recorded for the benefit of the County a Deed of Trust against the North San Pedro properties.

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The following is a summary of capital assets activity for the year ended June 30, 2016 (dollars in thousands):

	<u>July 1, 2015</u>	<u>Addition</u>	<u>Disposal/ Transfer</u>	<u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 82,626	\$ 100	\$ (10,147)	\$ 72,579
Construction in progress	977	-	-	977
Total capital assets, not being depreciated	<u>83,603</u>	<u>100</u>	<u>(10,147)</u>	<u>73,556</u>
Capital assets, being depreciated:				
Buildings	82,799	-	(189)	82,610
Building and other Improvements	108	-	-	108
Equipment	1,145	-	-	1,145
Total capital assets, being depreciated	<u>84,052</u>	<u>-</u>	<u>(189)</u>	<u>83,863</u>
Less accumulated depreciation:				
Buildings	19,151	2,070	(189)	21,032
Building and other Improvements	47	7	-	54
Equipment	1,145	-	-	1,145
Total accumulated depreciation	<u>20,343</u>	<u>2,077</u>	<u>(189)</u>	<u>22,231</u>
Total capital assets, being depreciated, net	<u>63,709</u>	<u>(2,077)</u>	<u>-</u>	<u>61,632</u>
Total capital assets, net	<u>\$ 147,312</u>	<u>\$ (1,977)</u>	<u>\$ (10,147)</u>	<u>\$ 135,188</u>

Various Agency-owned real estate assets with an aggregate book value of \$17,070,000 are used to secure Letters of Credit obtained from JPMorgan Chase Bank ("JPMorgan") supporting the Agency's 1996 and 2003 variable rate revenue bonds.

In addition, the Convention Center – South Hall, José Theatre, and Arena Lot 5A were used as collateral to secure HUD Section 108 loans obtained from the U.S. Department of Housing and Urban Development.

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

During the fiscal year, the SARA transferred fifteen government purpose properties with a total book value of \$7,889,000 to the City.

In May 2016, the SARA sold one property (Old Fire Station #1) with the net book value of \$45,000 for \$1,000,000 and recognized a gain of \$950,000 after transaction costs. The net proceeds of \$792,000 were used to redeem 2003 Merged Revenue Series A bonds and \$198,000 was used to pay the accrued interest owed to the County under the County Settlement Agreement.

In June 2016, the SARA sold one property (Plaza Hotel) to the City with the book value of \$2,213,000 for \$740,000 and recognized a net loss of \$1,475,000 after transaction costs. The net proceeds of \$587,000 were used to redeem 2003 Merged Revenue Series A bonds and \$147,000 was used to pay the accrued interest owed to the County under the County Settlement Agreement.

City of San José
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3. Summary of SARA's Long-Term Debt

The following is a summary of long-term debt of the SARA as of June 30, 2016 (dollars in thousands, unless otherwise noted):

Type of Indebtedness	Purpose	Original		Maturity Date	Interest Rate Range	Annual Principal Installments	June 30, 2016 Balance
		Issue Amount	Issue Date				
Senior Tax Allocation Bonds:							
1997 Merged	Merged area project	\$ 106,000	3/27/1997	8/1/2028	5.50 - 5.63%	\$10 - 715	\$ 4,425
1999 Merged	Merged area project	240,000	1/6/1999	8/1/2019	4.75%	\$0 - 7,165	12,920
2003 Merged	Merged area project	135,000	12/22/2003	8/1/2033	4.00 - 5.00%	\$25 - 34,100	125,745
2004 Merged Refunding Series A	Refunding TABs	281,985	5/27/2004	8/1/2019	4.36 - 5.25%	\$15,000 - 31,900	106,705
2005 Merged Refunding Series A	Refunding TABs	220,080	7/26/2005	8/1/2028	4.20 - 5.00%	\$295 - 26,210	122,705
2006 Merged Series A-T	Merged area project	14,300	11/14/2006	8/1/2022	5.65%	\$0 - 6,000	13,300
2006 Merged Series B	Merged area project	67,000	11/14/2006	8/1/2035	4.50 - 5.00%	\$0 - 21,000	67,000
2006 Merged Refunding Series C	Refunding TABs	423,430	12/15/2006	8/1/2032	3.75 - 5.00%	\$0 - 74,280	423,430
2006 Merged Refunding Series D	Refunding TABs	277,755	12/15/2006	8/1/2023	4.00 - 5.00%	\$830 - 67,330	272,885
2007 Merged Series A-T	Merged area project	21,330	11/7/2007	8/1/2017	5.10%	\$2,530 - 2,670	5,200
2007 Merged Series B	Merged area project	191,600	11/7/2007	8/1/2036	4.25 - 5.00%	\$0 - 23,970	191,600
2008 Merged Series A	Merged area project	37,150	11/13/2008	8/1/2018	6.50%	\$4,130 - 4,600	13,085
2008 Merged Series B	Merged area project	80,145	11/13/2008	8/1/2035	6.25 - 7.00%	\$0 - 6,700	80,145
1997 Housing Series E	Low-moderate income housing	17,045	6/23/1997	8/1/2027	5.75 - 5.85%	\$440 - 3,670	15,540
2003 Housing Series J	Low-moderate income housing	55,265	7/10/2003	8/1/2024	4.70 - 5.25%	\$2,015 - 3,505	25,030
2003 Housing Series K	Low-moderate income housing	13,735	7/10/2003	8/1/2029	3.90 - 4.40%	\$265 - 460	4,935
2005 Housing Series A	Low-moderate income housing	10,445	6/30/2005	8/1/2024	3.75 - 5.00%	\$0 - 2,270	10,445
2005 Housing Series B	Low-moderate income housing	119,275	6/30/2005	8/1/2035	5.10 - 5.46%	\$695 - 8,300	96,595
2010 Housing Series A-1	Low-moderate income housing	54,055	4/15/2010	8/1/2035	5.00 - 5.50%	\$0 - 6,305	54,055
2010 Housing Series A-2	Low-moderate income housing	2,655	4/15/2010	8/1/2017	4.00 - 5.00%	\$495 - 1,660	2,155
Total Senior Tax Allocation Bonds							1,647,900
Subordinate Tax Allocation Bonds (TAB):							
1996 Merged Area Revenue Series A	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	\$1,400 - 2,000	18,300
1996 Merged Area Revenue Series B	Merged area projects	29,500	6/27/1996	7/1/2026	Variable	\$1,400 - 2,000	18,300
2003 Merged Area Revenue Series A	Merged area projects	45,000	8/27/2003	8/1/2028	Variable	\$890 - 2,605	24,910
2003 Merged Area Revenue Series B	Merged area projects	15,000	8/27/2003	8/1/2032	Variable	\$0 - 3,900	15,000
2010 Housing Series C	Low-moderate income housing	93,000	4/29/2010	8/1/2035	Variable	\$2,725 - 5,210	77,945
Total Subtotal Subordinate Tax Allocation Bonds							154,455
Other Long-Term Debt:							
Pledge Agreement - Revenue Bonds 2001A	4th/San Fernando parking facility	48,675	4/10/2001	9/1/2026	4.60 - 5.25%	\$1,980 - 3,205	26,005
Reimbursement Agreement - Refunding Revenue Bonds 2001F	Convention Center project	190,730	7/1/2001	9/1/2022	5.00%	\$11,050 - 14,730	89,730
HUD Section 108 Loan	Merged area projects	5,200	2/11/1997	8/1/2016	Variable	\$465	465
HUD Section 108 Loan (CIM)	Merged area projects	13,000	2/8/2006	8/1/2025	Variable	\$740 - 1,135	9,230
HUD Section 108 Loan (Story & King)	Merged area projects	18,000	6/30/2006	8/1/2027	Variable	\$970 - 1,570	12,480
City of San José (SERAF) Loan	Fund the State's SERAF Payment	12,816	2010-2011	6/30/2019	Variable	\$13,029	13,029
City of San José (SERAF) Loan	Fund the State's SERAF Payment	10,000	2010-2011	6/30/2019	Variable	\$10,217	10,217
City of San José - Commercial Paper Program	Fund the housing projects	14,227	2010-2012	6/30/2018	Variable	\$4,750	9,477
Other Long-Term Obligation - County Settlement Agreement	Settlement Agreement	25,290	6/30/2011	6/30/2017	Variable	\$7,703	25,290
City of San José - Reimbursement Agreement	Reimbursement Agreement	28,517	2014-2015	6/30/2016*	LAIF Rate	\$0	28,517
Total Other Long-Term Debt							224,440
Total Long-Term Debt							\$ 2,026,795

* See Long Term Reimbursement Advance below for additional disclosures.

City of San José
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A summary of the changes in long-term debt and other obligations for the year ended June 30, 2016 follows (in thousands):

	June 30, 2015	Additions	Reductions	June 30, 2016	Amount Due One Year
Senior Tax Allocation Bonds:					
1993 Merged Area Refunding	\$ 18,195	\$ -	\$ (18,195)	\$ -	\$ -
1997 Merged	4,795	-	(370)	4,425	395
1999 Merged	12,920	-	-	12,920	-
2002 Merged	11,290	-	(11,290)	-	-
2003 Merged	126,650	-	(905)	125,745	905
2004 Merged Refunding Series A	116,285	-	(9,580)	106,705	29,265
2005 Merged Refunding Series A	130,985	-	(8,280)	122,705	13,135
2005 Merged Refunding Series B	4,225	-	(4,225)	-	-
2006 Merged Series A-T	13,300	-	-	13,300	-
2006 Merged Series B	67,000	-	-	67,000	-
2006 Merged Refunding Series C	423,430	-	-	423,430	-
2006 Merged Refunding Series D	273,595	-	(710)	272,885	12,560
2007 Merged Series A-T	7,600	-	(2,400)	5,200	2,530
2007 Merged Series B	191,600	-	-	191,600	-
2008 Merged Series A	17,010	-	(3,925)	13,085	4,130
2008 Merged Series B	80,145	-	-	80,145	-
1997 Housing Series E	15,955	-	(415)	15,540	440
2003 Housing Series J	27,665	-	(2,635)	25,030	2,755
2003 Housing Series K	5,190	-	(255)	4,935	265
2005 Housing Series A	10,445	-	-	10,445	-
2005 Housing Series B	100,130	-	(3,535)	96,595	3,710
2010 Housing Series A-1	54,055	-	-	54,055	-
2010 Housing Series A-2	2,655	-	(500)	2,155	1,660
2010 Housing Series B	1,085	-	(1,085)	-	-
Subtotal Senior Tax Allocation Bonds	<u>1,716,205</u>	<u>-</u>	<u>(68,305)</u>	<u>1,647,900</u>	<u>71,750</u>
Subordinate Tax Allocation Bonds:					
1996 Merged Series A	19,600	-	(1,300)	18,300	1,400
1996 Merged Series B	19,600	-	(1,300)	18,300	1,400
2003 Merged Revenue Series A	27,710	-	(2,800)	24,910	1,515
2003 Merged Revenue Series B	15,000	-	-	15,000	-
2010 Housing Series C	80,850	-	(2,905)	77,945	77,945
Subtotal Subordinate Tax Allocation Bonds	<u>162,760</u>	<u>-</u>	<u>(8,305)</u>	<u>154,455</u>	<u>82,260</u>
Other Long -Term Debt:					
Pledge Agreement - Revenue Bonds 2001A	27,985	-	(1,980)	26,005	2,075
Reimb Agreement - Refunding Rev Bonds 2001F	100,260	-	(10,530)	89,730	11,050
CSCDA CRA/ERAF Loan 2006	1,905	-	(1,905)	-	-
HUD Section 108 Loan	900	-	(435)	465	465
HUD Section 108 Loan (CIM)	9,930	-	(700)	9,230	740
HUD Section 108 Loan (Story & King)	13,402	-	(922)	12,480	970
City of San José - SERAF Loans (Principal)	64,816	10,000	(52,000)	22,816	7,500
City of San José - SERAF Loans (Interest)	1,064	271	(905)	430	430
City of San José - Commercial paper program	14,227	-	(4,750)	9,477	4,750
Other Long-Term Obligation - County Settlement Agreement (Principal)	23,562	-	(4,712)	18,850	14,137
Other Long-Term Obligation - County Settlement Agreement (Interest)	6,123	3,308	(2,991)	6,440	6,440
City of San José - Reimbursement agreement (Principal)	15,401	13,007	-	28,408	-
City of San José - Reimbursement agreement (Interest)	45	64	-	109	-
Subtotal Other Long-Term Debt	<u>279,620</u>	<u>26,650</u>	<u>(81,830)</u>	<u>224,440</u>	<u>48,558</u>
Subtotal Long-Term Debt before Unamortized	<u>2,158,585</u>	<u>26,650</u>	<u>(158,440)</u>	<u>2,026,795</u>	<u>202,568</u>
Issuance Premium (discount), Net	26,121	-	(3,313)	22,808	3,333
Total Long-Term Obligations	<u>\$ 2,184,706</u>	<u>\$ 26,650</u>	<u>\$(161,753)</u>	<u>\$ 2,049,603</u>	<u>\$ 205,901</u>

Total Redevelopment Property Tax Trust Fund ("RPTTF") revenue distributed by the County in current year was \$186,014,000, which was used to pay debt service and debt related expenses on Senior and Subordinate Merged Area Tax Allocation Bonds, Senior and Subordinate Housing Set-Aside Tax Allocation Bonds, City of San José Financing Authority Series 2001A, City of San José

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Financing Authority Series 2001F and ERAF loans. During the year ended June 30, 2016, the County withheld \$23,640,000 in RPTTF for payments of its prior year's pass-through payments.

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

Redevelopment property tax revenues have been pledged until the year 2036, the final maturity date of the Senior TABs. The total principal and interest remaining on these Tax Allocation Bonds as of June 30, 2016 is \$2,104,931,000.

The 80% redevelopment property tax revenue recognized and received for non-housing senior debt during the year ended June 30, 2016 in the amount of \$132,810,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the Senior TABs amounted to \$131,664,000 for the year ended June 30, 2016.

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

Redevelopment property tax revenues have been pledged until the year 2035, the final maturity date of the bonds. The total principal and interest remaining on these Senior Housing Set-Aside Tax Allocation Bonds as of June 30, 2016 is \$318,130,000. The 20% redevelopment property tax revenue recognized and received for the Senior Housing Set-Aside Tax Allocation Bonds during the year ended June 30, 2016 in the amount of \$19,685,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on Senior Housing Set-Aside Tax Allocation Bonds amounted to \$19,609,000 for the year ended June 30, 2016.

Subordinate Tax Allocation Bonds – Variable-Rate

1996 Merged Area Revenue Bonds – In June 1996, the Agency issued the 1996 Merged Area Redevelopment Project Revenue Bonds, Series A and B, each in the principal amount of \$29,500,000, to provide additional proceeds to finance various redevelopment projects in the Merged Project Area. The 1996A and 1996B Bonds (the “1996A/B Bonds”) are subordinate to the debt service payments of the Senior TABs.

The 1996 A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on the 1996 A/B Bonds amounted to \$76,000 for the year ended June 30, 2016. At June 30, 2016, the interest rate was 0.55% for the 1996A Bonds and 0.54% for the 1996B Bonds.

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

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The 2003 A/B Bonds currently have a flexible rate of interest in a callable commercial paper mode. The total interest on 2003 A/B Bonds amounted to \$187,000 for the year ended June 30, 2016. As of June 30, 2016, the interest rate was 0.73% for the taxable 2003A Bonds and 0.55% for the 2003B Bonds.

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

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

	Balance June 30, 2016 (in thousands)	Credit Facility Description	
		Provider	Expiration Date
Redevelopment Agency Revenue Bonds:			
1996 Merged Series A	\$ 18,300	JPMorgan Chase Bank, N. A.	3/31/2018
1996 Merged Series B	18,300	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series A	24,910	JPMorgan Chase Bank, N. A.	3/31/2018
2003 Merged Revenue Series B	15,000	JPMorgan Chase Bank, N. A.	3/31/2018
Total variable rate revenue bonds	<u>\$ 76,510</u>		

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

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

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

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The JP Morgan Second Amendment reduced the liquidity reserve requirement to \$4,000,000 from \$5,000,000 without provision for adjustment for debt service coverage levels stated in prior agreements. The liquidity reserve balance is \$4,003,000 as of June 30, 2016.

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

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

On April 1, 2016, SARA entered into a Second Amended and Restated Continuing Covenant Agreement with Wells Fargo Bank to extend the Mandatory Purchase Date to April 28, 2017 from April 29, 2016. Pursuant to the Second Amended and Restated Continuing Covenant Agreement, the interest rate is equal to the sum of basis points of 0.62% plus an applicable spread of 1.08%. At June 30, 2016, the interest rate was 1.70%.

Redevelopment property tax revenues have been pledged until the year 2035, the final maturity date of the 2010C Bonds. The total principal and interest remaining on the 2010C Bonds as of June 30, 2016 is \$90,739,000. The 20% redevelopment property tax revenue recognized and received for the 2010C Bonds during the year ended June 30, 2016 in the amount of \$5,620,000 was transferred to the fiscal agent to cover current and future debt service and the reserve requirement. The total debt service payments on the 2010C Bonds amounted to \$5,541,000 for the year ended June 30, 2016.

If the Mandatory Purchase Date is not extended, or the SARA does not exercise its option under the Fiscal Agent Agreement to redeem the 2010C Bonds on or prior to the Mandatory Purchase Date, the SARA is required to pay the Purchase Price of the 2010C Bonds on the Mandatory Purchase Date; provided, however, if on the Mandatory Purchase Date the conditions set forth below are satisfied, the SARA shall not be required to pay the Purchase Price for the 2010C Bonds on the Mandatory Purchase Date except to the extent of available proceeds from the remarketing of the 2010C Bonds. In the event that the conditions set forth below are satisfied on the Mandatory Purchase Date, the available proceeds from the remarketing of the 2010C Bonds shall, to the extent available, be applied to pay the Purchase Price for the 2010C Bonds and that portion of 2010C Bonds for which the Purchase Price cannot be paid from such proceeds shall instead be repaid in

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accordance with the amortization provisions set forth in the Fiscal Agent Agreement, such that the Purchase Price of the 2010C Bonds shall be paid to Wells Fargo Bank in full on the third anniversary of the Mandatory Purchase Date, subject to the earlier remarketing, repayment, acceleration, prepayment or redemption of the 2010C Bonds.

The Purchase Price of the 2010C Bonds is due and payable in full on the Mandatory Purchase Date unless on such date the following conditions are satisfied: (A) no default shall have occurred and be continuing and (B) the SARA shall be deemed to have made on and as of such date each of the representations and warranties of the Agency made in the Continuing Covenant Agreement and in any certificate or document delivered in connection with the Continuing Covenant Agreement and each such representation and warranty shall continue to be accurate and complete in all material respects on and as of such date.

4th and San Fernando Parking Facility Project Pledge Agreement - In March 2001, the City of San José Financing Authority (the "Financing Authority"), issued Revenue Bonds, Series 2001A in the amount of \$48,675,000 to finance the construction of the Fourth Street and San Fernando Parking Facility Project. The Agency entered into an Agency Pledge Agreement with the Financing Authority, which was assumed by the SARA, whereby the payments are payable from and secured by surplus "Agency Revenues". Under the terms of the Agency Pledge Agreement, SARA's payments are limited in each year to an amount equal to the annual debt service due on the bonds minus surplus revenues generated by the parking facility. Surplus Agency Revenues consist of (i) estimated tax increment revenues, which are pledged to the payment of the former Agency's outstanding tax allocation bonds and deemed to be "Surplus" in the current fiscal year in accordance with the resolution, or indenture pursuant to which the outstanding tax allocation bonds were issued; plus (ii) all legally available revenues of the Agency.

In fiscal year 2015-16 the surplus Agency Revenues were not sufficient to make all of the required pledged payment. Therefore the City's Parking System Fund advanced \$1,682,000 to the SARA to enable SARA to make its payments under the Agency Pledge Agreement to the Financing Authority. As of June 30, 2016, the Series 2001A bonds have an outstanding balance of \$26,005,000.

Convention Center Refunding Reimbursement Agreement - In July 2001, the Financing Authority issued the Convention Center Lease Revenue Refunding Bonds, Series 2001F (tax-exempt) and Series 2001G (taxable) amounting to \$186,150,000 and \$4,580,000, respectively. The bonds were issued to refund the 1993 Revenue Bonds, Series C. The Series 2001G Bonds have been paid off and only the Series 2001F Bonds remain outstanding.

In connection with the issuance of the 2001 Convention Center Refunding Bonds, the Agency and the City entered into the Second Amended and Restated Reimbursement Agreement under which the Agency is obligated to use redevelopment property tax revenues or other revenues to reimburse the City for lease payments made to the Financing Authority for the project. The Second Amended and Restated Reimbursement Agreement was assumed by the SARA.

In fiscal year 2015-16, the City advanced \$9,800,000 to the SARA to assist in the payment of debt service on the 2001F bonds to the Financing Authority. The Series 2001F bonds mature in 2022 and have an outstanding balance of \$89,730,000 at June 30, 2016.

California Statewide Communities Development Authority (CSCDA) Educational Revenue Augmentation Fund (ERAF) Loan - The Agency had been periodically required to make payments to the State of California's Educational Revenue Augmentation Fund ("ERAF") through the County of Santa Clara. To finance the 2006 ERAF payments, the Agency participated in the California Redevelopment Association/Educational Revenue Augmentation Fund ("CRA/ERAF") Loan Program. The loan was assumed by the SARA. The 2006 loans were paid in full on March 1, 2016.

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HUD Section 108 Loans – In 1997, the Agency received loan proceeds of \$5,200,000 under the provisions of the U.S. Department of Housing and Urban Development (HUD) Section 108. The proceeds were used to finance the following downtown projects: Security Building, Bassler & Haynes and Beach Buildings (“Eu Bldgs”), and the Masson Building.

In 2006, the Agency received loan proceeds totaling to \$31,000,000 under the provisions of HUD Section 108 program. The proceeds were used to finance the CIM Mix-used Project (Central Place/Tower 88) (\$13,000,000) and for reimbursement of costs incurred on the Story/King Retail Project (\$18,000,000).

As of June 30, 2016, the outstanding loans due to HUD totaled \$22,175,000. The notes payable to HUD mature annually through August 2027 and bear interest at 20 basis points above the monthly LIBOR index. The average rate for the fiscal year 2016 was 0.87%. The HUD loans are secured by the City owned Fairmont Hotel Parking Garage, several SARA owned capital assets (Convention Center – South Hall, José Theatre and Arena Lot 5A) and CDBG grant funds that were awarded or will be awarded to the City. The loans are being repaid by developer payments and by the City through CDBG funds due to insufficiency of redevelopment property tax revenues. During the year ended June 30, 2016, the SARA received \$1,837,000 from the City’s CDBG fund to service the HUD 108 loans.

Supplemental Educational Revenue Augmentation Funds (SERAF) Loan – On July 24, 2009, the State Legislature passed AB 26 X4, which required redevelopment agencies statewide to deposit a total of \$2,050,000,000 of property tax increment in county Supplemental Educational Revenue Augmentation Funds (“SERAF”) to be distributed to meet the State’s Proposition 98 obligations to schools. The Agency’s SERAF obligation was \$62,200,000 in fiscal year 2009-2010 and \$12,800,000 in fiscal year 2010-2011. Payments were made by May 10 of each respective fiscal year.

On May 4, 2010, the Agency and the City entered into a loan agreement where the City agreed to loan the Agency through two separate payments (May 2010 and May 2011) a combined amount of \$74,816,000 to make the SERAF payments (“SERAF Loan”). Sources of the loan were from the City’s Low and Moderate Income Housing Fund (\$64,816,000) which was specifically authorized by the legislation, and idle moneys from City special funds (\$10,000,000). The Low and Moderate Income Housing Fund was subsequently renamed as the Low and Moderate Income Housing Asset Fund.

The Redevelopment Dissolution Law provides that all prior loans made between the City and the Agency, except for loans made from the Low and Moderate Income Housing Asset Fund for payment of SERAF, were invalidated as of February 1, 2012, but may be reinstated once certain conditions related to dissolution are met by the SARA. As such, the \$10,000,000 portion of the SERAF Loan and its related accumulated interest in the amount \$160,000 from the City made by funds other than the Low and Moderate Income Housing Asset Fund was invalidated under this provision and was recorded as part of the SARA’s extraordinary items in 2012. In addition, interest accrued in excess of the LAIF rates pursuant to the Redevelopment Dissolution Law in the amount of \$2,940,000 was also invalidated in 2012.

On February 15, 2013, the DOF determined that a significant portion of the SERAF Loan made from the Low and Moderate Income Housing Asset Fund administered by the City in the amount of \$52,000,000 should not be reported in the ROPS as an enforceable obligation.

On May 26, 2016, the Oversight Board approved the repayment schedule for the SERAF Loan borrowed in 2011 in the amount of \$12,816,000 plus accrued interest, and also approved a partial reinstatement of the SERAF Loan to restore the moneys originally loaned from the City’s special funds in the amount of \$10,000,000. The Oversight Board determined that the remaining portion of

City of San José
Notes to Basic Financial Statements
June 30, 2016

the SERAF Loan borrowed in 2010 in the amount of \$52,000,000 plus accrued interest in the amount of \$905,000 is not an enforceable obligation and directed SARA to remove that portion of the loan from its financial statements. These actions were subsequently approved by the Successor Agency Board on June 28, 2016.

Commercial Paper Obligation – During fiscal year 2010, the City, as agent for the Agency, borrowed \$12,000,000 from the issuance of commercial paper notes from the Financing Authority’s commercial paper program and deposited the funds into the Low and Moderate Income Housing Fund for the purpose of constructing affordable housing. The Oversight Board approved the inclusion of this obligation along with accrued interest and fees as an enforceable obligation totaling \$14,227,000. A payment of \$4,750,000 was made by the SARA in June 2016. The repayment of the commercial paper proceeds is reported in the ROPS in the amount of \$9,477,000 as of June 30, 2016. This obligation is memorialized in the SERAF Loan agreement and was approved by the Oversight Board and Successor Agency Board on May 26, 2016 and June 28, 2016, respectively.

Tax Sharing Agreement with the County of Santa Clara – Prior to 1994, the Redevelopment Law authorized redevelopment agencies to enter into tax sharing agreements with school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. In 1983, the Agency and County entered into a tax sharing agreement (“Original Agreement”) under which the Agency would pay a portion of tax increment revenue generated in the Merged Area (the “County Pass-Through Payment”). On December 16, 1993, the Agency, the County and the City entered into a settlement agreement which continued the County Pass-Through Payment.

On May 22, 2001, the County, the City and the Agency approved an Amended and Restated Agreement (the “Amended Agreement”), which amended and restated the Original Agreement in its entirety. In addition to the continued Pass-Through Payment, the Amended Agreement delegated to the County the authority to undertake redevelopment projects in or of benefit to the Merged Area, and requires SARA to transfer funds to the County to pay for such projects (the “Delegated Payment”). Until June 30, 2004, the Delegated Payment was equal to the County Pass-Through Payment. After January 1, 2004, 20% of the proceeds of any debt secured by the Agency’s Tax Increment Revenues (excluding bonds payable from Housing Set-Aside and refunding bonds) was required to be paid to the County as the Delegated Payment.

The Amended Agreement provides that the payments due to the County from the Agency are subordinate to all of the SARA’s debt. The County and SARA are involved in litigation related to the Amended Agreement.

At July 1, 2015, the amount due to the County was \$44,097,000. During the year ended June 30, 2016, the County withheld \$23,640,000 in the RPTTF for payments of its prior years’ pass-through payments. In addition, during the fiscal year 2015-2016, the SARA accrued pass-through amounts of \$25,741,000 and accumulated interest of \$808,000. The total amount due to the County under the pass-through agreement at June 30, 2016 is \$47,006,000. However, the SARA is disputing these amounts with the County.

2011 Settlement Agreement – On March 16, 2011 the County, the Agency and the City, along with the Diridon Authority, entered into a County Settlement Agreement. The County Settlement Agreement related to a lawsuit filed by the County in which the County alleged, among other things, that the Agency had failed to make timely payment of the County Pass-Through Payment for fiscal years 2008-09, 2009-10 and 2010-11 in an aggregate amount, as of June 30, 2011, of \$58,270,000.

Pursuant to the County Settlement Agreement, the Agency agreed to pay the County \$21,500,000 of County tax-exempt bond proceeds by March 30, 2011, pay an additional \$5,000,000 of unrestricted

City of San José
Notes to Basic Financial Statements
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funds and transferred title to certain property to the County, resulting in a remaining amount of \$23,560,000 owed to the County. The Agency agreed to make in five installments no later than June 30 of 2014, 2015, 2016, 2017 and 2018.

The SARA had sufficient redevelopment property tax revenues to make the first annual installment payments of \$4,712,000 in the fiscal year 2016. As of June 30, 2016, the accrued pass-through payments and accumulated accrued interest are \$18,850,000 and \$6,439,000, respectively.

Debt Service Requirements – The debt service requirements for all debt are based upon a fixed rate of interest, except 1996 Merged Area Revenue Bonds Series A and B, 2003 Merged Area Revenue Bonds Series A and B, 2010 Housing Set-Aside Bonds Series C, HUD Section 108 Loans and the SERAF Loan, which bear interest at variable rates. For purposes of calculating the annual debt service requirements for variable rate debt at June 30, 2016, the following assumed effective rates have been used:

<u>Debt</u>	<u>Effective Interest Rate</u>
1996 Merged Area Revenue, Series A	0.55%
1996 Merged Area Revenue, Series B	0.54%
2003 Merged Area Revenue, Series A	0.73%
2003 Merged Area Revenue, Series B	0.55%
2010 Housing Set-Aside, Series C	1.70%
HUD Section 108 Loan	0.87%
SERAF Loan	0.55%

City of San José
Notes to Basic Financial Statements
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The annual requirements to amortize outstanding tax allocation bonds and other long-term debt outstanding at June 30, 2016, including mandatory sinking fund payments, are as follows (in thousands):

Year Ending June 30	Merged Tax Allocation		Housing Tax Allocation Bonds ⁽¹⁾		Merged Area Revenue Bonds ⁽²⁾		Pledge and Other Agreements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 62,920	\$ 68,471	\$ 11,890	\$ 12,060	\$ 6,230	\$ 883	\$ 13,125	\$ 5,502
2018	65,905	65,374	12,510	11,566	4,595	1,145	13,765	4,840
2019	68,205	62,138	13,165	11,045	4,675	1,347	14,450	4,132
2020	71,330	58,668	13,840	10,492	4,765	1,529	15,155	3,398
2021	74,950	54,959	14,560	9,902	5,245	1,597	15,895	6,180
2022-2026	407,440	214,437	79,780	39,698	28,585	5,542	43,345	160
2027-2031	403,785	111,229	81,495	21,510	14,815	1,992	-	-
2032-2036	279,210	30,395	59,460	5,896	7,600	136	-	-
2037-2041	5,400	115	-	-	-	-	-	-
Total	\$ 1,439,145	\$ 665,786	\$ 286,700	\$ 122,170	\$ 76,510	\$ 14,171	\$ 115,735	\$ 24,212

Year Ending June 30	Obligations with 3rd Parties		Obligations with the City		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 16,312	\$ 6,760	\$ 27,566	\$ 430	\$ 138,043	\$ 94,106
2018	6,512	377	4,727	-	108,014	83,302
2019	1,890	424	-	-	102,385	79,086
2020	1,990	442	-	-	107,080	74,529
2021	2,100	388	-	-	112,750	73,026
2022-2026	12,221	875	-	-	571,371	260,713
2027-2031	-	-	-	-	500,095	134,731
2032-2036	-	-	-	-	346,270	36,427
2037-2041	-	-	28,408	109	33,808	224
Total	\$ 41,025	\$ 9,266	\$ 60,701	\$ 539	\$ 2,019,816	\$ 836,144

(1) Assumes the 2010C Bonds would not be payable upon demand in the event that there is not a further extension of the April 28, 2017 Mandatory Purchase Date. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

(2) Assumes the 1996 A/B and 2003 A/B Bonds would not be payable on demand upon expiration of the LOCs on March 31, 2018. The scheduled redemption of these bonds is incorporated in the annual requirements to maturity schedules.

Ambac Assurance Surety Bonds Held in Bond Reserve Funds – Ambac Assurance, a subsidiary of Ambac Financial, has issued reserve fund surety bonds, securing the SARA's Senior Tax Allocation Bonds Series 1999 and Series 2006D. According to the indentures for these bonds, in the event that such surety bond for any reason lapses or expires, and the remaining amount on deposit in the Bond Reserve Fund (as defined in the indentures) are less than the Bond Reserve Requirement (as defined in the indentures), the SARA is to address such shortfall by delivering to the trustee (i) a replacement surety bond, insurance policy or letter of credit or (ii) make the required deposits to the Bond Reserve Fund.

On May 1, 2013, Ambac Financial emerged from bankruptcy protection which had been filed under Chapter 11 of the Bankruptcy Code in November 2010. On June 11, 2014, the Circuit Court for Dane County, approved the Plan of Rehabilitation of the Segregated Account as a remedy to rehabilitation proceedings undertaken by the Wisconsin Office of the Commissioner of Insurance. No assurance can be made regarding the claims paying ability of Ambac Assurance on the surety bonds described above.

City of San José
Notes to Basic Financial Statements
June 30, 2016

Long Term Reimbursement Advance – When redevelopment property tax revenues are not sufficient to cover the SARA's enforceable obligations, the City Council has committed other sources of funding to cover costs related to the following obligations: agreements associated with the City of San José Financing Authority Lease Revenue Bonds, Series 2001F (Convention Center) and City of San José Financing Authority Revenue Bonds, Series 2001A (4th and San Fernando Parking Facility Project); Education Revenue Augmentation Fund (“ERAF”) payments; and the SARA annual administrative budget and City support service expenses. On September 26, 2013 (as amended on August 27, 2015), the City and the SARA entered into an Amended and Restated Long-Term Reimbursement Agreement in order to establish an obligation for the SARA to repay the City for these advances.

Effective September 22, 2015, with the passage of SB 107, a city may loan funds to a Successor Agency that receives an insufficient distribution from the RPTTF and an enforceable obligation shall be deemed to be created for such loans. The receipt and use of such funds shall be reflected on the ROPS and subject to the approval of the Oversight Board. The interest payable on any such loan shall be calculated on a fixed annual simple basis at a rate not to exceed the most recently published interest rate for funds deposited into the Local Agency Investment Fund during the previous fiscal quarter. The repayment of such loan shall be subordinate to other approved enforceable obligations. Given the relevant provisions of SB 107, a reimbursement agreement is no longer necessary to establish the obligation to repay such loan. The City has advanced \$13,070,000 as of June 30, 2016 to the SARA for its enforceable obligations and other administrative expenses, and the SARA did not repay these amounts to the City.

4. Commitments and Contingencies Related to SARA

Environmental Land Remediation Obligation

A review of the SARA's property during the year ended June 30, 2016 reveals that there is no current pollution remediation required based on their current uses (i.e. surface parking and other uses), except the Miraido property and Convention Center South Hall Site as discussed below. In the unlikely possibility, given dissolution, a land remediation obligation occurs on a property due to a change in the purpose (i.e., convert to housing or retail project), the SARA will prepare estimates and comply with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

Miraido Property - On December 2, 2010, the Agency received a Notice of Responsibility from the County for soil remediation at the Miraido Village Site located at 560 North 6th Street in San José. The Agency as owner of the underlying land leased the site under a ground lease (the “Ground Lease”) to the Japantown Development Limited Partnership (“Miraido”). Miraido constructed an apartment complex on the Ground Lease site. The Agency received a Notice of Responsibility as an additional responsible party. The cleanup process is currently underway with Miraido's consultant working with the Santa Clara County Department of Environmental Health on finalizing the details of the cleanup process. As of June 30, 2016, Miraido's consultant at the direction of Miraido is continuing to mitigate the environmental contamination of the site. It is anticipated that it will take approximately one to two years to complete. Upon completion, Miraido expects to receive a “No Further Action” letter.

Miraido is responsible for all cleanup activities under its Ground Lease with the Agency. Miraido's consultant has estimated that the cost to achieve case closure is approximately \$450,000 at Miraido's cost, with which the SARA's consultant concurs. Under the Ground Lease, Miraido is required to indemnify the SARA if the SARA incurs any costs as a result of the condition of the property. As of June 30, 2016, the SARA has not incurred any cleanup cost. Miraido's failure to indemnify the SARA as required under the Ground Lease would constitute a default under the Ground Lease.

City of San José
Notes to Basic Financial Statements
June 30, 2016

Convention Center South Hall Site – The South Hall Site is contaminated with gasoline and diesel products. The San Francisco Regional Water Quality Control Board (“Regional Board”) has requested a Site Management Plan be prepared for the site. The Regional Board also requested a residential deed restriction be placed on the South Hall Site. A Phase I and Phase II study of the South Hall Site was prepared for the Agency indicating site contamination. There are no immediate plans to prepare a Site Management Plan. The extent and cost of mitigating the contamination is unknown.

Arbitrage Obligation

Subsequent to the dissolution of the former Agency, the SARA Board appointed the City Director of Finance as the SARA’s Chief Financial Officer. The Chief Financial Officer directed a comprehensive review of compliance with regulatory and tax compliance of the SARA’s debt portfolio. As a result of that review, it was determined that arbitrage rebate calculations were required for a number of the outstanding tax-exempt bonds in SARA’s debt portfolio. The City on behalf of the SARA has engaged the services of a rebate consultant. Staff of both the SARA and the City are working with the rebate consultant to complete the calculations. The SARA may owe arbitrage rebate to the IRS, but at this point the amount due is unknown.

Litigation Against County Auditor-Controller SARA

The City, on its own behalf, and the SARA filed a lawsuit on June 26, 2012, entitled *City of San Jose as Successor Agency to the San Jose Redevelopment Agency v. Vinod Sharma, County of Santa Clara, et al.*, Case No. 34-2012-8000190, in the Superior Court for Sacramento County. The suit seeks to compel the County Auditor Controller to disburse funds to the Successor Agency which the Agency previously received as tax increment. In June, 2012, the County began withholding a portion of defined tax increment claiming the withheld amounts were special levies, including a contribution to the County’s employees’ retirement program (the “PERS Levy”) and a levy for the benefit of the Santa Clara Valley Water District (the “Water District Levy”). The County asserted that, although it previously disbursed these funds to the Redevelopment Agency as tax increment, the Agency was never entitled to receive funds attributable to these levies. The lawsuit will also determine the priority of the County’s pass-through payments under the Amended Agreement. The Sacramento Superior Court ruled that the County Auditor Controller could not withhold funds attributable to the PERS levy from the Successor Agency and the Redevelopment Dissolution Law did not require the County to subordinate its pass through payments to any Agency debt other than secured bond debt. The Superior Court did not rule on the Water District Levy.

The City and County both appealed the Superior Court decision to the Third District Court of Appeal, Case No. C074539 (“Court of Appeal”). The Court of Appeal held oral argument on September 26, 2016. On November 3, 2016, the Court of Appeal issued a decision finding that the PERS levy tax increment was wrongfully withheld by the County prior to September 22, 2015, and the issue of the withholding of that increment after that date to the present is to be the subject of a further trial court hearing. In addition, the appellate court found that the County’s pass through agreement was subordinate to bond debt of the Agency, but not other Agency debt based upon the express provisions of the Redevelopment Dissolution Law.

The County has continued to withhold the revenues associated with the special levies, and at June 30, 2016, the amount withheld from the SARA is approximately \$39,113,000. It should be noted that SB 107, which became effective on September 22, 2015, contains a provision that special property taxes approved by the voters of a taxing entity to make payments in support of pension programs or in support of capital projects and programs related to the State Water Project, and levied in addition to property taxes, shall be allocated to, and when collected shall be paid into, the fund of that taxing entity, unless the amounts in question are pledged as security for payment of an enforceable

City of San José
Notes to Basic Financial Statements
June 30, 2016

obligation and needed for payment thereof. SB 107 will affect the future allocation of funds distributed by the County-Auditor Controller into the SARA's RPTTF.

D. Subsequent Events

1. Tax and Revenue Anticipation Note

On July 1, 2016, the City entered into the Note Purchase Agreement with Bank of America, N.A. (the "Bank") under which the Bank agreed to purchase the City's short-term note in the full principal amount of \$100,000,000 (the "2016 Note") in accordance with the terms of the Note Purchase Agreement. The transaction was needed for cash flow borrowing purposes to facilitate the prefunding of employer retirement contributions. Pursuant to the Note Purchase Agreement, the City issued and the Bank purchased the 2016 Note bearing interest at a variable rate based on a LIBOR rate, plus a margin of 0.325% for Bank fees. Under the Note Purchase Agreement, at the City's option on any interest payment date, the City may prepay the 2016 Note in whole or in part, with partial prepayment of principal not less than \$5,000,000 and in \$1,000,000 increments in excess thereof. Security for repayment of the 2016 Note is a pledge of the City's 2016-2017 secured property tax revenues (excluding property taxes levied for general obligation bonds) and all other legally available General Fund revenues of the City, if required. The 2016 Note has a stated maturity of June 30, 2017.

2. Norman Y. Mineta San José International Airport

Airport Revenue Bond Ratings - On September 2, 2016, Fitch Ratings reaffirmed the ratings for the City's Airport revenue bonds at "A-", with a stable rating outlook. Fitch Ratings also reaffirmed the underlying "BBB+" rating on the bank note associated with subordinated commercial paper notes series A-1 (non-AMT), A-2 (non-AMT/Private Activity), B (AMT) and C (Taxable) with a stable rating outlook.

On October 27, 2016, Moody's Investors Service reaffirmed the ratings for the City's Airport revenue bonds at "A2", with a stable rating outlook.

Potential Claim - The passenger airlines that currently operate at the Airport have a potential unasserted claim against the City for overpayment of terminal rents by the airlines. The overpayment of terminal rents by the passenger airlines has resulted from the City's annual calculation of terminal rents in a manner that is not consistent with the terms of the current Lease and Operating Agreement between the passenger airlines and the City. Specifically, from Fiscal Year 2008 to the current fiscal year, the City has not included the City office and administrative space at the terminals that should be counted as "Rentable Terminal Space" under the terms of the Airline Lease and Operating Agreement for the purpose of calculating terminal rents to be charged to the passenger airlines. The statute of limitations for claims against a government entity such as the City is one (1) year pursuant to California Government Code Section 911.2, and the City will therefore take a position with the passenger airlines that the City is only liable to the passenger airlines for one year's overpayment of terminal rents in the approximate amount of \$2.5 million.

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

3. Successor Agency to the Redevelopment Agency of the City of San José

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

City of San José
Notes to Basic Financial Statements
June 30, 2016

value of \$7,448,000 transferred in August 2016. The transfer of these properties was reviewed and approved by the DOF.

In July 2016, the SARA sold property (92 South Montgomery Street) to Imwalle Annex HBD, LLC, with the net book value of \$1,364,000 for \$613,000 and recognized a loss of \$754,000 after transaction costs.

In August 2016, the SARA sold property (226 Balbach Avenue) to the City with the book value of \$2,375,000 for \$2,400,000 and recognized a net gain of \$23,000 after transaction costs. The net proceeds of \$1,918,000 were used to redeem 2003 Merged Revenue Series A bonds and \$480,000 was used to pay the accrued interest owed to the County under the County Settlement Agreement.

In August 2016, the SARA sold property (300 South Almaden Boulevard) to the County of Santa Clara with the net book value of \$1,304,000 for \$96,000 and recognized a loss of \$1,209,000 after transaction costs.

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City of San José
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2016

City of San José
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2016
(\$000's)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts	Budgetary to GAAP	Actual Amounts
	Original	Final	Variance with Final Budget Over (Under)	Budgetary Basis	Differences	GAAP Basis
REVENUES						
Taxes:						
Property	\$ 255,210	262,810	489	263,299	-	263,300
Sales	190,260	201,840	(43)	201,797	-	201,797
Utility	114,825	114,825	(1,351)	113,474	-	113,474
State of California in-lieu	435	435	(25)	410	-	410
Franchise	47,582	48,932	17	48,949	-	48,949
Business Tax	44,425	49,725	1,139	50,864	-	50,864
Other	14,700	16,300	265	16,565	-	16,565
Licenses, permits and fines	64,077	67,077	2,779	69,856	-	69,856
Intergovernmental	5,522	10,190	(1,087)	9,103	-	9,103
Charges for current services	41,908	45,798	2,312	48,110	-	48,110
Other revenues	36,784	40,798	3,784	44,582	-	44,582
Investment income	3,158	3,144	968	4,112	546	4,658 (1)
Total revenues	<u>818,886</u>	<u>861,874</u>	<u>9,247</u>	<u>871,121</u>	<u>546</u>	<u>871,668</u>
EXPENDITURES						
Current:						
General government	161,274	138,888	(18,303)	120,585	(28,492)	92,093 (2)
Public safety	557,153	531,059	(14,236)	516,823	(2,902)	513,921 (2)
Community services	143,717	148,790	(8,320)	140,470	(8,355)	132,115 (2)
Sanitation	2,651	2,624	(920)	1,704	(14)	1,690 (2)
Capital maintenance	205,467	150,212	(47,747)	102,465	(17,141)	85,324 (2)
Capital outlay	-	26,832	-	26,832	-	26,832
Debt service:						
Principal	2,168	525	938	1,463	-	1,463
Interest	1,200	1,200	-	1,200	-	1,200
Total expenditures	<u>1,073,630</u>	<u>1,000,130</u>	<u>(88,588)</u>	<u>911,542</u>	<u>(56,904)</u>	<u>854,638</u>
Excess (deficiency) of revenues over expenditures	<u>(254,744)</u>	<u>(138,256)</u>	<u>97,835</u>	<u>(40,421)</u>	<u>57,450</u>	<u>17,030</u>
OTHER FINANCING SOURCES (USES)						
Capital lease financing proceeds	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-
Proceeds from sale of capital assets	4,388	4,388	(540)	3,848	-	3,848
S A R A	-	-	-	-	-	-
Operating transfers in	10,962	10,962	(709)	10,253	-	10,253
Operating transfers-out	(28,796)	(28,822)	776	(28,046)	-	(28,046)
Total other financing sources (uses)	<u>(13,446)</u>	<u>(13,472)</u>	<u>(473)</u>	<u>(13,945)</u>	<u>-</u>	<u>(13,945)</u>
Net change in fund balances	(268,190)	(151,728)	97,362	(54,366)	57,450	3,085
Fund balance - beginning	268,915	268,915	-	268,915	47,040	315,954
Beginning encumbrance	-	-	-	44,395	(44,395)	-
Fund balance - ending	<u>\$ 725</u>	<u>117,187</u>	<u>97,362</u>	<u>258,944</u>	<u>60,095</u>	<u>319,039</u>

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
(2) Encumbrances of funds for which formal budget are prepared.

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2016

City of San José
Housing Activities
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
(\$000's)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Actual Amounts Budgetary Basis	Budgetary to GAAP Differences	Actual Amounts GAAP Basis
	Original	Final	Variance with Final Budget Over (Under)			
REVENUE						
Intergovernmental	\$ 5,716	7,915	(981)	6,934	-	6,934
Investment income	1,009	1,089	1,347	2,436	59	2,495 (1)
Other revenues	7,452	14,712	(2,030)	12,682	(6,306)	6,376 (3)
Total revenues	<u>14,177</u>	<u>23,716</u>	<u>(1,664)</u>	<u>22,052</u>	<u>(6,247)</u>	<u>15,805</u>
EXPENDITURES						
Current:						
Community services	26,685	42,770	(8,653)	34,117	20,140	13,978 (2), (3)
Total expenditures	<u>26,685</u>	<u>42,770</u>	<u>(8,653)</u>	<u>34,117</u>	<u>20,140</u>	<u>13,978</u>
Excess (deficiency) of revenues over expenditures	<u>(12,508)</u>	<u>(19,054)</u>	<u>6,989</u>	<u>(12,065)</u>	<u>(26,387)</u>	<u>1,827</u>
OTHER FINANCING SOURCES (USES)						
Transfers in			(537)	(537)	537	
Transfers out	(46)	(77)		(77)		(77)
Total other financing sources (uses)	<u>(46)</u>	<u>(77)</u>	<u>(537)</u>	<u>(614)</u>	<u>537</u>	<u>(77)</u>
Net change in fund balances	(12,554)	(19,131)	6,452	(12,679)	(25,850)	1,750
Fund balance - beginning	38,025	38,025	-	38,025	46,602	84,627
Add beginning encumbrance balance			-	3,604	(3,604)	-
Fund balances - ending	<u>\$ 25,471</u>	<u>18,894</u>	<u>6,452</u>	<u>28,950</u>	<u>17,148</u>	<u>86,377</u>

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budget are prepared.
- (3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2016

Low and Moderate Income Housing Asset Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
(\$000's)

	Budgeted Amounts		Actual Amounts	Actual	Budgetary	Actual
	Original	Final	Budgetary Basis	Amounts	to GAAP	Amounts
			Variance with Final Budget Over (Under)	Budgetary Basis	Differences	GAAP Basis
REVENUES						
Investment income	\$ 6,975	6,975	10,852	17,827	236	18,063 (1)
Other revenues		42,190	(6,153)	36,037	(21,705)	14,333 (3)
Total revenues	<u>6,975</u>	<u>49,165</u>	<u>4,699</u>	<u>53,865</u>	<u>(21,469)</u>	<u>32,395</u>
EXPENDITURES						
Current:						
Community services	10,756	33,005	(13,365)	19,640	(9,608)	10,031 (2), (3)
Total expenditures	<u>10,756</u>	<u>33,005</u>	<u>(13,365)</u>	<u>19,640</u>	<u>(9,608)</u>	<u>10,031</u>
Excess (deficiency) of revenues over expenditures	<u>(3,781)</u>	<u>16,160</u>	<u>18,064</u>	<u>34,225</u>	<u>(11,861)</u>	<u>22,364</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	(404)	(404)		(404)		(404)
Extraordinary gain/loss						
Total other financing sources (uses)	<u>(404)</u>	<u>(404)</u>		<u>(404)</u>		<u>(404)</u>
Net change in fund balances	(4,185)	15,756	18,064	33,821	(11,861)	21,960
Fund balance - beginning	28,461	28,461	-	28,461	298,039	326,500
Add beginning encumbrance balance			-	1,964	(1,964)	-
Fund balances - ending	<u>\$ 24,276</u>	<u>44,217</u>	<u>18,064</u>	<u>64,246</u>	<u>284,215</u>	<u>348,460</u>

Explanation of differences:

- (1) Gain or loss in fair value of investments are not formally budgeted transactions.
- (2) Encumbrances of funds for which formal budget are prepared.
- (3) Expenditures and repayments that increase and decrease certain loan receivables for which formal budgets are prepared.

See accompanying notes to the required supplementary information.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2016

Schedules of Employer Contributions – Defined Benefit Pension Plans

PFDRP Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 132,480	\$ 129,279	\$ 123,583	\$ 105,297	\$ 121,008	\$ 77,918	\$ 52,315	\$ 53,103	\$ 56,372	\$ 51,192
Contributions in relation to the actuarially determined contributions	132,480	129,279	123,583	105,297	121,008	77,918	52,315	53,103	56,372	51,192
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 186,874	\$ 180,226	\$ 180,083	\$ 180,333	\$ 184,750	\$ 222,464	\$ 239,570	\$ 243,196	\$ 240,503	**
Contributions as a percentage of covered-employee payroll	70.89%	71.73%	68.63%	58.39%	65.50%	35.02%	21.84%	21.84%	23.44%	

**Actuarial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contribution rates for fiscal year 2011, the plan transitioned to annual actuarial valuations.

Valuation date	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007	June 30, 2005
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year							
Actuarial cost method	Entry age							
Amortization method	5-year smoothed market							
Discount rate	7.00%	7.13%	7.25%	7.25%	7.50%	7.75%	8%	8%
Salary increases	3.25% plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service.	2.00% for one year and 3.5% thereafter plus merit component based on length of service ranging from 9.25% for new hires to 2.00% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	0.00% for FY 2013 and 2014, and 3.50% thereafter plus merit component based on length of service ranging from 8.00% for new hires to 2.25% for members with 10 or more years of service.	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service.	.75% plus merit component based on length of service ranging from 9.75% for new hires to 6% for members with 8 or more years of service.	.5% plus merit component based on length of service ranging from 9% for new hires to 5% for members with 8 or more years of service.
Amortization payment growth rate	3.25%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
COLA	3.0% for Police Tier 1 & Fire Tier 1, 1.5% for Police Tier 2 & Fire Tier 2	3.0% for Police Tier 1 & Fire Tier 1, 1.5% for Police Tier 2 & Fire Tier 2	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3.0% for Police Tier 1 & Fire, 1.5% for Police Tier 2	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire	3% for Police and Fire
Mortality	Male and Female RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years.	Male and Female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years			Male and female RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back four years.	Male and female RP-2000 combined healthy mortality table with no collar adjustment projected to 2010 using scale AA. Male rates are set back three years and female rates are set forward one year.		Male and female 1994 Group Annuity Mortality Table. Male rates are set back four years and female rates are set forward one year.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2016

FCERS Schedule of Employer Contributions

(Dollar Amounts in Thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 129,456	\$ 114,751	\$ 102,811	\$ 103,109	\$ 87,082	\$ 59,180	\$ 54,566	\$ 57,020	\$ 54,958	\$ 51,004
Contributions in relation to the actuarially determined contributions	124,723	114,751	107,544	103,109	87,082	59,180	54,566	57,020	54,958	51,004
Contribution deficiency (excess)	\$ 4,733	\$ -	\$ (4,733)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 257,771	\$ 240,678	\$ 219,434	\$ 217,375	\$ 223,158	\$ 275,869	\$ 308,684	\$ 320,993	\$ 302,414	-
Contributions as a percentage of covered-employee payroll	48.39%	47.68%	49.01%	47.43%	39.02%	21.45%	17.68%	17.76%	18.17%	0.00%

Because an Actuarially Determined Contribution (ADC) has been calculated historically, the full 10 years of information in the above schedule is required. Contributions reported for FYE 2014 included \$4.7 million that should information in the above schedule is required. Contributions reported for FYE 2014 included \$4.7 million that should have been credited to the OPEB plan. This amount was corrected in FYE 2016.

Valuation date	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2007	June 30, 2005	June 30, 2003
Timing	Actually determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year							
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	7.00%	7.25%	7.50%	7.50%	7.95%	7.75%	8.25%	8.25%
Salary increases	2.0% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	2.0% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/ longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/ longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/ longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.4% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/ longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service
Amortization payment growth rate	2.85%	2.43%	3.25%	3.25%	3.90%	3.83%	4.25%	4.25%
COLA	3%	3%	3%	3%	3%	3%	3%	3%
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table.	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table

City of San José
Required Supplementary Information (Unaudited)
June 30, 2016

Schedule of Changes in the Employer's Net Pension Liability – Defined Benefit Pension Plans

(Dollar amounts in thousands):

	2016		2015	
	PFDRP	FCERS	PFDRP	FCERS
Total pension liability				
Service cost (middle of year)	\$ 74,531	\$ 49,011	\$ 74,895	\$ 46,795
Interest (includes interest on service cost)	274,488	229,610	262,738	221,690
Differences between expected and actual experience	(8,673)	39,720	21,457	13,005
Changes of assumptions	90,179	205,875	56,311	108,674
Benefit payments, including refunds of member contributions	(186,939)	(173,318)	(176,253)	(164,562)
Net change in total pension liability	243,586	350,898	239,148	225,602
Total pension liability - beginning	3,976,513	3,341,250	3,737,364	3,115,648
Total pension liability - ending	<u>\$ 4,220,099</u>	<u>\$ 3,692,148</u>	<u>\$ 3,976,513</u>	<u>\$ 3,341,250</u>
Plan fiduciary net position				
Contributions - employer	\$ 132,480	\$ 124,723	\$ 129,279	\$ 114,751
Contributions - member	21,508	15,920	20,747	13,621
Net investment income	(29,206)	(35,011)	(27,690)	(16,642)
Benefit payments, including refunds of member contributions	(186,940)	(173,318)	(176,253)	(164,562)
Administrative expense	(4,256)	(3,941)	(4,191)	(3,898)
Net change in plan fiduciary net position	(66,414)	(71,627)	(58,108)	(56,730)
Plan fiduciary net position - beginning	3,110,065	1,930,507	3,168,173	1,987,237
Plan fiduciary net position - ending	<u>\$ 3,043,651</u>	<u>\$ 1,858,880</u>	<u>\$ 3,110,065</u>	<u>\$ 1,930,507</u>
Net pension liability - ending	\$ 1,176,448	\$ 1,833,268	\$ 866,447	\$ 1,410,743
Plan fiduciary net position as a percentage of the total pension liability	72.12%	50.35%	78.21%	57.78%
Covered employee payroll	\$ 186,874	\$ 257,771	\$ 180,226	\$ 240,678
Net pension liability as a percentage of covered employee payroll	629.53%	711.20%	480.75%	586.15%

Schedule of Investment Returns – Defined Benefit Pension Plans

	2016		2015	
	PFDRP	FCERS	PFDRP	FCERS
Annual money-weighted rate of return, net of investment expense	(0.85%)	(0.79%)	(0.85%)	(1.07%)

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2016

Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios – CalPERS

(Dollar amounts in thousands):

	2016	2015
Measurement date:	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.03783%	0.01697%
Proportionate share of the net pension liability	\$ 1,037	\$ 1,056
Covered employee payroll	\$ 589	\$ 692
Proportionate share of the net pension liability as percentage of covered-employee payroll	176.06%	152.60%
Plan's fiduciary net position	3,671	3,395
Plan's fiduciary net position as a percentage of the total pension liability	77.96%	76.28%

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2015. Additional years will be displayed as they become available.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2016

Schedule of Employer Contributions – CalPERS

(Dollar amounts in thousands)	2016	2015
Actuarially determined contribution	\$ 148	\$ 107
Contributions in relation to the actuarially determined contributions	156	107
Contribution deficiency (excess)	\$ (8)	\$ -
Covered - employee payroll	\$ 756	\$ 589
Contributions as a percentage of covered employee payroll	20.63%	17.06%

Notes to Schedule:

Valuation date:	6/30/2013
Methods and assumptions used to determine contribution rates:	
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization method	Level Percentage of Payroll
Asset valuation method	Market Value
Actuarial Assumptions	
Discount Rate	7.5% (net of administrative expenses)
Projected Salary increase	3.30% to 14.20% Depending on Age, Service and Type of Employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Schedule is intended to show information for 10 years commencing with the fiscal year ended June 30, 2016. Additional years will be displayed as they occur.

City of San José
Required Supplementary Information (Unaudited)
June 30, 2016

Schedules of Funding Progress – Postemployment Healthcare Benefit Plans
(\$000's)

Police and Fire Department Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (1)	Unfunded AAL as a Percentage of Covered Payroll
6/30/13	75,035	700,525	625,490	11%	184,645	339%
6/30/14	93,605	706,709	613,104	13%	188,189	326%
6/30/15	114,565	739,753	625,188	15%	184,733	338%

Federated City Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (1)	Unfunded AAL as a Percentage of Covered Payroll
6/30/13	157,695	870,872	713,177	18%	226,098	315%
6/30/14	199,776	729,406	529,630	27%	234,677	226%
6/30/15	209,761	817,673	607,912	26%	251,430	242%

(1) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year.

City of San José
Notes to Required Supplementary Information (Unaudited)
June 30, 2016

I. Budgetary Information

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation.

The annual appropriation ordinance adopts the budget at the appropriation level by expenditure category (personal services, nonpersonal) within departments. Accordingly, the lowest level of budgetary control exercised by the City Council is the appropriation level within a department. The City's legal level of budgetary control is so detailed that it is not practical to demonstrate compliance within the Comprehensive Annual Financial Report itself. As a result, the City prepares a separate report to demonstrate compliance with its legal level of budgetary control.

Annual budgets are prepared for the General Fund and all Special Revenue Funds. Capital project budgets are based on a project time frame rather than a fiscal year time frame. Debt Service Funds appropriations were adopted by the Council when the formal bond resolutions were approved. Therefore, Capital Project Funds and Debt Service Funds are not reported on budgetary basis.

II. Budgetary Results Reconciled to GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States ("GAAP") basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process ("budgetary basis") to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on GAAP basis until the equipment, supplies or services are received.
- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When loan repayments are received, they are recorded as reductions to receivables on a GAAP basis, but are recognized as revenues on a budgetary basis.
- Net decreases were made to certain GAAP basis loans receivable to reflect carrying amounts at a discounted present value and allowances for bad debts. The discount is treated as an expenditure on a GAAP basis and is not included in the budgetary basis financial statements. In addition, the allowance for bad debts is not included in the budgetary basis financial schedules, but is an expenditure on a GAAP basis.
- Certain advances to the SARA are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these advances are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When repayments are received, they are recorded as reductions to advances to the SARA on a GAAP basis, but are recognized as revenues on a budgetary basis.

City of San José
Notes to Required Supplementary Information (Unaudited)
June 30, 2016

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial schedules.
- The Community Facility Revenue non-major special revenue fund has been blended to include the financial operations of the Dolce Hayes Mansion. Formal budgets are not prepared for this financial activity and is excluded from the budgetary basis financial schedules.
- Certain line of credit transactions are recognized as expenditures in the budgetary basis financial schedules but are recorded as an asset in the GAAP basis financial statements. When the outside agency draws down on the line of credit, the City records an asset, advances to other agencies, in the GAAP basis financial statements and an expenditure on the budgetary basis financial schedules. When the outside agency pays down the line of credit, the City records a reduction to its assets in the GAAP basis financial statements and revenues on the budgetary basis financial schedules.
- Certain grant revenues received in advance are recognized on the budgetary basis financial schedules, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

III. Budget Revisions

On October 18, 2016, the City Council approved certain fiscal year 2016 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying schedules of revenues, expenditures, and changes in fund balances - budget and actual reflect such budget revisions.

Combining Nonmajor Governmental Funds

Combining Nonmajor Governmental Funds

City of San José
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016
(\$000's)

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Project Funds</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 389,827	-	102,277	492,104
Receivables (net of allowance for uncollectibles)	27,287	234	3,552	31,073
Due from other funds	1,659	-	2,037	3,696
Loans receivable (net of allowance for uncollectibles)	3,411	-	-	3,411
Advances and deposits	200	-	38	238
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	-	33,053	107	33,160
Cash and investments held with fiscal agent	-	6	32,775	32,781
Other cash and investments	7,973	-	-	7,973
Other assets	1,909	-	-	1,909
Total assets	<u>\$ 432,266</u>	<u>33,293</u>	<u>140,786</u>	<u>606,345</u>
LIABILITIES				
Accounts payable	\$ 32,610	1	1,131	33,742
Accrued salaries, wages, and payroll taxes	2,971	-	516	3,487
Due to other funds	3,110	-	2,036	5,146
Unearned revenue	5,996	-	-	5,996
Advances and deposits payable	5,299	-	-	5,299
Other liabilities	2	-	-	2
Total liabilities	<u>49,988</u>	<u>1</u>	<u>3,683</u>	<u>53,672</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>1,407</u>	<u>-</u>	<u>-</u>	<u>1,407</u>
FUND BALANCES				
Nonspendable	200	-	38	238
Restricted	308,533	33,292	70,983	412,808
Committed	55,435	-	-	55,435
Assigned	16,703	-	66,082	82,785
Total fund balances	<u>380,871</u>	<u>33,292</u>	<u>137,103</u>	<u>551,266</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 432,266</u>	<u>33,293</u>	<u>140,786</u>	<u>606,345</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016
(\$000's)

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes and special assessments	\$ 106,139	37,427	22,466	166,032
Intergovernmental	47,212	-	17,884	65,096
Charges for current services	200,639	-	8,463	209,102
Rent	43,284	-	-	43,284
Investment income	3,125	265	1,060	4,450
Other revenues	1,439	-	2,814	4,253
Total revenues	<u>401,838</u>	<u>37,692</u>	<u>52,687</u>	<u>492,217</u>
EXPENDITURES				
Current:				
General government	16,412	-	-	16,412
Public safety	2,693	-	-	2,693
Community services	85,519	-	-	85,519
Sanitation	143,318	-	-	143,318
Capital maintenance	91,282	-	52,271	143,553
Capital outlay	24,513	-	8,495	33,008
Debt service:				
Principal	417	19,650	-	20,067
Interest and fiscal charges	-	18,766	-	18,766
Total expenditures	<u>364,154</u>	<u>38,416</u>	<u>60,766</u>	<u>463,336</u>
Excess (deficiency) of revenues under (over) expenditures	<u>37,684</u>	<u>(724)</u>	<u>(8,079)</u>	<u>28,881</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	20,492	24,220	2,100	46,812
Transfers out	<u>(34,269)</u>	<u>(24,179)</u>	<u>(2,372)</u>	<u>(60,820)</u>
Total other financing sources (uses)	<u>(13,777)</u>	<u>41</u>	<u>(272)</u>	<u>(14,008)</u>
Net change in fund balances	23,907	(683)	(8,351)	14,873
Fund balances - beginning	<u>356,964</u>	<u>33,975</u>	<u>145,454</u>	<u>536,393</u>
Fund balances - ending	<u>\$ 380,871</u>	<u>33,292</u>	<u>137,103</u>	<u>551,266</u>

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Nonmajor Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Special Revenue Funds of the City of San José include the following:

Prusch Memorial Park Fund – Established to account for the development, construction, and improvement of the Emma Prusch Memorial Park.

Gift Trust Fund – Established to receive gifts, donations, and bequests.

Workforce Investment Act Funds – Established to account for federal funds for training and placement of dislocated and economically disadvantaged workers.

San José Arena Enhancement Fund – Established to account for funds provided for current and future capital improvements of the San José Arena (SAP Center at San José).

Special Assessment Maintenance Districts Funds – Established to account for assessments involving Maintenance District activities.

Ng Shing Gung Capital Maintenance Fund – Established to account for capital maintenance needs of the Ng Shing Gung Exhibit and Museum.

Subdivision Park Trust Fund – Established to account for the payment of fees and/or the dedication of land for parks and recreational purposes in residential subdivisions.

Construction and Property Conveyance Tax Funds – Established to account for the collection of taxes from construction and property transfers for capital maintenance of libraries, parks, recreational, public works, and communication facilities.

1943 and 1964 Gas Tax Maintenance and Construction Funds – Established to account for gas taxes collected for capital maintenance of public streets subject to provisions of the Streets and Highway Code of the State of California under Sections 2105, 2106, and 2107.

Storm Drainage Fee Funds – Established to account for fees collected from developers as a result of connections to the storm drainage sewer system which may be used for capital maintenance of storm drainage systems and for land acquisition for such systems.

Supplemental Local Law Enforcement Fund – Established to account for revenues received from the State of California (AB 3229) to be used for front line municipal police service.

Underground Utility Fund – Established to account for fees collected from developers in lieu of the developers placing certain utility facilities underground to be used for minimizing the piecemeal undergrounding of utility facilities throughout the City.

State Drug Forfeiture Fund – Established to account for State drug forfeiture monies received pursuant to California Health and Safety Code Section 11489.

Library Parcel Tax Fund – Established to account for the annual parcel tax used for enhancing the City's library services and facilities.

Federal Drug Forfeiture Fund – Established to account for Federal drug forfeiture monies received pursuant to the drug abuse prevention and control provisions of Title 21, Chapter 13 of the United States Code.

Nonmajor Special Revenue Funds

Residential Construction Tax Contribution Fund – Established to account for the accumulation of residential construction tax monies for eligible street maintenance and improvements.

Arterial and Major Collectors Fund – Established to account for funds repaid by abutting landowners for the City's capital maintenance costs of existing and proposed arterial and major collector streets.

Community Facility Revenue Funds – Established to account for the rental revenues received from the Hayes Mansion and the Ice Centre operations, and to provide for the accumulation and transfer of base rental income to the appropriate debt service funds for repayment of the facilities-related debts.

Integrated Waste Management Fund – Established to account for activities related to the Integrated Waste Management Program which includes garbage collection, recycling services, and related billing operations.

Building and Structures Construction Tax Fund – Established to account for revenues received from the issuance of building permits and capital maintenance expenditures for existing and proposed City streets.

Development Enhancement Fund – Established to account for loans and loan guarantees to assist small business development.

Community Development Block Grant Fund – Established to account for Federal grant funds received from the U.S. Department of Housing and Urban Development under Title II of the Housing and Community Development Act of 1974.

Economic Development Administration Loans Fund – Established to account for Federal funds received for the Economic Development Administration Loan program for eligible administrative expenses and loans to small businesses.

Storm Drainage Service Use Charge Funds – Established to account for revenues collected from owners of properties benefited by the storm drainage service which may be used for capital maintenance and operation of the storm drainage system.

Transient Occupancy Tax Fund – Established to account for transient occupancy tax revenues and to provide for the funding of fine arts and cultural grant programs, the San José Convention and Visitors Bureau and the conventions and cultural facilities operation.

Lake Cunningham Fund – Established to account for the parking fees and lease payment revenues used for maintenance and operations at Lake Cunningham Park.

Edward Byrne Memorial Justice Funds – Established to account for Federal funding in support of the Edward G. Byrne Memorial Justice Assistance grant.

Municipal Golf Courses Fund – Established in 1969 to manage and operate the public golf courses.

Convention and Cultural Facilities Funds – Established to fund the costs of managing and operating the San José McEnery Convention Center, the Center for the Performing Arts, Civic Auditorium, California Theatre, Montgomery Theater, Parkside Hall, South Hall, and their related facilities and grounds.

Nonmajor Special Revenue Funds



City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016
(\$000's)

	Prush Memorial Park (Fund 131)	Gift Trust (Fund 139)	Workforce Investment Act (Funds 290-294, 299)	San José Arena Enhancement (Fund 301)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 436	3,974	-	-
Receivables (net of allowance for uncollectibles)	1	86	2,884	-
Due from other funds	-	-	-	-
Loans receivable (net of allowance for uncollectibles)	-	-	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other cash and investments	-	-	-	-
Other assets	-	-	-	-
Total assets	<u>\$ 437</u>	<u>4,060</u>	<u>2,884</u>	<u>-</u>
LIABILITIES				
Accounts payable	\$ 62	28	617	-
Accrued salaries, wages, and payroll taxes	-	12	101	-
Due to other funds	-	-	952	-
Unearned revenue	-	-	-	-
Advances, deposits, and reimbursable credits	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	<u>62</u>	<u>40</u>	<u>1,670</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	-	1,214	-
Committed	375	-	-	-
Assigned	-	4,020	-	-
Total fund balances	<u>375</u>	<u>4,020</u>	<u>1,214</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 437</u>	<u>4,060</u>	<u>2,884</u>	<u>-</u>

Special Assessment Maintenance Districts (Fund 302, 310, 351-369 370-374, 376, 379)	Ng Shing Gung Capital Maintenance (Fund 303)	Subdivision Park Trust (Fund 375)	Construction and Property Conveyance Tax (Funds 377-378, 380-398)	1943 Gas Tax Maintenance and Construction (Fund 409)	1964 Gas Tax Maintenance and Construction (Funds 410-411)
17,561	81	74,603	86,942	-	-
538	-	175	4,521	207	823
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,836	-	-
-	-	-	-	-	-
<u>18,099</u>	<u>81</u>	<u>74,778</u>	<u>93,299</u>	<u>207</u>	<u>823</u>
547	-	1,163	2,581	-	-
48	-	111	271	-	-
-	-	-	421	207	823
122	-	-	1,833	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>717</u>	<u>-</u>	<u>1,274</u>	<u>5,106</u>	<u>207</u>	<u>823</u>
-	-	-	-	-	-
-	-	-	-	-	-
17,382	-	73,504	88,193	-	-
-	-	-	-	-	-
-	81	-	-	-	-
<u>17,382</u>	<u>81</u>	<u>73,504</u>	<u>88,193</u>	<u>-</u>	<u>-</u>
<u>18,099</u>	<u>81</u>	<u>74,778</u>	<u>93,299</u>	<u>207</u>	<u>823</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016
(\$000's)

	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 722	2,050	5,050	711
Receivables (net of allowance for uncollectibles)	1	4	333	2
Due from other funds	-	-	-	-
Loans receivable (net of allowance for uncollectibles)	-	-	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other cash and investments	-	-	-	-
Other assets	-	-	-	-
Total assets	<u>\$ 723</u>	<u>2,054</u>	<u>5,383</u>	<u>713</u>
LIABILITIES				
Accounts payable	\$ 13	372	-	64
Accrued salaries, wages, and payroll taxes	-	-	5	-
Due to other funds	-	-	-	-
Unearned revenue	-	1,653	-	-
Advances, deposits, and reimbursable credits	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	<u>13</u>	<u>2,025</u>	<u>5</u>	<u>64</u>
DEFERRED INFLOWS OF RESOURCES				
	-	-	-	-
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	710	29	5,378	649
Committed	-	-	-	-
Assigned	-	-	-	-
Total fund balances	<u>710</u>	<u>29</u>	<u>5,378</u>	<u>649</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 723</u>	<u>2,054</u>	<u>5,383</u>	<u>713</u>

Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432, 438)	Integrated Waste Management (Fund 423)	Building and Structures Construction Tax (Fund 429)
11,939	3,532	1,841	1,538	15,020	44,036	49,540
26	8	4	3	752	7,565	1,077
-	-	-	-	-	-	1,659
-	-	-	-	-	-	-
-	-	-	-	-	-	3
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>11,965</u>	<u>3,540</u>	<u>1,845</u>	<u>1,541</u>	<u>15,772</u>	<u>51,601</u>	<u>52,279</u>
87	-	-	-	613	19,058	749
131	-	-	-	1,206	312	172
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	1,371	3,928	-
-	-	-	-	-	2	-
<u>218</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,190</u>	<u>23,300</u>	<u>921</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	3
11,747	3,540	-	-	-	-	51,355
-	-	1,845	1,541	-	28,301	-
-	-	-	-	12,582	-	-
<u>11,747</u>	<u>3,540</u>	<u>1,845</u>	<u>1,541</u>	<u>12,582</u>	<u>28,301</u>	<u>51,358</u>
<u>11,965</u>	<u>3,540</u>	<u>1,845</u>	<u>1,541</u>	<u>15,772</u>	<u>51,601</u>	<u>52,279</u>

(Continued)

City of San José
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016
(\$000's)

	Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ -	-	7	51,703
Receivables (net of allowance for uncollectibles)	-	2,524	-	420
Due from other funds	-	-	-	-
Loans receivable (net of allowance for uncollectibles)	20	3,391	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other cash and investments	-	-	-	-
Other assets	-	1,909	-	-
Total assets	<u>\$ 20</u>	<u>7,824</u>	<u>7</u>	<u>52,123</u>
LIABILITIES				
Accounts payable	\$ -	740	-	1,728
Accrued salaries, wages, and payroll taxes	-	84	-	456
Due to other funds	-	707	-	-
Unearned revenue	-	-	-	-
Advances, deposits, and reimbursable credits	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	<u>-</u>	<u>1,531</u>	<u>-</u>	<u>2,184</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>-</u>	<u>1,407</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	4,886	7	49,939
Committed	-	-	-	-
Assigned	20	-	-	-
Total fund balances	<u>20</u>	<u>4,886</u>	<u>7</u>	<u>49,939</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 20</u>	<u>7,824</u>	<u>7</u>	<u>52,123</u>

Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Byrne Memorial Justice (Funds 474, 477)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Funds 536, 481)	Total
6,063	1,895	182	825	9,576	389,827
2,294	4	-	2	3,033	27,287
-	-	-	-	-	1,659
-	-	-	-	-	3,411
-	-	-	-	197	200
-	-	-	-	6,137	7,973
-	-	-	-	-	1,909
<u>8,357</u>	<u>1,899</u>	<u>182</u>	<u>827</u>	<u>18,943</u>	<u>432,266</u>
53	47	-	81	4,007	32,610
60	1	-	-	1	2,971
-	-	-	-	-	3,110
-	-	182	-	2,206	5,996
-	-	-	-	-	5,299
-	-	-	-	-	2
<u>113</u>	<u>48</u>	<u>182</u>	<u>81</u>	<u>6,214</u>	<u>49,988</u>
-	-	-	-	-	1,407
-	-	-	-	197	200
-	-	-	-	-	308,533
8,244	1,851	-	746	12,532	55,435
-	-	-	-	-	16,703
<u>8,244</u>	<u>1,851</u>	<u>-</u>	<u>746</u>	<u>12,729</u>	<u>380,871</u>
<u>8,357</u>	<u>1,899</u>	<u>182</u>	<u>827</u>	<u>18,943</u>	<u>432,266</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Prush Memorial Park (Fund 131)	Gift Trust (Fund 139)	Workforce Investment Act (Funds 290-294, 299)	San José Arena Enhancement (Fund 301)
REVENUES				
Taxes and special assessments	\$ -	-	-	-
Intergovernmental	-	-	10,606	-
Charges for current services	-	-	-	-
Rent	82	-	-	-
Investment Income	4	38	-	-
Other revenues	-	635	-	-
Total revenues	<u>86</u>	<u>673</u>	<u>10,606</u>	<u>-</u>
EXPENDITURES				
Current:				
General government	-	-	-	1
Public safety	-	-	-	-
Community services	131	795	10,471	-
Sanitation	-	-	-	-
Capital maintenance	-	-	-	-
Capital outlay	-	-	-	-
Principal	-	-	-	-
Total expenditures	<u>131</u>	<u>795</u>	<u>10,471</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(45)</u>	<u>(122)</u>	<u>135</u>	<u>(1)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	(50)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50)</u>
Net change in fund balance	(45)	(122)	135	(51)
Fund balances - beginning	<u>420</u>	<u>4,142</u>	<u>1,079</u>	<u>51</u>
Fund balances - ending	<u>\$ 375</u>	<u>4,020</u>	<u>1,214</u>	<u>-</u>

Special Assessment Maintenance Districts (Fund 302, 310, 351-369 370-374, 376, 379)	Ng Shing Gung Capital Maintenance (Fund 303)	Subdivision Park Trust (Fund 375)	Construction and Property Conveyance Tax (Funds 377-378, 380-398)	1943 Gas Tax Maintenance and Construction (Fund 409)	1964 Gas Tax Maintenance and Construction (Funds 410-411)
10,762	-	-	42,699	-	-
-	-	1,229	275	6,984	9,355
-	-	14,341	79	-	-
-	-	-	-	-	-
147	1	674	815	-	-
101	1	-	138	-	-
<u>11,010</u>	<u>2</u>	<u>16,244</u>	<u>44,006</u>	<u>6,984</u>	<u>9,355</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
12,784	-	14,921	24,445	6,984	9,355
89	-	11,097	7,058	-	-
-	-	-	-	-	-
<u>12,873</u>	<u>-</u>	<u>26,018</u>	<u>31,503</u>	<u>6,984</u>	<u>9,355</u>
<u>(1,863)</u>	<u>2</u>	<u>(9,774)</u>	<u>12,503</u>	<u>-</u>	<u>-</u>
979	3	19	49	-	-
-	-	(153)	(9,840)	-	-
<u>979</u>	<u>3</u>	<u>(134)</u>	<u>(9,791)</u>	<u>-</u>	<u>-</u>
(884)	5	(9,908)	2,712	-	-
<u>18,266</u>	<u>76</u>	<u>83,412</u>	<u>85,481</u>	<u>-</u>	<u>-</u>
<u>17,382</u>	<u>81</u>	<u>73,504</u>	<u>88,193</u>	<u>-</u>	<u>-</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)
REVENUES				
Taxes and special assessments	\$ -	-	-	-
Intergovernmental	-	2,581	1,792	-
Charges for current services	268	-	26	-
Rent	-	-	-	-
Investment Income	6	18	44	7
Other revenues	-	-	-	31
Total revenues	<u>274</u>	<u>2,599</u>	<u>1,862</u>	<u>38</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	2,338	-	108
Community services	-	-	-	-
Sanitation	-	-	-	-
Capital maintenance	177	-	357	-
Capital outlay	-	250	-	-
Principal	-	-	-	-
Total expenditures	<u>177</u>	<u>2,588</u>	<u>357</u>	<u>108</u>
Excess (deficiency) of revenues over (under) expenditures	<u>97</u>	<u>11</u>	<u>1,505</u>	<u>(70)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(5)	-	(15)	-
Total other financing sources (uses)	<u>(5)</u>	<u>-</u>	<u>(15)</u>	<u>-</u>
Net change in fund balance	92	11	1,490	(70)
Fund balances - beginning	<u>618</u>	<u>18</u>	<u>3,888</u>	<u>719</u>
Fund balances - ending	<u>\$ 710</u>	<u>29</u>	<u>5,378</u>	<u>649</u>

Library Parcel Tax (Fund 418)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432,438)	Integrated Waste Management (Fund 423)	Building and Structures Construction Tax (Fund 429)
8,395	-	191	-	-	-	19,532
-	-	-	-	-	1,250	1,806
-	-	-	469	17,032	130,680	-
98	32	16	12	1,089	520	-
-	174	-	-	120	121	425
<u>8,493</u>	<u>206</u>	<u>207</u>	<u>481</u>	<u>18,241</u>	<u>132,571</u>	<u>21,796</u>
-	-	-	-	16,411	-	-
-	-	-	-	-	-	-
5,942	-	-	-	-	-	-
-	-	-	-	-	120,777	-
2,313	-	22	18	386	-	7,555
-	-	-	-	-	-	3,498
-	-	-	-	-	417	-
<u>8,255</u>	<u>-</u>	<u>22</u>	<u>18</u>	<u>16,797</u>	<u>121,194</u>	<u>11,053</u>
<u>238</u>	<u>206</u>	<u>185</u>	<u>463</u>	<u>1,444</u>	<u>11,377</u>	<u>10,743</u>
-	-	-	-	3,700	-	-
(82)	-	(13)	-	(5,816)	(1,330)	(369)
(82)	-	(13)	-	(2,116)	(1,330)	(369)
156	206	172	463	(672)	10,047	10,374
<u>11,591</u>	<u>3,334</u>	<u>1,673</u>	<u>1,078</u>	<u>13,254</u>	<u>18,254</u>	<u>40,984</u>
<u>11,747</u>	<u>3,540</u>	<u>1,845</u>	<u>1,541</u>	<u>12,582</u>	<u>28,301</u>	<u>51,358</u>

(Continued)

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Development Enhancement (Fund 439)	Community Development Block Grant (Funds 441, 304)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)
REVENUES				
Taxes and special assessments	\$ -	-	-	-
Intergovernmental	-	10,226	-	812
Charges for current services	-	-	-	32,665
Rent	-	-	-	-
Investment Income	-	-	-	396
Other revenues	-	-	-	23
Total revenues	<u>-</u>	<u>10,226</u>	<u>-</u>	<u>33,896</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community services	-	7,082	32	-
Sanitation	-	-	-	22,541
Capital maintenance	-	1,576	-	6,445
Capital outlay	-	-	-	1,331
Principal	-	-	-	-
Total expenditures	<u>-</u>	<u>8,658</u>	<u>32</u>	<u>30,317</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>1,568</u>	<u>(32)</u>	<u>3,579</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	(791)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(791)</u>
Net change in fund balance	-	1,568	(32)	2,788
Fund balances - beginning	20	3,318	39	47,151
Fund balances - ending	<u>\$ 20</u>	<u>4,886</u>	<u>7</u>	<u>49,939</u>

Transient Occupancy Tax (Fund 461)	Lake Cunningham (Fund 462)	Edward Byrne Memorial Justice (Funds 474, 477)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Funds 536, 481)	Total
24,560	-	-	-	-	106,139
-	-	296	-	-	47,212
-	846	-	444	3,789	200,639
-	-	-	-	41,593	43,284
60	18	2	9	62	3,125
29	-	-	6	268	1,439
<u>24,649</u>	<u>864</u>	<u>298</u>	<u>459</u>	<u>45,712</u>	<u>401,838</u>
-	-	-	-	-	16,412
-	-	247	-	-	2,693
12,390	-	-	-	48,676	85,519
-	-	-	-	-	143,318
-	195	-	867	2,882	91,282
-	186	51	-	953	24,513
-	-	-	-	-	417
<u>12,390</u>	<u>381</u>	<u>298</u>	<u>867</u>	<u>52,511</u>	<u>364,154</u>
<u>12,259</u>	<u>483</u>	<u>-</u>	<u>(408)</u>	<u>(6,799)</u>	<u>37,684</u>
-	-	-	2,600	13,142	20,492
<u>(13,142)</u>	<u>(226)</u>	<u>-</u>	<u>(1,869)</u>	<u>(568)</u>	<u>(34,269)</u>
<u>(13,142)</u>	<u>(226)</u>	<u>-</u>	<u>731</u>	<u>12,574</u>	<u>(13,777)</u>
(883)	257	-	323	5,775	23,907
<u>9,127</u>	<u>1,594</u>	<u>-</u>	<u>423</u>	<u>6,954</u>	<u>356,964</u>
<u>8,244</u>	<u>1,851</u>	<u>-</u>	<u>746</u>	<u>12,729</u>	<u>380,871</u>

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Prusch Memorial Park (Fund 131)			Gift Trust (Funds 139)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	83	83	-	-	-	-
Investment Income	2	3	1	151	29	(122)
Other revenues	-	-	-	-	634	634
Total revenues	<u>85</u>	<u>86</u>	<u>1</u>	<u>151</u>	<u>663</u>	<u>512</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	332	131	(201)	4,290	882	(3,408)
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Principal	-	-	-	-	-	-
Total expenditures	<u>332</u>	<u>131</u>	<u>(201)</u>	<u>4,290</u>	<u>882</u>	<u>(3,408)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(247)</u>	<u>(45)</u>	<u>202</u>	<u>(4,139)</u>	<u>(219)</u>	<u>3,920</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ (247)</u>	<u>(45)</u>	<u>202</u>	<u>(4,139)</u>	<u>(219)</u>	<u>3,920</u>
Fund balances - beginning		422			3,988	
Prior year encumbrances		-			66	
Fund balances - ending		<u>\$ 377</u>			<u>\$ 3,835</u>	

Workforce Investment Act (Funds 290-294,299)			San José Arena Enhancement (Fund 301)			Special Assessment Maintenance Districts (Funds 302, 310, 351-369 370-374, 376, 379)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	12,367	10,762	(1,605)
14,479	10,606	(3,873)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	115	115
-	-	-	-	-	-	157	101	(56)
<u>14,479</u>	<u>10,606</u>	<u>(3,873)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,524</u>	<u>10,978</u>	<u>(1,546)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
13,369	10,499	(2,870)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	16,606	13,046	(3,560)
-	-	-	-	-	-	89	89	-
-	-	-	-	-	-	-	-	-
<u>13,369</u>	<u>10,499</u>	<u>(2,870)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,695</u>	<u>13,135</u>	<u>(3,560)</u>
<u>1,110</u>	<u>107</u>	<u>(1,003)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,171)</u>	<u>(2,157)</u>	<u>2,014</u>
-	-	-	-	-	-	953	979	26
-	-	-	-	(50)	(50)	(30)	-	30
-	-	-	-	(50)	(50)	923	979	56
<u>1,110</u>	<u>107</u>	<u>(1,003)</u>	<u>-</u>	<u>(50)</u>	<u>(50)</u>	<u>(3,248)</u>	<u>(1,178)</u>	<u>2,070</u>
	769			51			18,003	
	309			-			308	
	<u>\$ 1,185</u>			<u>\$ 1</u>			<u>\$ 17,133</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Ng Shing Gung Capital Maintenance (Fund 303)			Subdivision Park Trust (Fund 375)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	1,231	1,231
Charges for current services	-	-	-	579	14,341	13,762
Rent	-	-	-	-	-	-
Investment Income	-	-	-	-	751	751
Other revenues	-	3	3	-	-	-
Total revenues	<u>-</u>	<u>3</u>	<u>3</u>	<u>579</u>	<u>16,323</u>	<u>15,744</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	41,498	24,101	(17,397)
Capital outlay	-	-	-	11,097	11,097	-
Principal	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,595</u>	<u>35,198</u>	<u>(17,397)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>3</u>	<u>3</u>	<u>(52,016)</u>	<u>(18,875)</u>	<u>33,141</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	3	3	19	19	-
Transfers out	-	-	-	(153)	(153)	-
Total other financing sources (uses)	<u>-</u>	<u>3</u>	<u>3</u>	<u>(134)</u>	<u>(134)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>6</u>	<u>6</u>	<u>(52,150)</u>	<u>(19,009)</u>	<u>33,141</u>
Fund balances - beginning		76			68,182	
Prior year encumbrances		-			4,554	
Fund balances - ending		<u>\$ 82</u>			<u>\$ 53,727</u>	

Construction and Property Conveyance Tax (Fund 377-378, 380-398)			1943 Gas Tax Maintenance and Construction (Fund 409)			1964 Gas Tax Maintenance and Construction (Funds 410-411)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
54,826	42,699	(12,127)	-	-	-	-	-	-
-	275	275	7,400	6,984	(416)	9,600	9,355	(245)
-	79	79	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
241	619	378	-	-	-	-	-	-
327	138	(189)	-	-	-	-	-	-
<u>55,394</u>	<u>43,810</u>	<u>(11,584)</u>	<u>7,400</u>	<u>6,984</u>	<u>(416)</u>	<u>9,600</u>	<u>9,355</u>	<u>(245)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
86,751	30,856	(55,895)	7,400	6,984	(416)	9,600	9,355	(245)
7,058	7,058	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>93,809</u>	<u>37,914</u>	<u>(55,895)</u>	<u>7,400</u>	<u>6,984</u>	<u>(416)</u>	<u>9,600</u>	<u>9,355</u>	<u>(245)</u>
<u>(38,415)</u>	<u>5,896</u>	<u>44,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
49	49	-	-	-	-	-	-	-
(6,954)	(9,840)	(2,886)	-	-	-	-	-	-
<u>(6,905)</u>	<u>(9,791)</u>	<u>(2,886)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(45,320)</u>	<u>(3,895)</u>	<u>41,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	82,939			-			-	
	4,968			-			-	
	<u>\$ 84,012</u>			<u>\$ -</u>			<u>\$ -</u>	

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City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Storm Drainage Fee (Funds 413, 427)			Supplemental Local Law Enforcement (Fund414)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	1,485	2,185	700
Charges for current services	159	269	110	-	-	-
Rent	-	-	-	-	-	-
Investment Income	-	6	6	-	14	14
Other revenues	-	-	-	-	-	-
Total revenues	<u>159</u>	<u>275</u>	<u>116</u>	<u>1,485</u>	<u>2,199</u>	<u>714</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	3,300	2,518	(782)
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	472	374	(98)	-	-	-
Capital outlay	-	-	-	250	250	-
Principal	-	-	-	-	-	-
Total expenditures	<u>472</u>	<u>374</u>	<u>(98)</u>	<u>3,550</u>	<u>2,768</u>	<u>(782)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(313)</u>	<u>(99)</u>	<u>214</u>	<u>(2,065)</u>	<u>(569)</u>	<u>1,496</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(5)	(5)	-	-	-	-
Total other financing sources (uses)	<u>(5)</u>	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(318)</u>	<u>(104)</u>	<u>214</u>	<u>(2,065)</u>	<u>(569)</u>	<u>1,496</u>
Fund balances - beginning		393			1,123	
Prior year encumbrances		226			943	
Fund balances - ending	<u>\$ 515</u>			<u>\$ 1,497</u>		

Underground Utility (Fund 416)			State Drug Forfeiture (Fund 417)			Library Parcel Tax (Fund 418)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	8,323	8,397	74
709	1,792	1,083	-	-	-	-	-	-
-	26	26	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	32	32	5	5	-	-	75	75
-	-	-	200	31	(169)	-	-	-
709	1,850	1,141	205	36	(169)	8,323	8,472	149
-	-	-	-	-	-	-	-	-
-	-	-	300	108	(192)	-	-	-
-	-	-	-	-	-	7,523	5,944	(1,579)
-	-	-	-	-	-	-	-	-
678	357	(321)	-	-	-	2,552	2,366	(186)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
678	357	(321)	300	108	(192)	10,075	8,310	(1,765)
31	1,493	1,462	(95)	(72)	23	(1,752)	162	1,914
-	-	-	-	-	-	-	-	-
(15)	(15)	-	-	-	-	(82)	(82)	-
(15)	(15)	-	-	-	-	(82)	(82)	-
16	1,478	1,462	(95)	(72)	23	(1,834)	80	1,914
	3,886			720			11,372	
	-			-			212	
	<u>\$ 5,364</u>			<u>\$ 648</u>			<u>\$ 11,664</u>	

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City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Federal Drug Forfeiture (Fund 419)			Residential Construction Tax Contribution (Fund 420)		
		Budgetary Basis Actual	Variance Over (Under)		Budgetary Basis Actual	Variance Over (Under)
	Budget			Budget		
REVENUES						
Taxes and special assessments	\$ -	-	-	264	190	(74)
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Investment Income	2	24	22	-	12	12
Other revenues	31	174	143	-	-	-
Total revenues	<u>33</u>	<u>198</u>	<u>165</u>	<u>264</u>	<u>202</u>	<u>(62)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	1,386	317	(1,069)	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	282	22	(260)
Capital outlay	-	-	-	-	-	-
Principal	-	-	-	-	-	-
Total expenditures	<u>1,386</u>	<u>317</u>	<u>(1,069)</u>	<u>282</u>	<u>22</u>	<u>(260)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,353)</u>	<u>(119)</u>	<u>1,234</u>	<u>(18)</u>	<u>180</u>	<u>198</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(15)	(13)	2
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15)</u>	<u>(13)</u>	<u>2</u>
Net change in fund balances	<u>\$ (1,353)</u>	<u>(119)</u>	<u>1,234</u>	<u>(33)</u>	<u>167</u>	<u>200</u>
Fund balances - beginning		3,304			1,671	
Prior year encumbrances		29			-	
Fund balances - ending		<u>\$ 3,214</u>			<u>\$ 1,838</u>	

Arterial and Major Collectors (Fund 421)			Community Facility Revenue (Fund 422,432,438)			Integrated Waste Management (Fund 423)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,100	1,250	150
167	470	303	-	3,965	3,965	129,980	130,681	701
-	-	-	1,116	1,090	(26)	510	520	10
4	9	5	22	97	75	52	101	49
-	-	-	-	-	-	-	-	-
<u>171</u>	<u>479</u>	<u>308</u>	<u>1,138</u>	<u>5,152</u>	<u>4,014</u>	<u>131,642</u>	<u>132,552</u>	<u>910</u>
-	-	-	4,193	3,350	(843)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	126,815	123,844	(2,971)
144	102	(42)	2,079	386	(1,693)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	417	417	-
<u>144</u>	<u>102</u>	<u>(42)</u>	<u>6,272</u>	<u>3,736</u>	<u>(2,536)</u>	<u>127,232</u>	<u>124,261</u>	<u>(2,971)</u>
<u>27</u>	<u>377</u>	<u>350</u>	<u>(5,134)</u>	<u>1,416</u>	<u>6,550</u>	<u>4,410</u>	<u>8,291</u>	<u>3,881</u>
-	-	-	3,700	3,700	-	-	-	-
-	-	-	(6,357)	(5,816)	541	(1,330)	(1,330)	-
-	-	-	(2,657)	(2,116)	541	(1,330)	(1,330)	-
<u>27</u>	<u>377</u>	<u>350</u>	<u>(7,791)</u>	<u>(700)</u>	<u>7,091</u>	<u>3,080</u>	<u>6,961</u>	<u>3,881</u>
	980			(5,638)			13,430	
	<u>98</u>			<u>6</u>			<u>4,595</u>	
	<u>\$ 1,455</u>			<u>\$ (6,332)</u>			<u>\$ 24,986</u>	

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City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Building and Structures Construction Tax (Fund 429)			Development Enhancement (Fund 439)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ 14,000	19,532	5,532	-	-	-
Intergovernmental	7,153	1,806	(5,347)	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Investment Income	87	309	222	-	-	-
Other revenues	-	34	34	-	-	-
Total revenues	<u>21,240</u>	<u>21,681</u>	<u>441</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	39,401	14,722	(24,679)	-	-	-
Capital outlay	3,498	3,498	-	-	-	-
Principal	-	-	-	-	-	-
Total expenditures	<u>42,899</u>	<u>18,220</u>	<u>(24,679)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,659)</u>	<u>3,461</u>	<u>25,120</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(369)	(369)	-	-	-	-
Total other financing sources (uses)	<u>(369)</u>	<u>(369)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (22,028)</u>	<u>3,092</u>	<u>25,120</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - beginning		33,976			1	
Prior year encumbrances		<u>6,969</u>			<u>-</u>	
Fund balances - ending		<u>\$ 44,037</u>			<u>\$ 1</u>	

Community Development Block Grant (Funds 441, 304)			Economic Development Administration Loans (Fund 444)			Storm Drainage Service Use Charge (Funds 446,469)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
8,959	8,898	(61)	-	-	-	3,775	812	(2,963)
-	-	-	-	-	-	32,580	32,665	85
-	-	-	-	-	-	-	-	-
-	-	-	7	1	(6)	169	300	131
-	-	-	-	-	-	-	25	25
<u>8,959</u>	<u>8,898</u>	<u>(61)</u>	<u>7</u>	<u>1</u>	<u>(6)</u>	<u>36,524</u>	<u>33,802</u>	<u>(2,722)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
12,353	9,080	(3,273)	1	-	(1)	-	-	-
-	-	-	-	-	-	25,227	23,253	(1,974)
4,422	2,346	(2,076)	-	-	-	32,698	14,771	(17,927)
-	-	-	-	-	-	1,331	1,331	-
-	-	-	-	-	-	-	-	-
<u>16,775</u>	<u>11,426</u>	<u>(5,349)</u>	<u>1</u>	<u>-</u>	<u>(1)</u>	<u>59,256</u>	<u>39,355</u>	<u>(19,901)</u>
<u>(7,816)</u>	<u>(2,528)</u>	<u>5,288</u>	<u>6</u>	<u>1</u>	<u>(5)</u>	<u>(22,732)</u>	<u>(5,553)</u>	<u>17,179</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(791)	(791)	-
-	-	-	-	-	-	(791)	(791)	-
<u>(7,816)</u>	<u>(2,528)</u>	<u>5,288</u>	<u>6</u>	<u>1</u>	<u>(5)</u>	<u>(23,523)</u>	<u>(6,344)</u>	<u>17,179</u>
	10,918			13			42,350	
	314			-			4,766	
	<u>\$ 8,704</u>			<u>\$ 14</u>			<u>\$ 40,772</u>	

(Continued)

City of San José
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2016
(\$000's)

	Transient Occupancy Tax (Fund 461)			Lake Cunningham (Fund 462)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
REVENUES						
Taxes and special assessments	\$ 24,488	24,560	72	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	887	845	(42)
Rent	-	-	-	-	-	-
Investment Income	-	50	50	6	13	7
Other revenues	-	29	29	-	-	-
Total revenues	<u>24,488</u>	<u>24,639</u>	<u>151</u>	<u>893</u>	<u>858</u>	<u>(35)</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Community services	19,002	12,893	(6,109)	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	1,025	607	(418)
Capital outlay	-	-	-	186	186	-
Principal	-	-	-	-	-	-
Total expenditures	<u>19,002</u>	<u>12,893</u>	<u>(6,109)</u>	<u>1,211</u>	<u>793</u>	<u>(418)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,486</u>	<u>11,746</u>	<u>6,260</u>	<u>(318)</u>	<u>65</u>	<u>383</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(13,142)	(13,142)	-	(226)	(226)	-
Total other financing sources (uses)	<u>(13,142)</u>	<u>(13,142)</u>	<u>-</u>	<u>(226)</u>	<u>(226)</u>	<u>-</u>
Net change in fund balances	<u>(7,656)</u>	<u>(1,396)</u>	<u>6,260</u>	<u>(544)</u>	<u>(161)</u>	<u>383</u>
Fund balances - beginning		8,784			1,496	
Prior year encumbrances		<u>335</u>			<u>96</u>	
Fund balances - ending		<u>\$ 7,723</u>			<u>\$ 1,431</u>	

Edward Brown Memorial Justice (Funds 474,477)			Municipal Golf Courses (Fund 518)			Convention and Cultural Facilities (Funds 536, 481)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	205	- 298	-	-	-	-	-	-
-	-	-	469	444	(25)	-	-	-
-	-	-	-	7	7	-	38	38
-	-	-	-	5	5	200	268	68
<u>205</u>	<u>298</u>	<u>93</u>	<u>469</u>	<u>456</u>	<u>(13)</u>	<u>200</u>	<u>306</u>	<u>106</u>
-	-	-	-	-	-	-	-	-
372	247	(125)	-	-	-	-	-	-
-	-	-	-	-	-	7,446	3,728	(3,718)
-	-	-	951	867	(84)	6,362	3,077	(3,285)
51	51	-	-	-	-	953	953	-
-	-	-	-	-	-	-	-	-
<u>423</u>	<u>298</u>	<u>(125)</u>	<u>951</u>	<u>867</u>	<u>(84)</u>	<u>14,761</u>	<u>7,758</u>	<u>(7,003)</u>
								7,109
<u>(218)</u>	<u>-</u>	<u>218</u>	<u>(482)</u>	<u>(411)</u>	<u>71</u>	<u>(14,561)</u>	<u>(7,452)</u>	
-	-	-	2,600	2,600	-	13,142	13,142	-
-	-	-	(1,984)	(1,869)	115	(868)	(568)	300
-	-	-	616	731	115	12,274	12,574	300
<u>(218)</u>	<u>-</u>	<u>218</u>	<u>134</u>	<u>320</u>	<u>186</u>	<u>(2,287)</u>	<u>5,122</u>	<u>7,409</u>
	287			423			6,916	
	52			-			37	
	<u>\$ 339</u>			<u>\$ 743</u>			<u>\$ 12,075</u>	

(Concluded)

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Nonmajor Debt Service Funds

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

GO Bonds Parks, Libraries & Public Safety Fund – Established to account for debt issued for construction of various library, parks and public safety projects. Debt repayments are funded by ad valorem property taxes.

City Hall Fund – Established to account for payments of debt service related to the construction of City Hall.

Nonmajor Debt Service Funds



City of San José
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2016
(\$000's)

	GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
ASSETS			
Receivables (net of allowance for uncollectibles)	\$ 234	-	234
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	32,860	193	33,053
Cash and investments held with fiscal agent	6	-	6
Total assets	\$ 33,100	193	33,293
LIABILITIES			
Accounts payable	1	-	1
FUND BALANCES			
Restricted for debt service	33,099	193	33,292
Total liabilities and fund balances	\$ 33,100	193	33,293

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2016
(\$000's)

	GO Bonds Parks, Libraries & Public Safety (Fund 209)	City Hall (Fund 210)	Total
REVENUES			
Taxes and special assessments	\$ 37,427	\$ -	\$ 37,427
Investment Income	186	79	265
Total revenues	<u>37,613</u>	<u>79</u>	<u>37,692</u>
EXPENDITURES			
Debt service:			
Principal	19,650	-	19,650
Interest and fiscal charges	<u>18,751</u>	<u>15</u>	<u>18,766</u>
Total expenditures	<u>38,401</u>	<u>15</u>	<u>38,416</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(788)</u>	<u>64</u>	<u>(724)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	24,220	24,220
Transfers out	<u>-</u>	<u>(24,179)</u>	<u>(24,179)</u>
Total other financing sources (uses)	<u>-</u>	<u>41</u>	<u>41</u>
Net change in fund balances	(788)	105	(683)
Fund balances - beginning	<u>33,887</u>	<u>88</u>	<u>33,975</u>
Fund balances - ending	<u>\$ 33,099</u>	<u>193</u>	<u>33,292</u>

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Nonmajor Capital Project Funds

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Capital Project Funds established by the City of San José are as follows:

Capital Improvements Funds – Established to account for assessment charges for the construction of the Alviso Ring Levee.

Construction Excise Tax Funds – Established to account for revenues and expenditures related to traffic maintenance and improvements.

Parks Bond Projects Fund – Established to account for general obligation bond proceeds for various parks construction projects.

Branch Libraries Bond Projects Fund – Established to account for general obligation bond proceeds for various library construction projects.

Neighborhood Security Bond Projects Fund – Established to account for general obligation bond proceeds to improve various libraries, parks and public safety facilities.

Nonmajor Capital Project Funds

City of San José
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2016
(\$000's)

	Capital Improvements (Funds 408, 424, 476)	Construction Excise Tax (Funds 348, 349, 464, 465, 478-480)
ASSETS		
Equity in pooled cash and investments held in City Treasury	\$ 453	99,208
Receivables (net of allowance for uncollectibles)	1	3,545
Due from other funds	-	2,037
Advances and deposits	4	34
Restricted assets:		
Equity in pooled cash and investments held in City Treasury	-	107
Cash and investments held with fiscal agent	-	-
Total assets	\$ 458	104,931
LIABILITIES		
Accounts payable	\$ -	755
Accrued salaries, wages, and payroll taxes	-	503
Due to other funds	-	-
Total liabilities	-	1,258
FUND BALANCES		
Nonspendable	4	34
Restricted	454	37,557
Assigned	-	66,082
Total fund balances	458	103,673
Total liabilities and fund balances	\$ 458	104,931

<u>Parks Bond Projects (Fund 471)</u>	<u>Branch Libraries Bond Projects (Fund 472)</u>	<u>Neighborhood Security Bond Projects (Fund 475)</u>	<u>Total</u>
2,616	-	-	102,277
6	-	-	3,552
-	-	-	2,037
-	-	-	38
-	-	-	107
<u>26,944</u>	<u>2,808</u>	<u>3,023</u>	<u>32,775</u>
<u>29,566</u>	<u>2,808</u>	<u>3,023</u>	<u>140,786</u>
78	289	9	1,131
8	2	3	516
-	<u>923</u>	<u>1,113</u>	<u>2,036</u>
<u>86</u>	<u>1,214</u>	<u>1,125</u>	<u>3,683</u>
-	-	-	38
29,480	1,594	1,898	70,983
-	-	-	66,082
<u>29,480</u>	<u>1,594</u>	<u>1,898</u>	<u>137,103</u>
<u>29,566</u>	<u>2,808</u>	<u>3,023</u>	<u>140,786</u>

City of San José
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Project Funds
For the Year Ended June 30, 2016
(\$000's)

	Capital Improvements (Funds 408, 424, 476)	Construction Excise Tax (Funds 348, 349, 464, 465, 478-480)
REVENUES		
Taxes and special assessments	\$ -	22,466
Intergovernmental	-	17,884
Charges for current services	-	8,463
Investment Income	4	905
Other revenues	34	1,450
Total revenues	38	51,168
EXPENDITURES		
Current:		
Capital maintenance	31	51,345
Capital outlay	-	1,694
Total expenditures	31	53,039
Excess (deficiency) of revenues over (under) expenditures	7	(1,871)
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(3)	(2,369)
Total other financing sources (uses)	(3)	(2,369)
Net change in fund balances	4	(4,240)
Fund balances - beginning	454	107,913
Fund balances - ending	\$ 458	103,673

<u>Parks Bond Projects (Fund 471)</u>	<u>Branch Libraries Bond Projects (Fund 472)</u>	<u>Neighborhood Security Bond Projects (Fund 475)</u>	<u>Total</u>
-	-	-	22,466
-	-	-	17,884
-	-	-	8,463
119	20	12	1,060
-	-	1,330	2,814
<u>119</u>	<u>20</u>	<u>1,342</u>	<u>52,687</u>
194	400	301	52,271
<u>661</u>	<u>4,492</u>	<u>1,648</u>	<u>8,495</u>
<u>855</u>	<u>4,892</u>	<u>1,949</u>	<u>60,766</u>
<u>(736)</u>	<u>(4,872)</u>	<u>(607)</u>	<u>(8,079)</u>
-	2,100	-	2,100
-	-	-	(2,372)
-	<u>2,100</u>	-	<u>(272)</u>
(736)	(2,772)	(607)	(8,351)
<u>30,216</u>	<u>4,366</u>	<u>2,505</u>	<u>145,454</u>
<u>29,480</u>	<u>1,594</u>	<u>1,898</u>	<u>137,103</u>

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Internal Service Funds

Internal Service Funds are used to account for the exchange of benefits within the City's funds or departments on a cost reimbursement basis.

Public Works Programs Support Fund – Established to account for Public Works Department administrative services provided to City-wide capital programs and certain other Public Works operating divisions.

Employee Benefits Funds – Established to account for the cost of funding the City's portion of employee fringe benefits.

Vehicle Maintenance and Operations Funds – Established to account for the purchase and maintenance of City vehicles and the cost of operating a maintenance facility for equipment used by other City departments for repairs, demolition, or other abatement of dangerous buildings.

Internal Service Funds

City of San José
Combining Statement of Fund Net Position
Internal Service Funds
June 30, 2016
(\$000's)

	Public Works Program Support (Fund 150)	Employee Benefits (Funds 155-161)	Vehicle Maintenance and Operations (Funds 552-553)	Total
ASSETS				
Current assets:				
Equity in pooled cash and investments held in City Treasury	\$ 6,028	8,662	4,972	19,662
Receivables (net of allowance for uncollectibles)	14	161	65	240
Inventories	-	-	995	995
Total current assets	<u>6,042</u>	<u>8,823</u>	<u>6,032</u>	<u>20,897</u>
Capital assets (net of accumulated depreciation):				
Depreciable	-	-	7,321	7,321
Total assets	<u>6,042</u>	<u>8,823</u>	<u>13,353</u>	<u>28,218</u>
LIABILITIES				
Current liabilities:				
Accounts payable	65	24	435	524
Accrued salaries, wages, and payroll taxes	354	361	237	952
Total current liabilities	<u>419</u>	<u>385</u>	<u>672</u>	<u>1,476</u>
Noncurrent liabilities:				
Accrued vacation, sick leave and compensatory time	2,594	50	671	3,315
Total liabilities	<u>3,013</u>	<u>435</u>	<u>1,343</u>	<u>4,791</u>
NET POSITION				
Net investment in capital assets Restricted for capital projects and other agreements	-	-	7,321	7,321
Unrestricted	2,968	8,388	1,710	13,066
Total net position	<u>\$ 3,029</u>	<u>8,388</u>	<u>12,010</u>	<u>23,427</u>

City of San José
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2016
(\$000's)

	Public Works Program Support (Fund 150)	Employee Benefits (Funds 155-161)	Vehicle Maintenance and Operations (Funds 552-553)	Total
OPERATING REVENUES				
Charges for services	\$ 13,343	80,120	19,436	112,899
OPERATING EXPENSES				
Operations and maintenance	13,717	80,379	17,356	111,452
Depreciation and amortization	-	-	2,378	2,378
Total operating expenses	<u>13,717</u>	<u>80,379</u>	<u>19,734</u>	<u>113,830</u>
Operating income (loss)	<u>(374)</u>	<u>(259)</u>	<u>(298)</u>	<u>(931)</u>
NONOPERATING REVENUES (EXPENSES)				
Investment Income	46	194	32	272
Loss on disposal of capital assets	-	-	(7)	(7)
Other revenues, net	-	-	18	18
Net nonoperating revenues	<u>46</u>	<u>194</u>	<u>43</u>	<u>283</u>
Income (loss) before transfers	<u>(328)</u>	<u>(65)</u>	<u>(255)</u>	<u>(648)</u>
Transfers in	-	5	1,000	1,005
Transfers out	<u>(20)</u>	<u>(82)</u>	<u>(450)</u>	<u>(552)</u>
Change in net position	<u>(348)</u>	<u>(142)</u>	<u>295</u>	<u>(195)</u>
Net position - beginning	<u>3,377</u>	<u>8,530</u>	<u>11,715</u>	<u>23,622</u>
Net position - ending	<u>\$ 3,029</u>	<u>8,388</u>	<u>12,010</u>	<u>23,427</u>

City of San José
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2016
(\$000's)

	Public Works Programs Support (Fund 150)	Employee Benefits (Funds 155-161)	Vehicle Maintenance and Operations (Funds 551-553)	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from interfund services provided	\$ 13,340	79,978	19,469	112,787
Cash payment to suppliers of goods and services	(1,409)	(80,692)	(9,827)	(91,928)
Cash payment to employees for services	(11,987)	(585)	(7,579)	(20,151)
Net cash provided by (used in) operating activities	(56)	(1,299)	2,063	708
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer from other funds	-	5	1,000	1,005
Transfer to other funds	(20)	(82)	(450)	(552)
Net cash provided by (used in) noncapital financing activities	(20)	(77)	550	453
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	-	-	(2,945)	(2,945)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income on investment	46	194	31	271
Net change in cash and cash equivalents	(30)	(1,182)	(301)	(1,513)
Cash and cash equivalents - beginning	6,058	9,844	5,273	21,175
Cash and cash equivalents - ending	\$ 6,028	8,662	4,972	19,662
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (374)	(259)	(298)	(931)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	2,378	2,378
Other nonoperating revenues	-	-	18	18
Decrease (increase) in:				
Accounts receivable	(4)	(141)	15	(130)
Inventories	-	-	(3)	(3)
Increase (decrease) in:				
Accounts payable and accrued liabilities	85	(905)	(143)	(963)
Accrued vacation, sick leave and compensatory time	237	6	96	339
Total adjustments	318	(1,040)	2,361	1,639
Net cash provided by (used in) operating activities	\$ (56)	(1,299)	2,063	708
Noncash capital and related financing activities				
Loss on disposal of capital assets	\$ -	\$ -	\$ (7)	\$ (7)

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by a governmental unit in a trustee capacity and/or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include pension trust funds, private purpose trust funds, and agency funds.

Federated City Employees' Retirement System Funds – Established to account for the accumulation of resources to be used for retirement annuity and postemployment healthcare payments to all full-time and some eligible part-time City of San José employees, except members of the Police and Fire Department Retirement Plan.

Police and Fire Plan Funds – Established to account for the accumulation of resources to be used for retirement annuity and postemployment healthcare payments to all sworn members of the City of San José's Police and Fire departments.

James Lick Private Purpose Trust Fund – Established to account for resources legally held in the trust for use towards the support of the Eastfield Ming Quong (EMQ) Families First Agency. All resources of the fund, including any earnings on invested resources, are used to support the organization's activities.

Successor Agency to the Redevelopment Agency Private Purpose Trust Fund – Established to make payments on the former Redevelopment Agency of the City of San José's "enforceable obligations" and to wind down the activities of the former Agency through the sale and disposition of assets and properties.

Arena Capital Reserve Fund – Established to account for Arena Facilities monies that will be used to budget and defray Arena Facilities expenditures relating to capital maintenance repairs and replacement for the San José Arena (SAP Center at San José).

Trust and Agency Funds

City of San José
Combining Statement of Fiduciary Net Position
Pension Trust Funds
June 30, 2016
(\$000's)

	Federated City Employees' Retirement System	Police and Fire Plan	Total
ASSETS			
Investments	\$ 2,068,006	3,130,197	5,198,203
Receivables (net of allowance for uncollectibles):			
Accrued investment income	6,265	6,043	12,308
Employee contributions	1,187	1,332	2,519
Employer contributions	7,287	5,592	12,879
Brokers and other	4,494	25,786	30,280
Capital assets (net of accumulated depreciation)	937	936	1,873
Total assets	<u>2,088,176</u>	<u>3,169,886</u>	<u>5,258,062</u>
LIABILITIES			
Due to brokers	2,086	1,620	3,706
Other liabilities	1,362	1,186	2,548
Total liabilities	<u>3,448</u>	<u>2,806</u>	<u>6,254</u>
NET POSITION RESTRICTED FOR:			
Employees' pension benefits	1,863,615	3,043,712	4,907,327
Employees' postemployment healthcare benefits	221,113	123,368	344,481
Net position restricted for pension and postemployment healthcare benefits	<u>\$ 2,084,728</u>	<u>3,167,080</u>	<u>5,251,808</u>

City of San José
Combining Statement of Changes in Fiduciary Net Position
Pension Trust Funds
For the Year Ended June 30, 2016
(\$000's)

	<u>Federated City Employees' Retirement System</u>	<u>Police and Fire Plan</u>	<u>Total</u>
ADDITIONS			
Investment income:			
Interest	\$ 22,371	22,427	44,798
Dividends	15,900	15,342	31,242
Net rental income	-	1,778	1,778
Net depreciation in fair value of plan investments	(63,868)	(48,917)	(112,785)
Investment expenses	(11,860)	(21,519)	(33,379)
Securities lending activities:			
Contributions:			
Employer	159,921	153,545	313,466
Employees	33,801	39,515	73,316
Total additions	<u>156,265</u>	<u>162,171</u>	<u>318,436</u>
DEDUCTIONS			
General and administrative	4,177	4,393	8,570
Health insurance premiums	29,577	23,449	53,026
Refunds of contributions	1,289	828	2,117
Retirement and other benefits:			
Death benefits	11,530	10,083	21,613
Retirement benefits	160,499	176,029	336,528
Total deductions	<u>207,072</u>	<u>214,782</u>	<u>421,854</u>
Change in net position	(50,807)	(52,611)	(103,418)
Net position restricted for pension and postemployment healthcare benefits			
Beginning of year	<u>2,135,535</u>	<u>3,219,691</u>	<u>5,355,226</u>
End of year	<u>\$ 2,084,728</u>	<u>3,167,080</u>	<u>5,251,808</u>

City of San José
Combining Statement of Fiduciary Net Position
Federated City Employees' Retirement System
June 30, 2016
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust	
ASSETS					
Investments	\$ 1,289,829	556,338	54,890	166,949	2,068,006
Receivables (net of allowance for uncollectibles):					
Accrued investment income	4,569	1,576	51	69	6,265
Employee contributions	451	129	-	607	1,187
Employer contributions	3,432	2,773	-	1,082	7,287
Brokers and other	1,782	402	2,310	-	4,494
Capital Assets (net of accumulated depreciation)	641	252	44	-	937
Total assets	<u>1,300,704</u>	<u>561,470</u>	<u>57,295</u>	<u>168,707</u>	<u>2,088,176</u>
LIABILITIES					
Due to brokers	1,732	324	-	30	2,086
Other liabilities	875	361	54	72	1,362
Total liabilities	<u>2,607</u>	<u>685</u>	<u>54</u>	<u>102</u>	<u>3,448</u>
NET POSITION RESTRICTED FOR:					
Employees' pension benefits	1,298,097	560,785	-	-	1,858,882
Employees' postemployment healthcare benefits	-	-	57,241	168,605	225,846
Net position restricted for pension and postemployment healthcare benefits	<u>\$ 1,298,097</u>	<u>560,785</u>	<u>57,241</u>	<u>168,605</u>	<u>2,084,728</u>

City of San José
Combining Statement of
Changes in Fiduciary Net Position
Federated City Employees' Retirement System
For the Year Ended June 30, 2016
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust	
ADDITIONS					
Investment income:					
Interest	\$ 15,059	6,140	922	250	22,371
Dividends	8,676	3,522	531	3,171	15,900
Net change in fair value of plan investments	(40,485)	(16,783)	(2,264)	(4,336)	(63,868)
Investment expenses	(7,930)	(3,209)	(494)	(227)	(11,860)
Contributions:					
Employer	72,671	56,785	4,430	26,035	159,921
Employees	12,406	3,514	-	17,881	33,801
Total additions	<u>60,397</u>	<u>49,969</u>	<u>3,125</u>	<u>42,774</u>	<u>156,265</u>
DEDUCTIONS					
General and administrative	2,807	1,133	176	61	4,177
Health insurance premiums	-	-	29,577	-	29,577
Refunds of contributions	1,083	206	-	-	1,289
Retirement and other benefits:					
Death benefits	6,834	4,696	-	-	11,530
Retirement benefits	121,415	39,084	-	-	160,499
Total deductions	<u>132,139</u>	<u>45,119</u>	<u>29,753</u>	<u>61</u>	<u>207,072</u>
Change in net position	(71,742)	4,850	(26,628)	42,713	(50,807)
Net position restricted for pension and postemployment healthcare benefits					
Beginning of year	<u>1,369,839</u>	<u>555,935</u>	<u>83,869</u>	<u>125,892</u>	<u>2,135,535</u>
End of year	<u>\$ 1,298,097</u>	<u>560,785</u>	<u>57,241</u>	<u>168,605</u>	<u>2,084,728</u>

City of San José
Combining Statement of Fiduciary Net Position
Police and Fire Department Retirement Plan
June 30, 2016
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan			Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust-Police	IRS Code Section 115 Trust-Fire	
ASSETS						
Investments	\$ 1,883,684	1,126,707	43,795	49,216	26,795	3,130,197
Receivables (net of allowance for uncollectibles):						
Accrued investment income	4,152	1,868	22	1	-	6,043
Employee contributions	477	228	627	-	-	1,332
Employer contributions	2,460	2,450	-	391	291	5,592
Brokers and other	16,070	7,361	2,355	-	-	25,786
Capital assets (net of accumulated depreciation)	588	332	16	-	-	936
Total assets	1,907,431	1,138,946	46,815	49,608	27,086	3,169,886
LIABILITIES						
Due to brokers	2,240	(662)	42	-	-	1,620
Other liabilities	731	415	24	9	7	1,186
Total liabilities	2,971	(247)	66	9	7	2,806
NET POSITION RESTRICTED FOR:						
Employees' pension benefits	1,904,460	1,139,193	-	-	-	3,043,653
Employees' postemployment healthcare benefits	-	-	46,749	49,599	27,079	123,427
Net position restricted for pension and postemployment healthcare benefits	\$ 1,904,460	1,139,193	46,749	49,599	27,079	3,167,080

City of San José
Combining Statement of Changes in Fiduciary Net Position
Police and Fire Department Retirement Plan
For the Year Ended June 30, 2016
(\$000's)

	Defined Benefit Pension Plan		Postemployment Healthcare Plan			Total
	Retirement	Cost of Living	401(h) Plan	IRS Code Section 115 Trust-Police	IRS Code Section 115 Trust-Fire	
ADDITIONS						
Investment income:						
Interest	\$ 13,973	8,038	410	4	2	22,427
Dividends	8,563	4,931	242	1,071	535	15,342
Net rental income	1,109	639	30	-	-	1,778
Net change in fair value of plan investments	(28,665)	(16,713)	(775)	(1,829)	(935)	(48,917)
Investment expenses	(13,386)	(7,695)	(372)	(44)	(22)	(21,519)
Securities lending activities:						
Contributions:						
Employer	71,559	60,921	1,389	11,576	8,100	153,545
Employees	14,808	6,700	18,007	-	-	39,515
Total additions	<u>67,961</u>	<u>56,821</u>	<u>18,931</u>	<u>10,778</u>	<u>7,680</u>	<u>162,171</u>
DEDUCTIONS						
General and administrative	2,716	1,538	74	44	21	4,393
Health insurance premiums	-	-	23,449	-	-	23,449
Refunds of contributions	679	149	-	-	-	828
Retirement and other benefits:						
Death benefits	5,571	4,512	-	-	-	10,083
Retirement benefits	128,229	47,800	-	-	-	176,029
Total deductions	<u>137,195</u>	<u>53,999</u>	<u>23,523</u>	<u>44</u>	<u>21</u>	<u>214,782</u>
Change in net position	(69,234)	2,822	(4,592)	10,734	7,659	(52,611)
Net position restricted for pension and postemployment healthcare benefits						
Beginning of year	1,973,694	1,136,371	51,341	38,865	19,420	3,219,691
End of year	<u>\$ 1,904,460</u>	<u>1,139,193</u>	<u>46,749</u>	<u>49,599</u>	<u>27,079</u>	<u>3,167,080</u>

City of San José
Combining Statement of Fiduciary Net Position
Private Purpose Trust Funds
June 30, 2016
(\$000's)

	Successor Agency to the Redevelopment Agency		Total
	James Lick		
ASSETS			
Current assets:			
Equity in pooled cash and investments held in City Treasury	\$ 481	-	481
Cash and investments	-	19,625	19,625
Receivables (net of allowance for uncollectibles):			
Due from the City of San José	-	20	20
Brokers and other	-	3,039	3,039
Restricted cash and investments	-	158,725	158,725
Total current assets	<u>481</u>	<u>181,409</u>	<u>181,890</u>
Noncurrent assets:			
Advances to the City of San José	-	459	459
Accrued interest	-	861	861
Loans receivables, net	-	4,954	4,954
Advances and deposits	-	6	6
Property held for resale	-	29,473	29,473
Capital assets:			
Nondepreciable	-	73,556	73,556
Depreciable, net	-	61,632	61,632
Total noncurrent assets	<u>-</u>	<u>170,941</u>	<u>170,941</u>
Total assets	<u>481</u>	<u>352,350</u>	<u>352,831</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding of debt	<u>-</u>	<u>26,712</u>	<u>26,712</u>
LIABILITIES			
Current liabilities:			
Due to the City of San José	-	130	130
Accounts payable	-	8,121	8,121
Accrued salaries and benefits	-	182	182
Accrued interest payable	-	35,089	35,089
Pass through payable to the County of Santa Clara	-	47,006	47,006
Unearned revenues	-	162	162
Deposits payable	-	11	11
Total current liabilities	<u>-</u>	<u>90,701</u>	<u>90,701</u>
Long-term liabilities:			
Due within one year	-	205,901	205,901
Due in more than one year	-	1,843,701	1,843,701
Total noncurrent liabilities	<u>-</u>	<u>2,049,602</u>	<u>2,049,602</u>
Total liabilities	<u>-</u>	<u>2,140,303</u>	<u>2,140,303</u>
NET POSITION RESTRICTED FOR:			
Redevelopment dissolution and other purposes	481	(1,761,241)	(1,760,760)
Total net position	<u>\$ 481</u>	<u>(1,761,241)</u>	<u>(1,760,760)</u>

City of San José
Combining Statement of Changes in Fiduciary Net Position
Private Purpose Trust Funds
For the Year Ended June 30, 2016
(\$000's)

	James Lick	Successor Agency to the Redevelopment Agency	Total
ADDITIONS			
Redevelopment property tax revenues	\$ -	217,013	217,013
Interest	12	809	821
Net rental income	-	303	303
Charges for current services	-	761	761
Development fees	-	425	425
Gain on sales of property	-	2,689	2,689
Grant Revenue	-	11,184	11,184
Other	-	2,136	2,136
Total additions	<u>12</u>	<u>235,320</u>	<u>235,332</u>
DEDUCTIONS			
General and administrative	-	2,320	2,320
Project expenses	-	2,063	2,063
Pass through amounts to the County of Santa Clara	-	29,856	29,856
Capital contributions to the City of San José	-	9,166	9,166
Depreciation	-	2,077	2,077
Interest on debt	-	90,462	90,462
Allowance expense	-	17,821	17,821
Total deductions	<u>-</u>	<u>153,765</u>	<u>153,765</u>
Extraordinary item from SERAF loan reduction	-	42,905	42,905
Change in net position	<u>12</u>	<u>124,460</u>	<u>124,472</u>
NET POSITION			
Beginning of year	<u>469</u>	<u>(1,885,701)</u>	<u>(1,885,232)</u>
End of year	<u>\$ 481</u>	<u>(1,761,241)</u>	<u>(1,760,760)</u>

City of San José
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2016
(\$000's)

<u>Arena Capital Reserve (Fund 459)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
ASSETS				
Equity in pooled cash and investments held in City Treasury	\$ 4,721	4,056	3,611	5,166
Receivables:				
Accrued investment income	<u>4</u>	<u>12</u>	<u>4</u>	<u>12</u>
Total assets	<u><u>4,725</u></u>	<u><u>4,068</u></u>	<u><u>3,615</u></u>	<u><u>5,178</u></u>
LIABILITIES				
Other liabilities	<u>4,725</u>	<u>4,048</u>	<u>3,595</u>	<u>5,178</u>
Total liabilities	<u><u>\$ 4,725</u></u>	<u><u>4,048</u></u>	<u><u>3,595</u></u>	<u><u>5,178</u></u>

Statistical Section

Statistical Section

Statistical Section

This section of the comprehensive annual financial report for the City of San José presents detailed information as a context to the information presented in the financial statements, note disclosures, and required supplementary information and to provide a framework to assess the economic condition affecting the City of San José.

GASB issued Statement No. 44, *Economic Condition Reporting; The Statistical Section – an amendment of NCGA Statement 1*. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition affecting a government. During fiscal year 2005-2006, the City implemented this statement and added new information that financial statement users have identified as important and eliminated certain schedules previously required.

The dissolution of the former Agency on February 1, 2012 had a significant impact on the presentation of funds in the City's governmental fund financial statements and government-wide financial statements which affects the statistical data. Most notably, transfers of assets and long-term debt of the former Agency to SARA affected the ratios of outstanding debt for the governmental activities in Schedules IX and X.

Contents	Schedule
Financial Trends	I - IV
<i>These schedules present trend information to help the reader understand the City's financial performance and condition.</i>	
Revenue Capacity	V - VIII
<i>These schedules contain information regarding property tax, the City's most significant local revenue source.</i>	
Debt Capacity	IX - XIII
<i>These schedules present information regarding the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	XIV-XV
<i>These schedules illustrate demographic and economic indicators to provide a context for understanding and assessing the City's financial activities.</i>	
Operating Information	XVI-XVIII
<i>These schedules contain service and infrastructure data related to services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

SCHEDULE I

CITY OF SAN JOSE
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$000's)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets	\$ 5,193,578	\$ 4,769,191	\$ 4,400,552	\$ 4,201,672	\$ 3,810,801	\$ 5,350,666	\$ 5,012,359	\$ 4,769,632	\$ 4,566,716	\$ 4,478,760
Restricted	501,391	662,863	654,124	527,931	622,241	939,509	864,808	889,631	927,190	930,553
Unrestricted	79,524	95,863	32,914	(53,494)	(129,419)	(197,298)	(217,340)	(206,396)	(1,734,224)	(1,723,260)
Total governmental activities net position	\$ 5,774,493	\$ 5,527,917	\$ 5,087,590	\$ 4,676,109	\$ 4,303,623	\$ 6,092,877	\$ 5,659,827	\$ 5,452,867	\$ 3,759,682	\$ 3,686,053
Business-type activities										
Net investment in capital assets	\$ 750,334	\$ 823,223	\$ 885,744	\$ 926,638	\$ 889,674	\$ 859,392	\$ 817,594	\$ 779,015	\$ 769,516	\$ 766,107
Restricted	158,992	160,153	103,694	120,510	122,534	128,361	124,753	125,345	113,459	76,709
Unrestricted	339,562	281,494	339,254	307,209	332,633	329,047	359,035	406,663	247,428	339,422
Total business-type activities net position	\$ 1,248,888	\$ 1,264,870	\$ 1,328,692	\$ 1,354,357	\$ 1,344,841	\$ 1,316,800	\$ 1,301,382	\$ 1,311,023	\$ 1,130,403	\$ 1,182,238
Primary government										
Net investment in capital assets	\$ 5,943,912	\$ 5,592,414	\$ 5,286,296	\$ 5,128,310	\$ 4,700,475	\$ 6,210,058	\$ 5,829,953	\$ 5,548,647	\$ 5,336,232	\$ 5,244,867
Restricted	660,383	823,016	757,818	648,441	744,775	1,067,870	989,561	1,014,976	1,040,649	1,007,262
Unrestricted	419,086	377,357	372,168	253,715	203,214	131,749	141,695	200,267	(1,486,796)	(1,383,838)
Total primary government net position	\$ 7,023,381	\$ 6,792,787	\$ 6,416,282	\$ 6,030,466	\$ 5,648,464	\$ 7,409,677	\$ 6,961,209	\$ 6,763,890	\$ 4,890,085	\$ 4,868,291

Note: (1) For fiscal year ended June 30, 2009, the Airport reclassified certain components of net position from restricted to unrestricted to conform with the provisions of its Airline Lease Agreement and Master Trust Agreement. The reclassifications do not have an effect on the financial position or changes in financial position. As a result, this schedule was not adjusted to reflect these reclassifications for prior fiscal years.

(2) The increase in net investment in capital assets as of June 30, 2012, was primarily due to long-term obligations of the former Agency totaling \$2.313 billion that were transferred to SARA.

(3) Due to the GASB 65 implementation during the year ended June 30, 2013, net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as of June 30, 2013. Prior to July 1, 2012, net position represents the difference between assets and liabilities. The City did not retroactively restate the net position related to the implementation of GASB 65.

(4) The decrease in net position as of June 30, 2015, was primarily due to the recording of the City's net pension liability in accordance with the GASB Statement Nos. 68 and 71.

CITY OF SAN JOSE
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$000's)

	2007	2008	2009	2010	2011	2012 (1)	2013	2014	2015	2016
Expenses										
Governmental activities:										
General government	\$ 120,362	\$ 142,886	\$ 172,077	\$ 137,159	\$ 148,515	\$ 111,996	\$ 133,330	\$ 119,299	\$ 127,480	\$ 122,363
Public safety	393,449	476,570	463,196	457,892	487,659	490,442	489,572	493,544	466,519	595,072
Community services	276,343	211,511	276,396	260,835	254,481	247,518	214,770	207,967	236,840	274,838
Sanitation	99,720	113,525	122,705	130,343	129,138	135,543	160,860	146,058	141,244	145,516
Capital maintenance	528,727	569,636	595,547	588,382	515,909	473,674	475,995	484,260	507,523	395,393
Interest and fiscal charges	154,135	170,852	166,672	161,734	163,280	123,696	64,467	60,852	60,266	56,768
Total governmental activities expenses	1,572,736	1,684,980	1,796,593	1,736,345	1,698,982	1,582,869	1,538,994	1,511,980	1,539,872	1,549,950
Business-type activities:										
Norman Y. Mineta San José International Airport	139,623	153,927	140,641	171,976	195,867	200,380	199,681	199,987	197,786	201,017
Wastewater Treatment System	111,435	134,882	126,788	140,831	147,283	149,980	147,994	169,622	158,385	163,985
Municipal Water System	22,618	26,017	25,416	24,355	24,600	29,280	31,523	33,187	33,885	36,246
Parking System	9,787	10,127	11,800	11,579	9,630	9,290	10,231	10,751	12,714	13,607
Total business-type activities expenses	283,463	324,953	304,645	348,741	377,980	388,910	389,429	413,547	402,770	414,855
Total primary government expenses	\$ 1,856,199	\$ 2,009,933	\$ 2,101,238	\$ 2,085,086	\$ 2,076,362	\$ 1,971,779	\$ 1,928,423	\$ 1,925,527	\$ 1,942,642	\$ 1,964,805
Program Revenues										
Governmental activities:										
Charges for services:										
General government	56,125	32,585	30,906	29,986	25,716	24,732	49,213	41,168	44,044	46,852
Public safety	21,776	46,845	39,254	20,343	21,454	22,099	21,868	19,228	20,300	23,046
Community services	73,671	86,050	66,090	75,208	85,971	90,252	109,291	116,522	117,006	129,905
Sanitation	95,548	121,793	125,198	135,099	137,677	151,644	148,270	151,056	150,546	157,477
Capital maintenance	26,559	37,580	36,340	31,072	46,040	52,205	70,519	40,024	67,098	66,440
Operating grants and contributions	93,090	94,357	115,965	110,926	100,045	123,829	108,858	103,844	97,467	107,583
Capital grants and contributions	68,835	48,075	26,306	49,926	33,041	22,749	36,365	29,873	129,901	69,848
Total governmental program revenues	435,604	468,285	440,059	452,560	449,944	487,510	544,384	501,715	626,362	601,251
Business-type activities:										
Charges for services:										
Norman Y. Mineta San José International Airport	118,978	138,532	138,999	130,030	145,895	154,713	154,246	159,978	163,962	182,445
Wastewater Treatment System	113,772	129,568	151,516	158,256	167,721	167,783	171,689	195,891	192,715	209,056
Municipal Water System	22,399	24,154	25,807	26,010	26,542	28,542	32,371	35,427	37,295	37,368
Parking System	9,777	11,226	11,052	10,458	9,541	11,585	12,093	13,621	15,614	16,503
Operating grants and contributions	8,284	8,444	9,326	1,149	701	670	565	1,651	1,266	864
Capital grants and contributions	17,927	9,162	18,618	46,237	19,413	10,899	16,246	14,507	6,225	15,437
Total business-type activities program revenues	291,137	321,086	355,318	370,862	369,281	374,192	387,210	421,075	417,077	461,673
Total primary government revenues	\$ 726,741	\$ 789,371	\$ 795,377	\$ 823,422	\$ 819,225	\$ 861,702	\$ 931,594	\$ 922,790	\$ 1,043,439	\$ 1,062,924

CITY OF SAN JOSE
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(\$000's)

	2007	2008	2009	2010	2011	2012 (1)	2013	2014	2015	2016
Net (Expenses) Revenues										
Governmental activities	\$ (1,137,132)	\$ (1,216,695)	\$ (1,356,534)	\$ (1,283,785)	\$ (1,249,038)	\$ (1,095,359)	\$ (994,610)	\$ (1,010,265)	\$ (913,510)	\$ (948,699)
Business-type activities	7,674	(3,867)	50,673	22,121	(8,099)	(14,718)	(2,219)	7,528	14,307	46,818
Total primary government	\$ (1,129,458)	\$ (1,220,562)	\$ (1,305,861)	\$ (1,261,664)	\$ (1,257,137)	\$ (1,110,077)	\$ (996,829)	\$ (1,002,737)	\$ (899,203)	\$ (901,881)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes:										
Property and other taxes	467,917	495,731	507,273	498,973	481,145	404,877	329,591	368,233	384,523	404,878
Utility	79,129	82,255	93,619	108,151	108,528	110,912	111,912	114,486	112,645	113,474
Franchise	40,415	41,064	41,067	38,410	41,273	41,709	43,741	45,749	46,909	48,949
Transient occupancy	21,400	23,900	19,261	17,250	18,102	22,451	25,258	29,685	36,980	41,125
Business license	39,502	39,901	38,597	34,952	37,963	41,134	45,140	45,500	47,431	50,864
Sales taxes shared revenues	145,340	149,500	127,802	123,312	137,970	154,026	163,751	173,412	180,407	201,797
State of California in-lieu	5,911	9,244	8,839	7,169	4,889	2,611	524	434	419	410
Unrestricted interest and investment earnings	39,359	65,721	34,092	5,010	8,142	6,950	2,019	5,060	4,125	7,790
Other revenue	35,875	53,420	40,372	35,786	33,237	21,207	20,678	18,278	17,753	2,103
Transfers	6,418	9,383	5,285	3,291	5,303	3,357	829	2,468	3,501	3,680
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-	-	2,075,379	(167,244)	-	-	-
Total governmental activities	\$ 881,266	\$ 970,119	\$ 916,207	\$ 872,304	\$ 876,552	\$ 2,884,613	\$ 576,037	\$ 803,305	\$ 834,693	\$ 875,070
Business-type activities										
Unrestricted interest and investment earnings	21,138	29,232	18,434	1,192	3,886	3,562	(1,612)	4,581	3,252	6,383
Other revenue	(6,418)	(9,383)	(5,285)	(3,291)	(5,303)	(3,357)	(829)	(2,468)	1,747	2,314
Transfers	-	-	-	-	-	(13,528)	-	-	(3,501)	(3,680)
Extraordinary loss on dissolution of RDA	-	-	-	-	-	-	-	-	-	-
Total business-type activities	\$ 14,720	\$ 19,849	\$ 13,149	\$ (2,099)	\$ (1,417)	\$ (13,323)	\$ (2,441)	\$ 2,113	\$ 1,498	\$ 5,017
Total primary government	\$ 895,986	\$ 989,968	\$ 929,356	\$ 870,205	\$ 875,135	\$ 2,871,290	\$ 573,596	\$ 805,418	\$ 836,191	\$ 880,087
Change in Net Position										
Governmental activities	\$ (255,866)	\$ (246,576)	\$ (440,327)	\$ (411,481)	\$ (372,486)	\$ 1,789,254	\$ (418,573)	\$ (206,960)	\$ (78,817)	\$ (73,629)
Business-type activities	22,394	15,982	63,822	20,022	(9,516)	(28,041)	(4,660)	9,641	15,805	51,835
Total primary government	\$ (233,472)	\$ (230,594)	\$ (376,505)	\$ (391,459)	\$ (382,002)	\$ 1,761,213	\$ (423,233)	\$ (197,319)	\$ (63,012)	\$ (21,794)

Note: (1) The amounts have not been retroactively restated prior to FY 2013 for the effect of GASB 65 implementation.

CITY OF SAN JOSE
 FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$000's)

Data prior to GASB 54 implementation:

	Fiscal year			
	2007	2008	2009	2010
General Fund				
Reserved	\$ 35,708	\$ 48,511	\$ 32,400	\$ 27,269
Unreserved	244,889	228,622	178,793	143,618
Total General Fund	\$ 280,597	\$ 277,133	\$ 213,202	\$ 170,887
Other Governmental Funds				
Reserved	\$ 539,761	\$ 695,408	\$ 704,866	\$ 711,231
Unreserved, reported in:				
Special revenue funds	285,532	299,078	314,128	280,031
Debt service funds	(31,493)	(31,067)	-	(1,373)
Capital project funds	307,713	263,207	185,549	38,384
Total Other Governmental Funds	\$ 1,101,513	\$ 1,226,626	\$ 1,204,543	\$ 1,028,273

Data incorporating GASB 54 implementation⁽¹⁾:

	Fiscal Year						
	2010 ⁽²⁾	2011	2012	2013	2014	2015	2016
General Fund							
Nonspendable	\$ 13	\$ 13	\$ 13	\$ 13	\$ 219	\$ 203	\$ 186
Restricted	489	397	392	330	19,629	10,599	1,265
Committed	55,414	51,587	63,014	89,114	121,991	94,748	84,998
Assigned	70,527	69,852	70,236	73,237	111,587	143,398	167,239
Unassigned	44,443	44,772	49,373	64,200	50,638	67,006	65,351
Total General Fund	\$ 170,887	\$ 166,621	\$ 183,028	\$ 226,894	\$ 304,064	\$ 315,954	\$ 319,039
Other Governmental Funds							
Nonspendable	\$ 1,149	\$ 1,111	\$ 20,508	\$ 898	\$ 77	\$ 144	\$ 243
Restricted	953,322	1,007,431	921,164	851,869	876,041	897,253	909,733
Committed	30,450	41,774	28,928	29,110	31,779	39,425	55,435
Assigned	29,397	31,714	32,673	48,229	59,243	70,715	82,785
Unassigned	(642)	(222)	(172)	-	-	-	-
Total Other Governmental Funds	\$ 1,013,676	\$ 1,081,808	\$ 1,003,101	\$ 930,106	\$ 967,140	\$ 1,007,537	\$ 1,048,196

Note: The City made some changes to this schedule effective fiscal year 2011.

(1) The City implemented GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions", beginning fiscal year 2011. Certain data required by GASB 54 was not readily available for years prior to 2010. The City of San José has elected to show five years of data prior to GASB 54 implementation, and six years of data incorporating GASB 54 for this schedule.

(2) The retrospective 2010 information is provided to show comparable information as if GASB 54 were implemented in fiscal year 2010.

CITY OF SAN JOSE
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (\$000's)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
REVENUES										
Taxes and special assessments	\$ 788,690	\$ 827,531	\$ 808,152	\$ 806,979	\$ 805,034	\$ 792,365	\$ 736,466	\$ 795,550	\$ 829,314	\$ 881,980
Licenses, permits, and fines	88,611	89,656	84,274	81,983	93,471	62,197	61,137	66,826	62,000	69,856
Intergovernmental	92,051	96,930	120,460	101,527	113,669	112,169	106,091	96,396	90,119	81,133
Charges for current services	265,381	296,281	322,002	308,164	206,328	227,522	248,636	236,865	249,659	257,212
Rent	10,326	13,789	12,740	19,676	21,092	20,970	24,020	28,683	36,997	43,284
Investment income and other revenues	140,631	169,506	106,979	73,729	75,270	73,081	110,720	99,216	104,171	118,903
Total revenues	1,385,690	1,493,693	1,454,607	1,392,058	1,314,864	1,288,304	1,287,070	1,323,536	1,372,260	1,452,368
EXPENDITURES										
General government	227,255	238,747	259,699	235,571	112,809	88,385	100,483	90,395	90,031	108,505
Public safety	370,575	418,869	420,483	428,594	434,260	445,790	440,231	464,672	486,770	516,614
Community services	254,525	191,541	249,624	233,355	222,950	214,719	183,193	178,189	214,788	241,644
Sanitation	99,746	111,965	123,477	130,114	128,309	133,908	160,881	142,766	143,406	145,008
Capital maintenance	233,910	248,203	282,230	279,396	214,305	160,346	165,377	169,689	200,523	231,467
Capital outlay	130,669	171,575	173,434	126,137	49,679	53,038	106,387	73,037	75,903	60,049
Debt service:										
Principal	67,487	71,621	88,738	152,239	107,829	110,578	51,042	51,085	86,370	53,405
Interest and fiscal charges	150,600	167,837	164,785	162,790	164,439	116,338	64,287	62,954	62,464	59,007
Bond issuance costs	20,664	4,718	2,926	1,068	1,839	-	1,762	-	-	-
Payment to refunded bond escrow agent	14,974	12,992	3,143	-	-	-	31,985	-	-	-
Total expenditures	1,570,405	1,638,068	1,768,539	1,749,264	1,436,419	1,323,102	1,305,628	1,232,787	1,360,255	1,415,699
Excess (deficiency) of revenues over (under) expenditures	(184,715)	(144,375)	(313,932)	(357,206)	(121,555)	(34,798)	(18,558)	90,749	12,005	36,669
OTHER FINANCING SOURCES (USES)										
Bonds issued	171,300	246,030	162,875	160,405	138,410	-	-	-	-	-
Proceeds from capital lease financing	-	-	-	-	-	-	-	19,286	-	-
Refunding bonds issued	737,740	125,500	88,380	-	-	-	335,980	-	-	-
Premium / (discount) on bonds	30,124	1,645	(1,072)	22	(2,650)	-	45,506	-	-	-
Payment to refunded bond escrow agent	(745,137)	(116,908)	(84,982)	(56,735)	-	-	(348,750)	-	-	-
Reclassification of debt	-	374	44,700	-	23,562	(88,600)	-	-	-	-
Proceeds from sale of capital assets	8,491	-	8,365	33,647	20,577	12,237	6,198	2,221	37,482	3,848
Transfers in	221,671	239,207	265,681	310,277	206,745	476,238	83,670	104,097	114,998	96,561
Transfers out	(214,758)	(229,824)	(258,038)	(306,986)	(201,223)	(472,172)	(83,036)	(102,149)	(112,198)	(93,334)
Total other financing sources (uses)	209,431	266,024	225,909	140,630	185,421	(72,297)	39,568	23,455	40,282	7,075
Extraordinary gain (loss) from dissolution of RDA	-	-	-	-	-	44,795	(60,139)	-	-	-
Net change in fund balances	\$ 24,716	\$ 121,649	\$ (88,023)	\$ (216,576)	\$ 63,866	\$ (62,300)	\$ (29,129)	\$ 114,204	\$ 52,287	\$ 43,744
Debt service as a percentage of noncapital ⁽¹⁾ expenditures	16.19%	17.21%	16.09%	19.41%	19.63%	17.87%	12.28%	9.83%	11.59%	8.29%

Note: (1) Debt ratio was calculated by dividing debt service expenditure excluding bond issuance costs by total government expenditures excluding capital outlay.
 (2) In 2011, as a result of the implementation of GASB 54, the City converted Public Works Program Support Fund (Fund 150), Employee Benefits Fund (Funds 155-161), and Stores Vehicle Maintenance and Operations Fund (Funds 551-553) from Special Revenue Funds to Internal Service Funds.

CITY OF SAN JOSE
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (\$000's)

Fiscal Year	City				Former Agency / SARA				Net	
	Secured	Unsecured	Less: Exemptions	Assessed Value	Secured	Unsecured	Less: Exemptions	Assessed Value	Taxable Assessed Value	Total Direct Rate
2007	92,922,334	3,908,432	3,214,283	93,616,483	12,116,350	3,975,452	0	16,091,802	16,091,802	0.189
2008	100,183,489	4,397,235	3,487,434	101,093,290	13,948,249	4,104,730	0	18,052,979	18,052,979	0.188
2009	104,823,540	4,686,153	3,682,139	105,827,554	15,256,509	4,253,680	0	19,510,189	19,510,189	0.189
2010	102,272,875	4,826,605	4,081,360	103,018,120	15,888,334	4,115,097	0	20,003,431	20,003,431	0.191
2011	100,551,658	4,317,806	4,180,818	100,688,646	14,633,045	3,861,489	0	18,494,534	18,494,534	0.189
2012	101,709,647	4,526,059	4,249,198	101,986,508	13,987,097	4,215,662	0	18,202,759	18,202,759	0.188
2013	102,910,953	4,740,429	4,452,573	103,198,809	14,920,273	3,674,268	0	18,594,541	18,594,541	0.184
2014	111,660,402	4,584,810	4,561,937	111,683,275	16,739,547	4,027,543	0	20,767,090	20,767,090	0.184
2015	119,264,034	4,282,669	4,761,308	118,785,395	18,904,511	3,788,295	0	22,692,806	22,692,806	0.181
2016	127,846,046	4,240,467	5,067,884	127,018,629	19,976,466	3,879,443	0	23,855,909	23,855,909	0.178

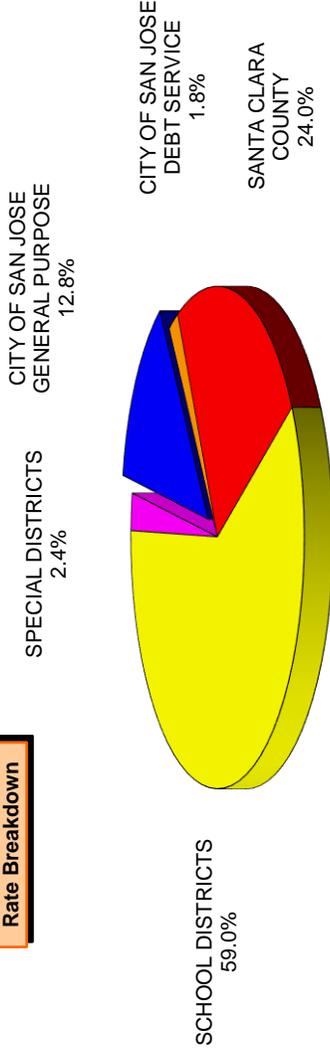
Note:

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the value of the property is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Department of Finance, County of Santa Clara

PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

2016 Property Tax Rate Breakdown



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Fiscal Year										
City of San José:										
General purpose	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156	0.156
Debt service	0.033	0.032	0.033	0.035	0.033	0.032	0.028	0.028	0.025	0.022
Total Direct Rate	0.189	0.188	0.189	0.191	0.189	0.188	0.184	0.184	0.181	0.178
Santa Clara County	0.292									
School districts	0.670	0.628	0.684	0.699	0.694	0.699	0.726	0.726	0.731	0.717
Special districts	0.031	0.030	0.031	0.031	0.030	0.030	0.031	0.031	0.030	0.029
Total direct and overlapping rates	1.182	1.138	1.196	1.213	1.205	1.209	1.233	1.233	1.234	1.216

- Note:
- The above tax rates are applied per \$100 of assessed valuation.
 - In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within as broken down in the pie chart above. In addition to the 1.00% fixed amount, the property owners are charged taxes as a percentage of assessed property values for the payment of school district bonds.

Source: Department of Finance, County of Santa Clara

CITY OF SAN JOSE
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO
 (\$000's)

SCHEDULE VII

	2016	2007	
Taxpayer	Taxable Assessed Value	Taxpayer	Percent of Total City Taxable Assessed Value
Cisco Technology, Inc.	\$ 1,139,943	Cisco Technology, Inc.	0.76%
Essex Portfolio LP	897,088	Hitachi Global Storage Techs, Inc.	0.59%
Sobrato Interests	580,145	Equity Office Properties	0.38%
FRIT San Jose Town & Country Village LLC	554,947	Irvine Community Development Co.	0.37%
The Irvine Company LLC	551,188	VF MallLLC	0.37%
M West Propco	549,748	Sobrato Group / Sobrato Development Co.	0.36%
VF Mall LLC	523,844	Carramerica Realty Operatin Partnership LP	0.35%
San Jose Water Works	411,601	Legacy Partners	0.27%
Tishman Speyer Archstone-Smith	291,863	Mission West Properties Lp	0.19%
Ebay Inc.	384,064	Frit San Jose Town & Country Village LLC	0.25%
Total assessed property valuation, local secured net	\$ 5,884,431	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
		\$ 691,402	0.63%
		609,203	0.56%
		480,076	0.44%
		477,066	0.43%
		454,101	0.41%
		376,527	0.34%
		294,116	0.27%
		287,495	0.26%
		271,996	0.25%
		268,104	0.24%
		\$ 4,210,086	3.83%

Total City of San José net assessed property valuation (including the former Redevelopment Agency):
 FY 2006-2007 \$ 150,874,538
 FY 2015-2016 \$ 109,708,285

Source: California Municipal Statistics, Inc.
 Finance Department, County of Santa Clara

CITY OF SAN JOSE
 PROPERTY TAX LEVIES AND COLLECTIONS
 LAST TEN FISCAL YEARS
 (\$000's)

Fiscal Year	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2007	\$ 127,693	\$ 127,141	99.6	\$ 213	\$ 127,354	99.7
2008	137,290	135,866	99.0	223	136,088	99.1
2009	139,735	139,501	99.8	234	139,735	100.0
2010	132,901	132,175	99.5	246	132,421	99.6
2011	127,527	127,418	99.9	219	127,418	100.0
2012	129,822	129,822	100.0	0	129,822	100.0
2013	133,522	133,522	100.0	0	133,522	100.0
2014	146,783	146,783	100.0	0	146,783	100.0
2015	159,047	159,047	100.0	0	159,047	100.0
2016	168,813	168,813	100.0	0	168,813	100.0

Note: The tax levied for the current year is based on estimates provided by the County of Santa Clara. The tax levied for prior years are adjusted to reflect actual tax collections.

Source: Finance Department, County of Santa Clara
 Finance Department, City of San José

SCHEDULE IX

CITY OF SAN JOSE
 RATIOS OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (\$000's)

Fiscal Year	Governmental Activities										Total Governmental Activities
	General Obligation Bonds	Tax Allocation Bonds	Notes & Loans	Lease Revenue Bonds	Special Assessment Bonds	Revenue Bonds	Capital Leases	Revenue Bonds	Capital Leases	Total	
2007	\$ 517,830	\$ 1,854,145	\$ 91,334	\$ 641,465	\$ 74,105	\$ 322,460	\$ 0	\$ 3,501,339			
2008	535,832	2,033,899	87,366	629,241	70,591	312,240	0	3,669,169			
2009	526,592	2,155,169	83,058	655,058	62,729	301,250	0	3,783,856			
2010	506,964	2,153,332	77,850	644,908	58,825	284,150	0	3,726,029			
2011	487,034	2,091,270	71,827	666,540	161,924	271,385	0	3,749,980			
2012	467,104	0 ⁽¹⁾	22,003 ⁽¹⁾	657,017	158,484	164,125 ⁽¹⁾	0	1,468,733			
2013	447,180	0	15,906	649,577	154,676	153,305	18,069	1,438,713			
2014	427,256	0	15,906	631,899	150,533	141,995	39,370	1,406,959			
2015	407,332	0	2,396	595,742	144,159	130,140	38,850	1,318,619			
2016	387,403	0	2,157	579,326	139,434	117,715	37,209	1,263,244			

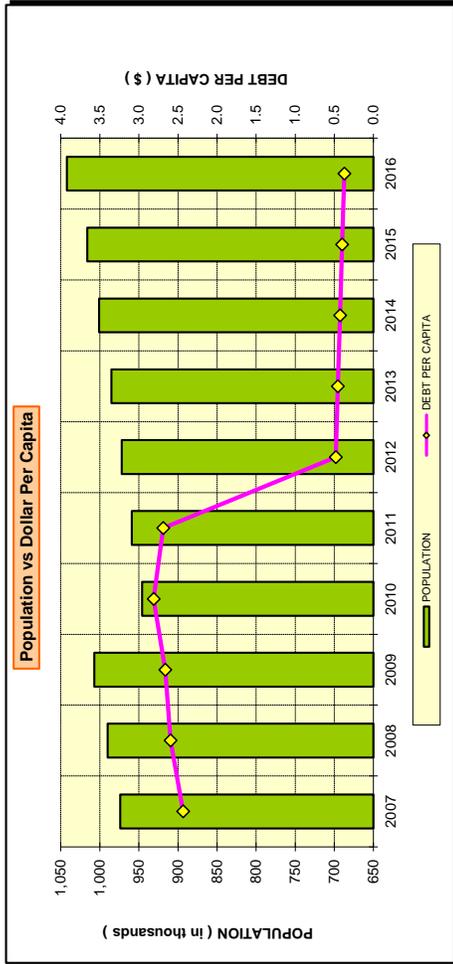
Fiscal Year	Business-type Activities						Total Primary Government Property Value	Percentage of Property Value	Debt Per Capita
	Airport Revenue Bonds	Clean Water Revenue Bonds	Wastewater Revolving Fund Loans	Business-type Activities	Total Business-type Activities	Total Primary Government			
2007	\$ 488,345	\$ 78,229	\$ 45,586	\$ 612,160	\$ 4,113,499	\$ 4,113,499	3.75%	\$ 4.22	
2008	1,060,658	73,808	41,953	1,176,419	4,845,588	4,845,588	4.07%	4.89	
2009	1,049,234	64,925	38,254	1,152,413	4,936,269	4,936,269	3.94%	4.90	
2010	1,037,329	60,049	34,487	1,131,865	4,857,894	4,857,894	3.95%	5.14	
2011	1,024,889	55,023	30,651	1,110,563	4,860,543	4,860,543	4.08%	5.07	
2012	1,415,551	49,842	26,746	1,492,139	2,960,872 ⁽¹⁾	2,960,872 ⁽¹⁾	2.46%	3.05	
2013	1,398,333	44,481	22,769	1,465,583	2,904,296	2,904,296	2.38%	2.95	
2014	1,376,038	38,925	18,720	1,433,683	2,840,642	2,840,642	2.14%	2.84	
2015	1,349,265	33,168	14,597	1,397,030	2,715,649	2,715,649	1.92%	2.67	
2016	1,325,579	27,138	10,399	1,363,116	2,626,360	2,626,360	1.74%	2.52	

Note: The prior years' "Total Governmental Activities Debt" were restated to include "Capital Leases". Accordingly, the percentage of property value and debt per capita are recalculated.

(1) As of February 1, 2012, all bonds associated with the former Redevelopment Agency of the City of San Jose ("Agency") were transferred to the Successor Agency to the Redevelopment Agency of the City of San Jose ("SARA") resulting in a decrease in outstanding Tax Allocation Bonds, notes and loans, and other revenues bonds of the former Agency, which will be paid as enforceable obligations of SARA.

Sources: Finance Department, City of San José
 Finance Department, County of Santa Clara

CITY OF SAN JOSE
 RATIO OF GENERAL BONDED DEBT OUTSTANDING
 LAST TEN FISCAL YEARS
 (\$000'S)



Fiscal Year	General Obligation Bonds		Tax Allocation Bonds		Net Assessed Value		Ratio of General Bonded Debt to Net Assessed Value		General Bonded Debt Per Capita	
			Total		Total	Population	Net Assessed Value			
2007	\$ 517,830	\$ 1,854,145	\$ 2,371,975	\$	\$ 109,708,285	974,000	\$	0.021621	\$ 2.44	
2008	535,832	2,033,899	2,569,731		119,146,269	990,000		0.021568	2.60	
2009	526,592	2,155,169	2,681,761		125,337,743	1,007,000		0.021396	2.66	
2010	506,964	2,153,332	2,660,296		123,021,551	946,000		0.021625	2.81	
2011	487,034	2,091,270	2,578,304	(2)	119,183,180	959,000		0.021633	2.69	
2012	467,104	0	467,104	(2)	120,189,267	971,000		0.003886	0.48 (1)	
2013	447,180	0	447,180	(2)	121,793,350	984,000		0.003672	0.45	
2014	427,256	0	427,256	(2)	132,450,365	1,001,000		0.003226	0.43	
2015	407,332	0	407,332	(2)	141,478,201	1,016,000		0.002879	0.40	
2016	387,403	0	387,403	(2)	150,874,538	1,042,000		0.002568	0.37	

Note: Total Outstanding General Debt excludes special assessment, special tax bonds, capital leases, and notes and loans payable.

(1) Decrease in General Bonded Debt Per Capital primarily due to Tax Allocation and Revenue bonds issued by the former Agency being transferred to SARA at February 1, 2012.

(2) Due to the dissolution of former Redevelopment Agency, Tax Allocation Bonds were transferred to SARA at February 1, 2012.

(3) The prior years' General Bonded Debt was restated to exclude "Lease revenue bonds" and "Revenue bonds". Accordingly, the ratio of general bonded debt to net assessed value and general bonded debt per capita were recalculated.

Source: Finance Department, City of San José
 State of California, Department of Finance, Population Estimates for California Cities

CITY OF SAN JOSE
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2016

SCHEDULE XI

City Net Taxable Assessed Valuation (in thousands)		\$	<u>150,874,538</u>
			Estimated Share
			of
	% Applicable		Outstanding Debt
			as of 06/30/16
<u>City Direct Debt</u>	100.00%	\$	<u>1,263,244,000</u>
			<u>1,263,244,000</u>
<u>Direct Tax and Assessment Debt:</u>			
City of San Jose Community Facilities Districts	100.00%	\$	24,010,000
City of San Jose Special Assessment Bonds	100.00%		13,505,000
			<u>37,515,000</u>
			<u>37,515,000</u>
<u>Overlapping Tax and Assessment Debt:</u>			
Alum Rock Union School District	76.44%		113,833,155
Berryessa Union School District	96.90%		61,918,031
Cambrian School District	64.59%		51,149,944
Campbell Union High School District	59.95%		142,765,000
Campbell Union School District	46.95%		165,271,229
Cupertino Union School District	15.94%		292,848,688
East Side Union High School District	96.34%		739,877,862
Evergreen School District	99.48%		133,701,562
Evergreen School District Community Facilities District No. 92-1	100.00%		1,125,000
Foothill-DeAnza Community College District	4.26%		584,782,455
Franklin-McKinley School District	99.74%		81,494,608
Fremont Union High School District	9.48%		365,975,088
Gavilan Joint Community College District	5.89%		94,635,000
Los Gatos Union School District	1.99%		94,485,000
Los Gatos-Saratoga Joint Union High School District	0.95%		70,320,000
Luther Burbank School District	22.46%		9,389,203
Midpeninsula Regional Open Space District	0.01%		45,000,000
Milpitas Unified School District	0.00%		111,035,000
Moreland School District	75.88%		115,092,251
Morgan Hill Unified School District	13.40%		84,709,012
Mount Pleasant School District	88.13%		18,709,030
Oak Grove School District	99.92%		190,444,352
Orchard School District	100.00%		41,014,113
San Jose Unified School District	98.38%		532,110,285
San Jose-Evergreen Community College District	85.37%		458,326,151
Santa Clara County	38.67%		792,585,000
Santa Clara Unified School District	24.10%		501,080,000
Santa Clara Valley Water District Benefit Assessment District	38.67%		99,060,000
Union School District	72.75%		86,229,020
West Valley Community College District	33.16%		419,930,312
Subtotal Overlapping Tax and Assessment Debt			<u>6,498,896,351</u>
Total Direct and Overlapping Tax and Assessment Debt			<u>6,536,411,351</u>
			<u>3,316,687,795</u>
			<u>3,354,202,795</u>
<u>Overlapping Other Debt:</u>			
Alum Rock Union School District Certificates of Participation	76.44%		25,000,000
Berryessa Union School District Certificates of Participation	96.90%		5,758,469
East Side Union High School District Post Employment Obligations	96.34%		29,955,000
Foothill-DeAnza Community College District General Fund Obligations	4.26%		9,723,341
Franklin-McKinley School District Certificates of Participation	99.74%		4,280,000
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	0.95%		6,260,000
Campbell Union High School District General Fund Obligations	59.95%		15,165,000
Campbell Union School District General Fund Obligations	46.95%		3,265,000
Midpeninsula Regional Open Space Park District General Fund Obligations	0.01%		112,305,886
Morgan Hill Unified School District Certificates of Participation	13.40%		13,505,000
San Jose Unified School District Certificates of Participation	98.38%		19,500,000
San Jose-Evergreen Community College District Benefit Obligations	85.37%		47,450,000
Santa Clara County Board of Education Certificates of Participation	38.67%		6,380,000
Santa Clara County General Fund Obligations	38.67%		683,276,121
Santa Clara County Pension Obligation Bonds	38.67%		367,118,349
Santa Clara County Vector Control District Certificates of Participation	38.67%		2,890,000
Santa Clara Unified School District Certificates of Participation	24.10%		13,835,000
West Valley-Mission Community College District General Fund Obligations	33.16%		64,180,000
Total Gross Direct and Overlapping General Fund Debt			<u>1,429,847,166</u>
Total Overlapping Debt		\$	<u>7,966,258,517</u>
Total Direct and Overlapping Debt			<u>3,918,995,007</u>

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses in the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt, of each overlapping government. The City direct debt in this schedule includes bonds, notes, certificate of participation, loans, and capital leases.

Source: California Municipal Statistics, Inc.
Finance Department, County of Santa Clara

CITY OF SAN JOSE
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(\$000's)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<u>Calculation of Debt Limit</u>										
Gross assessed value for fiscal year	\$ 112,922,568	\$ 122,633,703	\$ 129,019,882	\$ 127,102,911	\$ 123,363,998	\$ 124,438,465	\$ 126,245,923	\$ 137,012,302	\$ 146,239,509	\$ 155,942,422
Debt limit at 15% of assessed value (1)	x .15									
Debt limit applicable to fiscal year	\$ 16,938,385	\$ 18,395,055	\$ 19,352,982	\$ 19,065,437	\$ 18,504,600	\$ 18,665,770	\$ 18,936,888	\$ 20,551,845	\$ 21,935,926	\$ 23,391,363
<u>Calculation of Legal Debt Margin</u>										
Debt limit applicable to fiscal year	\$ 16,938,385	\$ 18,395,055	\$ 19,352,982	\$ 19,065,437	\$ 18,504,600	\$ 18,665,770	\$ 18,936,888	\$ 20,551,845	\$ 21,935,926	\$ 23,391,363
Less: total general obligation bonds	517,830	535,832	526,592	506,964	497,034	467,104	447,180	427,256	407,332	387,403
Legal debt margin	\$ 16,420,555	\$ 17,859,223	\$ 18,826,390	\$ 18,558,473	\$ 18,017,566	\$ 18,198,666	\$ 18,489,708	\$ 20,124,589	\$ 21,528,594	\$ 23,003,960
Total debt applicable to the limit as a percentage of debt limit	3.1%	2.9%	2.7%	2.7%	2.6%	2.5%	2.4%	2.1%	1.9%	1.7%

Note: The prior years' bonds amounts were restated from "face value" to "amounts net of related premiums and discounts". Accordingly, the legal debt margin is recalculated.
(1) Section 1216 of the San José City Charter limits the general obligation bonds of the City to 15% of the total assessed value of all real and personal property within the City limits.

Source: Finance Department, County of Santa Clara

CITY OF SAN JOSE
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(\$000's)

NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT

Year	Gross Revenues and Other Available Funds (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Principal	Interest	Debt Service Requirements Total	Available Passenger Facility Charges (4)	Net Bond Debt Service Payable from Revenues	Coverage (3), (4), (5)
2007	143,361	86,404	56,957	8,776	12,061	20,837	-	20,837	2.74
2008	163,826	95,615	68,211	9,753	11,814	21,567	-	21,567	3.16
2009	169,094	91,051	78,043	11,195	11,842	23,037	-	23,037	3.39
2010	161,836	82,711	79,125	11,653	19,714	31,367	4,588	26,779	2.95
2011	175,985	76,850	99,135	12,135	41,755	53,890	21,388	32,502	3.05
2012	188,490	67,875	120,615	25,550	55,175	80,725	21,336	59,389	2.03
2013	190,857	64,974	125,883	13,440	72,885	86,325	22,100	64,225	1.96
2014	202,874	66,319	136,555	22,275	72,793	95,068	25,747	69,321	1.97
2015	211,224	67,661	143,563	23,475	72,607	96,082	25,202	70,880	2.03
2016	224,356	73,118	151,238	23,660	71,792	95,452	24,829	70,623	2.14

(1) Includes operating and other revenues and prior year's surplus, excludes Passenger Facility Charges and other items as defined in the Master Trust Agreement.

(2) Includes operating expenses less depreciation and expenses paid from sources other than General Airport Revenues.

(3) Debt coverage is calculated by dividing net revenue available for debt service by total debt service requirements.

(4) Under the Master Trust Agreement, the City may designate Passenger Facility Charges as "Available Passenger Facility Charges" for payment of eligible debt services. The amount of Debt Service is reduced by the amount Available Passenger Facility Charges designated by the City and deposited with Trustee to pay Debt Service.

Beginning 2009 - 2010 debt service requirements calculation excludes Passenger Facility Charges.

(5) The City has covenanted in the Master Trust Agreement that net revenues available to pay debt service will be at least 125% of annual debt service for each fiscal year.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

WASTEWATER TREATMENT SYSTEM

Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Principal	Interest	Debt Service Requirements Total	Coverage (3)
2007	124,754	89,313	35,441	7,533	3,786	11,319	3.13
2008	141,777	105,779	35,998	7,943	3,405	11,348	3.17
2009	165,484 *	101,833	63,651	8,179	3,276	11,455	5.56
2010	159,124	113,648	45,476	8,407	3,038	11,445	3.97
2011	170,078	120,225	49,853	8,626	2,816	11,442	4.36
2012	168,976	122,439	46,537	8,850	2,569	11,419	4.08
2013	171,689	120,329	51,360	9,102	2,310	11,412	4.50
2014	196,937	141,092	55,845	9,369	2,047	11,416	4.89
2015	194,168	129,153	65,015	9,643	1,736	11,379	5.71
2016	209,512	134,874	74,638	9,993	1,414	11,407	6.54

(1) Includes operating revenues, operating grants/contributions, and other revenues.

(2) Includes operating expenses less depreciation and amortization.

(3) The City has covenanted in the Improvement Agreement that net system revenues will be at least 115% of its allocable percentage of annual debt service.

* Rate increase effective July 1, 2008.

Source: Environmental Services Department, City of San José

CITY OF SAN JOSE
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Net Taxable Assessed Values (2) (\$000's)	Per Capita Taxable Property Values (\$000's)	Average Unemployment Rate % (3)
2007	974,000	109,708,285	112,637	5.0
2008	990,000	119,146,269	120,350	5.3
2009	1,007,000	125,337,743	124,466	6.6
2010	946,000 (*)	123,021,551	130,044	12.2
2011	959,000	119,183,180	124,279	12.2
2012	971,000	120,189,267	123,779	10.8
2013	984,000	121,793,350	123,774	9.3
2014	1,001,000	132,450,365	132,318	7.7
2015	1,016,000	141,487,201	139,259	5.1
2016	1,042,000	150,874,538	144,793	4.3

Note: Data pertaining to personal income is not readily available, thus the City used taxable assessed values to calculate per capita taxable property values.

Sources / Notes:

1. State of California, Department of Finance, Population Estimates for California Cities
2. Finance Department, County of Santa Clara
3. State of California, Employment Development Department, Labor Market Information Division

(*) Revised by State of California Department of Finance due to using the 2010 Census counts as the new benchmark in estimating population for California Cities.

CITY OF SAN JOSE
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO

SCHEDULE XV

Company or Organization	2016			2007		
	Number of Employees	Rank	Percent of Total Employment	Number of Employees	Rank	Percent of Total Employment
County of Santa Clara	17,800	1	1.76%	15,360	2	1.70%
Cisco Systems	14,000	2	1.38%	17,200	1	1.90%
City of San Jose*	5,945	3	0.59%	6,034	3	0.67%
San Jose State University	4,300	4	0.42%	3,030	5	0.33%
Western Digital/HGST	3,000	5	0.30%	2,800	7	0.31%
eBay	2,800	6	0.28%	3,010	6	0.33%
Paypal, Inc.	2,800	7	0.28%	n/a (**)	n/a (**)	n/a (**)
IBM Corporation	2,800	8	0.28%	6,650	4	0.73%
Adobe Systems, Inc.	2,100	9	0.21%	2,000	11	0.22%
Kaiser Permanente	2,100	10	0.21%	2,120	10	0.23%
Good Samaritan Hospital	2,000	11	0.20%	1,850	12	0.20%
Target Corporation	1,900	12	0.19%	n/a (**)	n/a (**)	n/a (**)
Brocade Communications	1,700	13	0.19%	n/a (**)	n/a (**)	n/a (**)
Cadence Design Systems	1,600	14	0.16%	1,800	14	0.20%
Maxim Integrated Products	1,600	15	0.16%	n/a (**)	n/a (**)	n/a (**)

Note: (*) Full-time employees.

(**) Company or Organization not included in top 15 principal employers in 2007.

Source: California Employment Development Department, Labor Market Information Division

CITY OF SAN JOSE
 FULL-TIME AND PART-TIME CITY EMPLOYEES
 LAST TEN FISCAL YEARS

Full-Time and Part-Time Employees as of June 30⁽⁶⁾

	2007	2008	2009	2010	2011 ⁽⁴⁾	2012	2013	2014	2015	2016
Airport	360	367	343	281	190	181	169	165	172	164
City Attorney's Office	87	85	87	79	71	67	73	72	72	79
City Auditor's Office	17	17	19	16	14	12	15	14	14	14
City Clerk's Office	19	21	21	16	12	11	11	16	14	14
City Council Staff	85	93	80	83	81	81	85	78	89	90
City Manager's Office	126	117	118	104	68	62	61	59	60	65
Convention & Cultural Facilities	78	72	69	53	8	1	0	0	0	0
Environmental Services Department	460	477	498	499	486	455	427	452	466	460
Finance Department	127	142	139	127	114	109	112	112	125	124
Fire Department	859	867	828	816	712	740	783	762	758	779
General Services Department	189	208	304 ⁽³⁾	303	234	0 ⁽⁵⁾	0	0	0	0
Housing Department	80	85	86	83	65	57	50	49	54	51
Human Resources	164	179	148	140	93	74	60	39	46	46
Independent Police Auditor	6	6	5	6	6	6	6	6	6	6
Information Technology	102	143	141	128	99	83	76	70	63	68
Library Department	733 ⁽²⁾	712	701	651	566	532	575	525	576	643
Office of Economic Development	75	76	90	90	107	138	112	54	58	59
Parks, Recreation & Neighborhood Services	1,956	1,909	1,709 ⁽³⁾	1,717	1,521	1,422	1,425	1,018	1,104	1,160
Planning, Building & Code Enforcement	351	367	328	272	295	288	324	294	317	289
Police Department	1,934	1,927	1,953	1,831	1,715	1,572	1,580	1,524	1,422	1,569
Public Works Department	347	361	332	293	240	475 ⁽⁵⁾	503	516	519	535
Retirement Services	29	29	30	28	28	27	26	32	35	36
Transportation	431	478	462	444	408	406	396	406	418	428
Total	8,615	8,738	8,491	8,060	7,133	6,799	6,869	6,263	6,388	6,679

Note: (1) Effective FY 2005-2006, the Purchasing Group and the Parks Maintenance Group were transferred from the General Services to the Finance Department and the Parks, Recreation & Neighborhood Services Department, respectively.
 (2) Effective FY 2006-2007, the City opened the Evergreen and Cambian Libraries
 (3) Effective FY 2008-2009, the Animal Care Services Division was transferred from the Parks, Recreation & Neighborhood Services Department to the General Services Department.
 (4) Decrease primarily due to layoffs and a number of eliminated positions as a cost-saving strategy to reduce the \$115.2 million budget shortfall.
 (5) Effective FY 2011-2012, the General Services Department merged with the Public Works Department.
 (6) Includes part-time and temporary employees.

CITY OF SAN JOSE
OPERATING INDICATORS
LAST TEN FISCAL YEARS

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
AIRPORT:										
Takeoffs Per Year:	97,596	96,860	86,672	76,024	73,094	71,672	71,000	74,088	73,835	76,050
Commercial Airline Operations	3,388	3,140	2,554	2,076	2,046	1,678	1,500	1,504	1,497	1,570
Cargo Commercial Airlines Operations	28,806	29,504	23,830	19,776	16,172	14,806	16,000	16,843	18,326	19,055
Taxi / Commuter Commercial	55,021	55,146	46,674	33,439	30,503	31,664	31,000	31,246	31,950	34,670
General Aviation	103	64	242	275	276	285	230	228	200	241
Military Flights										
Landings Per Day:	178	177	155	134	125	121	120	125	128	132
Commercial	75	76	64	46	42	43	40	43	44	47
General Aviation										
Number of Passengers Per Year:										
Business	5,113,920	5,116,800	4,200,000	3,950,400	4,026,720	3,964,800	4,075,000	4,350,000	4,586,000	4,800,000
Non-Business	5,540,080	5,543,200	4,550,000	4,279,600	4,362,280	4,295,200	4,414,000	4,713,000	4,969,000	5,200,000
ENVIRONMENT AND UTILITIES:										
Water:										
Gallons of Wastewater Treated Per Day (in millions)	116	116	107	106	111 (2)	107 (2)	111	109	101	92
Gallons of Municipal Water Consumption Per Year (in billions)	7.7	8.3	8.7	7.9	6.8	7.7	8.1	8.1	8.2	6
Recycled Materials:										
Tons of Recyclables	105,648	132,821	129,462	120,511	120,819	114,369	101,102	103,000	82,000	85,239
Tons of Yard Trimmings	161,142	123,473	125,676	128,728	130,637	132,875	132,979	129,000	125,000	115,682
Gallons of Used Motor Oil	165,357	120,098	116,864	123,318	122,745	124,871	81,127	77,999	84,000	65,428
FIRE:										
Fires Per Year	3,270	3,172	3,018	1,659	1,570	1,765	1,988	2,000	2,000	1,950
Hazardous Materials Incidents Per Year	330	546	841	368	291	448	880	NA (4)	NA (4)	NA (4)
Fire Safety Code Inspections Per Year	14,123	16,989	12,056	11,073	11,508	14,318	13,615	13,000	13,700	15,000
Emergency Medical Calls Per Year	41,616	40,534	46,533	49,036	49,683	49,320	52,210	48,000	51,000	54,000
LIBRARIES:										
Circulation	14,200,000	14,250,000	14,399,685	15,000,000	13,560,762	11,544,886	10,702,251	10,700,000	9,840,912	9,705,777
Reference Questions	550,000	600,000	648,721	650,000	748,647	666,385	563,753	550,000	438,450	550,000
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Annual Participant Hours / Attendance in Recreation Programs	2,610,890	2,740,500	2,200,000	2,050,000	2,030,000	220,743 (1)	278,481	575,000	611,316	683,913
POLICE:										
911 Calls Per Year	368,855	400,155	457,360	405,739	669,594	420,862	454,919	549,000	578,000	563,000
311 Calls Per Year	259,834	257,100	256,648	343,868	435,312	360,929	385,189	368,000	370,000	385,000
Cases Investigated Per Year	42,000	46,096	45,000	38,006	35,090	32,982	NA (3)	22,300	27,000	22,000
BUILDING PERMITS:										
Number issued:										
New Buildings	1,534	916	593	369	388	620	947	1,191	901	742
Building Alterations	7,718	7,272	6,165	6,020	6,677	4,495	4,812	6,085	6,116	4,998
Value:										
New Buildings (in \$)	535,783,080	455,272,352	332,315,767	298,573,631	388,496,732	517,738,795	547,633,219	1,398,057,690	852,554,975	866,643,670
Building Alterations (in \$)	412,444,929	439,999,543	342,053,067	301,370,071	383,794,593	475,777,145	468,400,699	746,751,604	1,384,326,525	770,315,772

Note: (1) Decrease due to change in methodology used to calculate attendance from hours to attendees to number of events.
 (2) Data reported previously was revised to reflect the most recent information.
 (3) Data currently unavailable due to the Police Department's transition to a new Records Management System.
 (4) Data currently unavailable due to staffing resources. Efforts are underway to enhance and automate the process.

CITY OF SAN JOSE
CAPITAL ASSET STATISTICS
BY FUNCTION
LAST TEN FISCAL YEARS

SCHEDULE XVIII

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
AIRPORT:										
Terminals	2	2	2	2	2	2	2	2	2	2
Runways	3	3	3	3	3	3	3	3	3	3
Public Parking Spaces:										
Short-Term Parking	2,856	2,383	2,383	2,695	2,539	2,539	2,500	2,500	2,500	2,500
Long-Term Parking	3,646	3,991	3,991	3,600	3,085	3,085	3,100	3,030	3,030	3,030
ENVIRONMENT AND UTILITIES:										
Wastewater:										
Miles of Municipal Sewer Mains	2,200	2,200	2,200	2,251	2,258	2,264	2,271	2,294	2,302	2,308
Maximum Daily Capacity (millions of gallons)	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0	167.0
Water:										
Meters in Municipal Service Water Area	26,954	26,230	26,500	26,475	26,300	26,400	26,700	26,700	26,700	26,700
Miles of Water Mains	340	343	344	344	344	345	345	345	345	345
FIRE:										
Stations	31	34	34	34	33	33	33	33	33	33
LIBRARIES:										
Main Library	1	1	1	1	1	1	1	1	1	1
Branches	20	21	21	21	21	22	22	22	22	23
PARKS, RECREATION AND NEIGHBORHOOD SERVICES:										
Park Sites	163	174	183	188	189	192	193	194	199	200
Community Centers	30	38	42	10	12	12	12	12	12	12
POLICE:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles and Motorcycles	384	387	390	384	382	430	430	369	369	380
Horses and Dogs	29	27	27	27	26	20	18	18	16	15
Aircraft	2	2	2	2	2	2	2	2	2	2

Source: City Manager's Office, City of San José

CITY OF SAN JOSE
CONDUIT ISSUER OF MULTIFAMILY HOUSING REVENUE BONDS OUTSTANDING ⁽¹⁾
AS OF JUNE 30, 2016

SCHEDULE XIX

Project Name	Series	Date Issued	Issue Amount	6/30/2016 Balance	Maturity/Redemption	Annual Fees ⁽²⁾
Almaden Lake Village Apartments	1997A	03/27/97	\$ 25,000,000	\$ 25,000,000	03/01/32	\$ 33,750
Helzer Court Apartments	1999A	06/02/99	23,169,000	14,843,000	12/01/41	26,123
Ohlone-Chynoweth Commons Apartments	1999	06/04/99	16,200,000	-	05/30/09	20,250
Almaden Lake Village Apartments	2000A	03/29/00	2,000,000	2,000,000	03/01/32	n/a
Craig Gardens Apartments	2000A	12/05/00	7,100,000	3,721,205	12/01/32	8,875
El Parador Apartments	2000A,B & C	12/07/00	11,530,000	5,360,000	01/01/41	14,413
Monte Vista Gardens Senior Housing	2000A	12/08/00	3,740,000	2,666,474	07/15/33	9,350
San Jose Lutheran Seniors Apartments	2001A-1	07/11/01	5,000,000	3,014,938	02/15/34	6,250
Terramina Square Apts/North White Rd Proj	2001F	11/15/01	16,845,000	15,388,805	04/01/44	21,056
Almaden Senior Housing Apartments	2001G	12/05/01	6,050,000	2,630,000	07/15/34	7,563
Betty Anne Gardens Apartments	2002A	04/05/02	11,000,000	6,050,000	04/01/34	13,750
El Paseo Apartments	2002B	04/05/02	10,000,000	4,245,000	10/01/34	12,000
Sunset Square Apartments	2002E	06/26/02	10,904,000	3,769,000	06/01/34	13,630
Villa Monterey Apartments	2002F	06/27/02	11,000,000	10,300,000	07/15/35	13,750
Monte Vista Gardens Senior Housing Apartments, Phase II	2002C-1	07/24/02	3,665,000	2,687,132	02/01/35	4,581
Pollard Plaza Apartments	2002D	08/06/02	14,000,000	6,295,000	08/01/35	17,500
Hacienda Villa Creek Senior Apartments	2002G-1	10/10/02	4,453,000	3,234,000	12/01/34	8,750
Kennedy Apartment Homes	2002K	12/11/02	14,000,000	8,175,000	12/15/35	17,500
Fallen Leaves Apartments	2002J-1	12/18/02	18,800,000	10,095,000	06/01/36	23,500
Fallen Leaves Apartments	2002J-2 (Sub.)	12/18/02	3,340,000	2,645,000	05/01/36	n/a
Turnleaf Apartments	2003A	06/26/03	15,290,000	15,090,000	06/21/36	19,113
The Oaks of Almaden Apartments	2003B-1	07/29/03	4,365,000	3,430,454	02/15/36	10,438
Cinnabar Commons	2003C	08/07/03	25,900,000	24,100,000	02/01/37	32,375
Almaden Family Apartments	2003D	11/14/03	31,300,000	24,615,000	11/15/37	39,125
Trestles Apartments	2004A	03/04/04	7,325,000	7,325,000	03/01/37	10,781
Trestles Apartments	2004A (Sub.)	03/04/04	1,300,000	1,131,028	04/15/37	n/a
Vintage Tower Apartments	2004B-1	06/28/04	5,500,000	2,888,479	01/15/37	6,875
Delmas Park	2004C-1	10/15/04	13,780,000	12,372,769	01/01/47	24,224
Raintree Apartments	2005A	02/01/05	21,100,000	20,600,000	02/01/38	26,375
Paseo Senter I	2005B-1	12/21/05	6,142,200	4,491,017	12/01/38	7,500
Paseo Senter II	2005C-1	12/21/05	4,903,000	3,465,382	06/01/38	7,500
Casa Feliz Studio Apartments	2007A	06/13/07	11,000,000	-	12/01/09	7,500
Curtner Studios	2007C-1	12/19/07	8,794,969	4,922,201	11/15/37	7,500
Fairgrounds Senior Housing Apartments	2008B	05/08/08	26,000,000	11,925,000	05/01/41	32,500
Las Ventanas Apartments	2008B	07/15/08	25,900,000	25,900,000	07/01/38	38,750
Brookwood Terrace Family Apts	2009B-1	12/23/09	13,600,000	7,435,000	01/01/44	17,000
Fourth Street Apts	2010A-1	06/04/10	23,000,000	5,112,536	01/01/14	7,500
Orvieto Family Apartments	2010B-1	07/20/10	14,200,000	7,555,000	08/01/29	17,750
Kings Crossing Apartments	2010C	09/17/10	24,125,000	2,630,424	09/01/45	7,500
Taylor Oaks Apartments	2011A-1 & A-2	10/21/11	6,300,000	3,875,000	10/01/28	7,875
1st and Rosemary Family Apartments	2012C	04/19/12	35,500,000	26,559,583	10/01/44	33,900
1st and Rosemary Senior Apartments	2012D	04/19/12	15,500,000	9,651,353	10/01/44	12,319
Mayfair Court Apartments	2012B-1 & B-2	04/20/12	22,000,000	4,919,258	10/01/44	27,500
La Moraga Apartments	2012E	09/07/12	52,440,000	-	03/01/26	65,550
3rd Street Residential	2013A	06/27/13	6,630,000	3,975,544	07/01/33	8,288
Cambrian Center	2014A-1	10/17/14	19,034,500	12,856,845	05/01/47	51,824
Cambrian Center	2014A-2	10/17/14	19,034,500	12,856,845	05/01/47	n/a
Parkview Family Apartments	2014B	11/13/14	13,600,000	-	06/01/16	17,000
Parkview Senior Apartments	2014C	11/13/14	14,630,000	-	06/01/16	18,288
Poco Way Apartments	2015A-1	02/01/15	21,833,000	17,951,696	09/01/47	31,346
Canoas Terrace Apartments	2015B	10/01/15	22,700,000	21,941,336	12/23/52	28,375
Town Park Towers Apartments	2015C	10/01/15	45,250,000	27,042,548	12/23/52	58,561
Casa del Pueblo Apartments	2015D	12/01/15	30,000,000	30,000,000	12/23/52	37,500
Grand Total			\$ 825,773,169	\$ 488,738,852		\$ 991,223

(1) California Government Code Chapter 10.7 "Conduit Financing Transparency and Accountability" requires additional reporting and public disclosures by public agencies that issue certain revenue bonds, including conduit revenue bonds. This table provides the information required by section 5872 of Chapter 10.7 which includes disclosure of fees imposed on borrowers by conduit financing provider, expenditures related to fees, dollar amount and nature of fees and expenses, amount of any authorized, but unsold bonds at end of June 30, 2015, and amount of debt issued and outstanding at end of reporting period. As of June 30, 2016, the City has served as a conduit issuer for only multifamily housing revenue bonds.

(2) Annual monitoring fees and upfront fees are collected pursuant to City Council Policy No. 1-16, Policy for the Issuance of Multifamily Housing Revenue Bonds. The annual monitoring fee is charged to reimburse the City for monitoring the restricted units and the reimbursement agreement and to ensure compliance with tax law. The annual monitoring fees are deposited in the Housing Activities Fund.