

California

***Comprehensive Annual Financial Report***



Dr. Martin Luther King Jr. Library

Year Ending June 30, 2004

## DR. MARTIN LUTHER KING. JR. LIBRARY RECIPIENT OF THE THOMSON GALE/LIBRARY JOURNAL 2004 LIBRARY OF THE YEAR AWARD

The San José Public Library (SJPL) and the San José State University Library (SJSU) have been awarded the prestigious Thomson Gale/*Library Journal* 2004 Library of the Year Award for their path-breaking collaboration on the new Dr. Martin Luther King, Jr. Library and system-wide integration of materials and services.

"Great cities have great libraries," said Mayor Gonzales. "Our residents know that libraries are essential for learning, literacy and quality of life, and they have strongly supported their improvement and expansion throughout San José. We are very proud of the national recognition for what our community has achieved together."

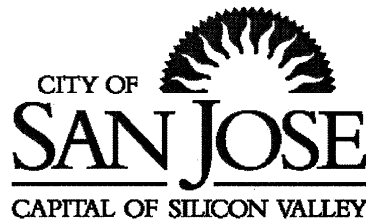
"We are very pleased to receive this prestigious award," said SJSU Interim President Crowley. "Our library collaboration has provided a unique information hub for the entire community, offering access to the university collections as well as the public library system's resources. Today's libraries are a gateway to information literacy that provide the tools for people of all ages to explore lifelong learning opportunities."

The *Library Journal* praised the city and university's combined efforts on the King Library saying, "What it triggered in cooperative planning between university and city, in risk-taking and vision by local politicians, city officials, university administrators, and library managers and staff was truly unique. It is that incredibly complex and difficult work that won the Gale/*Library Journal* 2004 Library of the Year Award."

The *Library Journal* also applauded the city and the university for emphasizing the value of branch libraries and making all library materials available through the branches. "In 2000, 76 percent of San José voters approved a \$212 million bond measure to build six new branches and renovate 14 others. The first bond measure on the city's ballot in 30 years, it was the largest ever passed. SJPL has already opened one new branch and four are currently under construction."



88<sup>th</sup>  
Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2004

Prepared by Finance Department

Scott P. Johnson  
Director of Finance

**City of San José**  
**Comprehensive Annual Financial Report**  
**Project Team**

Scott P. Johnson  
Director of Finance

Mark E. Burton  
Deputy Director

**Financial Statement Coordination**

Patrick Sawicki  
Principal Accountant

Jose Garcia  
Supervising Accountant

Evelyn Slotnick  
Principal Accountant

Inderdeep Dhillon  
Senior Accountant

Ken Arimura  
Senior Accountant

**Financial Statement Preparation**

Alex Guiang

Corsina Trevias  
Gil Ong

Laura Luu

Damian Beatty  
Dean Casale  
Rick Cheney  
Mary Flatley  
Jose Gonzalez  
Shalah Hade  
Colleen Hy  
Jackie Kong  
May Kwong  
Yolanda Ayala  
Gurinder Chhina

Dorothy Leigh  
Julie Leung  
Lillian Nguyen  
Justine Nguyen  
Anita Pennington  
Susan Perreira  
Elodia Rodríguez  
Winnie Roosenboom  
Emily Shu  
Jenny Musquiz

Rosario Apor  
Grace Chan  
John Holcomb  
Bhavana Menghrajani  
Christina Ortiz  
Jo Patterson  
Kathy Stagi  
Debbie Van Auken  
Mala Vang  
Melissa Patterson

**Special Assistance**

Larry Lisenbee, Budget Director  
Julia Cooper, Deputy Director, Finance  
Andy Heath, Deputy Director, Finance  
David Persselin, Finance  
Dariush Asfari, Finance  
Lisa Taitano, Finance  
Mark Brogan, Finance

Gerald Silva, City Auditor  
George Rios, Assistant City Attorney  
Abe M. Andrade, Redevelopment Agency  
Jones George, Housing  
Ron Schreck, Housing  
David Wong, Employee Services  
George Marcussen, Employee Services

Kenn Warren, Information  
Technology  
Ed Overton, Director,  
Retirement Services  
Tom Webster, Retirement

**Special Assistance – Departments and Offices**

Airport Department  
Budget Office  
City Auditor  
City Clerk  
City Manager  
City Attorney

Department of Transportation  
Environmental Services  
General Services  
Housing Department  
Information Technology  
Public Works

Parks, Recreation and  
Neighborhood Services  
Police Department  
Public Works  
Redevelopment Agency  
Retirement Department

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# Introductory Section

December 2, 2004

HONORABLE MAYOR and CITY COUNCIL

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

We are pleased to present the 2003-2004 Comprehensive Annual Financial Report (CAFR) for the City of San José (City) as required by Sections 805(a) and 1215 of the City Charter. Responsibility for both the accuracy of the data presented in this report, and the completeness and fairness of the presentation including all disclosures, rests with the City. We believe the data, as presented, are accurate in all material aspects and presented in a manner designed to fairly set forth the financial position, and changes in financial position, of the City as measured by the financial activity of its governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The 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 the services it provides, and the specifics of its legal operating environment. The introductory section includes this letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting, the Certificate of Award for Outstanding Financial Reporting, the Certificate of Award for Excellence in Operational Budgeting, the City's organizational chart and a list of principal officials. The letter of transmittal is designed to complement Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Ensuring the financial integrity of our public institutions is crucial to maintaining the public's trust. Federal legislation and the Securities and Exchange Commission require top executives of public companies to attest personally to the accuracy of their companies' financial results. Although this legislation does not apply to governmental agencies, the City of San José is voluntarily including oaths from the City Manager and the Finance Director as part of the June 30, 2004 Comprehensive Annual Financial Report attesting to the accuracy and reliability of the data.

- The Financial Section is prepared in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34) requirements including the independent auditor's report, MD&A, the audited basic financial statements, notes to the basic financial statements, required supplementary information, supporting statements and schedules necessary to fairly present the financial position and the changes in financial position of the City in conformity with accounting principles generally accepted in the United States. The audited 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 the financial information of each of the City's major funds, as well as nonmajor governmental, fiduciary and other funds.

- The Statistical Section contains comprehensive statistical data on the City's financial, physical, economic, social, and political characteristics.

In addition to its annual audit, the City is required to undergo a single audit in conformity with the provisions of the Federal Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations and Government Auditing Standards* issued by the Comptroller General of the United States.

## **REPORTING ENTITY**

San José has long been recognized as one of the best-managed and safest big cities in the nation. 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 City Council form the legislative body that represents the community and is empowered to formulate citywide policy. The City Council consists of a Mayor and ten Council Members. The Mayor is elected at large for up to two four-year terms. Council Members are elected by district, also for up to two four-year terms. Under the Charter, the Mayor recommends policy, program and budget priorities to the City 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. The City Manager is responsible for 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 City Council. Additionally, the City Council, acting as the Redevelopment Agency Board, appoints the Executive Director of the Redevelopment Agency to administer redevelopment projects and programs.

The City provides a full range of municipal services, including police and fire protection, sanitation services, environmental management, construction and maintenance of highways, streets and infrastructure and the administration of recreational activities and cultural events. The City operates a downtown parking program, a municipal water system, a wastewater treatment facility, the Norman Y. Mineta San José International Airport and three municipal golf courses. In addition, it oversees convention, cultural event and hospitality facilities that include History San José, the Center for the Performing Arts, the San José McEnery Convention Center, the Dolce Hayes Mansion Conference Center and the HP Pavilion at San José; home of the San José Sharks of the National Hockey League.

San José is the county seat of Santa Clara County. It is the eleventh largest city in the United States and the third largest in California. The City covers approximately 177 square miles at the south end of San Francisco Bay. The oldest city in California, San José developed from a Spanish pueblo established on November 29, 1777. The City has a 2003 population of 926,200<sup>1</sup>. From its rich agricultural setting of earlier days, San José has dramatically transformed into the center for information technology known as the "Capital of Silicon Valley". Service, manufacturing, retail and government sectors provide well over half of the City's employment.

This report includes all funds of the City, as well as all governmental organizations and activities for which the City Council has financial accountability. These organizations include the Redevelopment Agency of the City of San José, the Parking Authority of the City of San José, the San José-Santa Clara Clean Water Financing Authority, and the San José Financing Authority.

## **ECONOMIC CONDITION and OUTLOOK**

The City's average unemployment rate for calendar year 2003 was 9.6%, which was higher than the state-wide average of 6.7%<sup>2</sup>. The regional economic decline that began in early 2001 has persevered longer and with greater severity than the best economic experts predicted. Stagnant revenue performance, coupled with the job losses and a continuing relatively high unemployment rate in Silicon

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<sup>1</sup> State Department of Finance

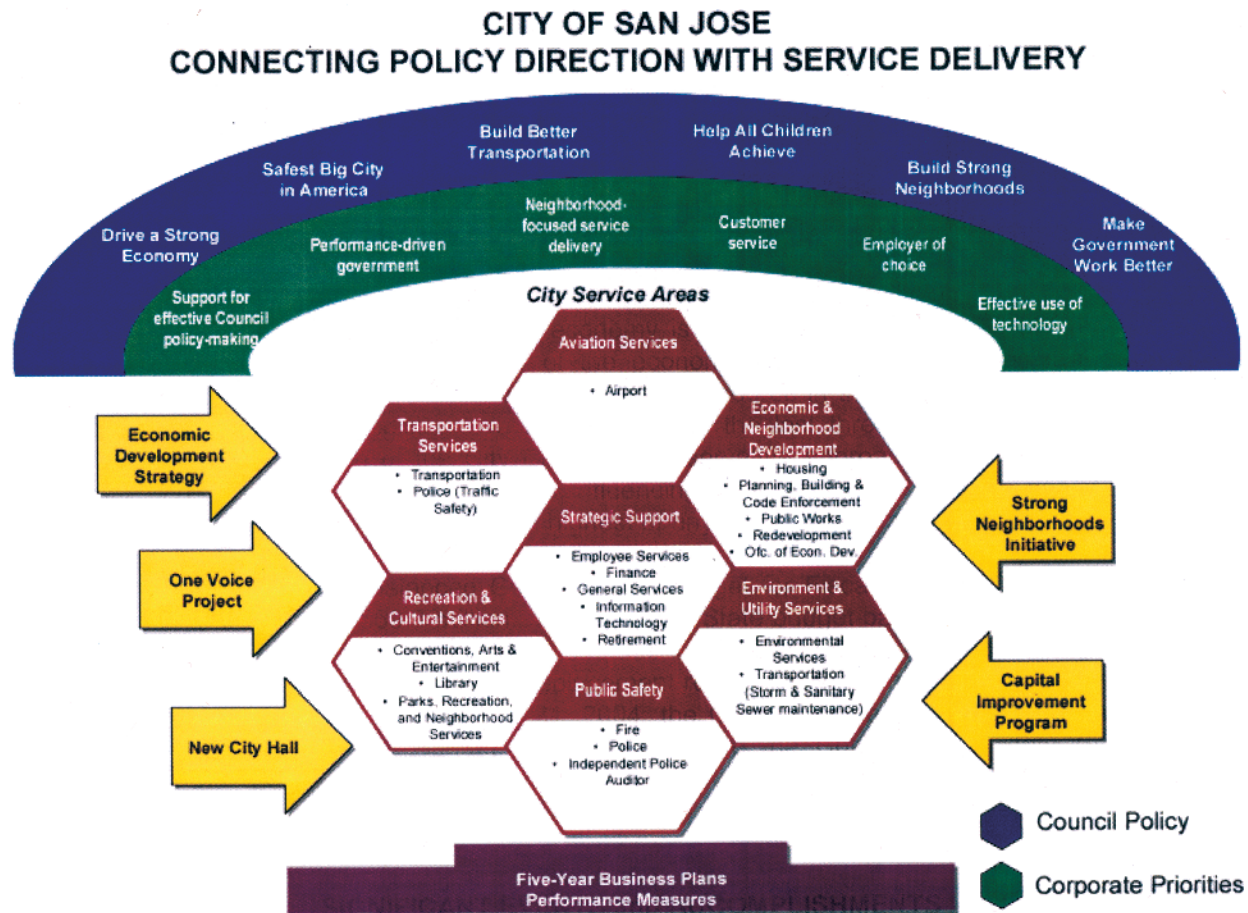
<sup>2</sup> State of California, Employment Development Department, Labor Market Information Division

Valley, provide little evidence that the local economy is on the verge of a significant recovery. This downturn has significantly impacted many of the economically sensitive revenues that support City services. General Sales Tax receipts, the largest revenue source in the General Fund, dropped for ten consecutive quarters before registering a slight upturn in the last three consecutive quarters. On a positive note, it is a reflection of the City Council's conservative approach to fiscal management that, despite the many negative economic factors influencing City finances, San José has maintained its excellent general credit ratings, which are the highest of any large California city.

The City Council approved a balanced General Fund budget for Fiscal Year (FY) 2004-05, closing a funding gap of approximately \$69.8 million. However, the State budget balancing provisions approved in July 2004 created an additional \$11.4 million shortfall in the City's General Fund for FY 2004-05 from reduced Vehicle License Fee Property Tax replacement revenues (\$11.1 million) and corresponding lost Interest Earnings (\$300,000). On August 31, 2004, the City Council approved the necessary actions contained in the Mayor's June Budget Message to utilize the Compensation/State Budget Impact Contingency Plan Earmarked Reserve totaling \$2.0 million and implement a new Emergency Communication System Support Fee to resolve the \$11.4 million General Fund revenue shortfall created by the State Budget balancing actions.

### SIGNIFICANT EVENTS and ACCOMPLISHMENTS

San José is committed to providing excellent municipal services to its diverse residents and visitors. The City organization is structured into seven City Service Areas (CSAs) that integrate services provided in individual departments and offices into the City's key lines of business as viewed from the community's perspective. The following graph illustrates the central positioning of these cross-departmental CSAs that provide a forum for strategic planning in linking corporate priorities with council policy:



CSA highlights of activities and accomplishments for the fiscal year (FY) ended June 30, 2004, include the following:

### ***Aviation Services***

- ❖ In June 2004, JetBlue Airways began new nonstop service between San José and New York's John F. Kennedy International Airport. By linking San José with New York City, JetBlue's new service will offer greater opportunities for business and tourism markets that will benefit Silicon Valley and its economy.
- ❖ With the City Council's recent certification that the City has met the Airport Security and Traffic Relief Act (ASTRA) requirements, the City is now embarking on a major capital program to construct the new North Concourse followed, over the next several years, by the South Concourse and Central Terminal. The North Concourse project includes a state-of-the-art concourse with improved gates, jetways and food, beverage and retail shopping concessions. The project also integrates new federal security requirements and improvements for customer service.
- ❖ The City Council passed revisions to the Airport curfew ordinance in October 2003 to take effect immediately. The City's curfew restricting night flights is now based on specific noise criteria rather than on aircraft weight limits.

### ***Economic and Neighborhood Development Services***

- ❖ In December 2003, the City Council adopted an Economic Development Strategy to provide vision for how San José can excel economically over the next five years and how the City and its partners (private, nonprofit, public sector) can work together to achieve success. The City Council identified four initiatives as the City's economic development top priorities in the first year: diversify San José's economic base and preserve/create middle-income jobs; support start-up and growth of local businesses, small and large, in tech as well as non-tech fields; develop strategic partnerships with San José State University to drive innovation and economic impact; evolve and position Downtown San José as a unique creative and cultural center of Silicon Valley.
- ❖ In 1999, the Mayor and City Council set a five-year goal of building 6,000 affordable homes. The City has surpassed this goal in which 6,099 affordable homes have been built over the past five years that cater to families, seniors, single occupants, and special needs residents. The completion of the Villa Solera Apartments in April 2004 surpassed the City's goal.
- ❖ The successful growth of Santana Row, a strong mix of retailers in a unique environment, is an example of the City's continuing effort to encourage and accommodate retail interest in San José. Federal Realty, the owners of Santana Row, has recently purchased the Westgate Mall in San José and expects to continue to enhance the City's retail environment.
- ❖ The City's Teacher Homebuyer Program continues to be an outstanding success in one of the nation's most expensive housing markets. In April, 2004, the City celebrated the 400<sup>th</sup> homebuyer loan under this program.

### ***Environmental & Utility Services***

- ❖ The City maintained its ranking as the number one recycler among the nation's top tier cities (based on population). Citizens and businesses participating in the recycling programs offered by the City diverted 62% of the solid waste stream away from landfills and into productive lifecycles.
- ❖ The West Valley Library opened during the fiscal year amid international acclaim for its environmental friendliness. The U.S. Green Building Council dubbed it the nation's – and world's – first "green" library during a special presentation to the City Council.
- ❖ Anti-graffiti efforts went high-tech in FY 2003-04 with motion-sensitive devices that trigger cameras to photograph vandals in the act. Cameras have been set up at 13 locations where graffiti has traditionally been a problem. Between 1999 and 2004, graffiti has been reduced 96% Citywide.

- ❖ The Municipal Water System completed facilities for delivering drinking water and recycled water to the North Coyote Valley during the fiscal year. A new 3.6 million gallon potable water tank with connecting pipelines and two wells were built, and work on a third well has begun. These facilities are timed to serve the Metcalf Energy Center when construction is completed and testing begins in 2005.

### ***Public Safety***

- ❖ During the fiscal year, the Public Safety capital program completed its first project, the Central Community Police Center. This project was funded through the Neighborhood Security Act Bond Measure approved by voters in March 2002. The Central Community Police Center project provided upgrades and site improvements to the existing community police station in Alviso. The Public Safety five year Capital Improvement Plan includes the construction of a South San José Police Substation, four community policing centers, a driver safety training center, a 9-1-1 communications dispatch center, construction of four new fire stations as well as improvements to the City's Fire Training Center.
- ❖ The upgrade of the existing Computer-Aided Dispatch (CAD) system, the critical emergency dispatch and records system utilized for Police and Fire Services, went "live" in 2004. The improvements to the system will add capacity and allow for flexibility to manage changing technologies.
- ❖ The San José Police Department is the first police department on the West Coast to achieve full deployment of the X26 Taser for first-responder uniformed officers. The X26 Taser is an effective and important "less lethal" tool for the officer on the street. The Taser enables officers facing resistive or violent suspects to take control of these individuals quickly and safely. The Police Department has 620 of the devices deployed in the Patrol Division.

### ***Recreation and Cultural Services***

- ❖ The Dr. Martin Luther King, Jr. Library opened to the public on August 1, 2003. This unique partnership between the City of San José and San José State University that created one new library to serve the needs of the community and the campus has been a success since the moment it opened. The eight-story building contains over 1.5 million books and other materials, 3,500 seats, and 400 computers with access to many databases and specialized resources.
- ❖ The City of San José and San José State University received the prestigious Library of the Year Award for 2004 from Thomson Gale/*Library Journal*. The Award honors the North American library that most profoundly demonstrates outstanding community service. This year, for the first time, the award was given to two agencies because of their unique partnership in the joint Dr. Martin Luther King, Jr. Library. The award recognized the innovative services that are delivered through the branch libraries as well as the success of the Dr. Martin Luther King, Jr. Library.
- ❖ The City also received the prestigious 2004 League of California Cities Helen Putnam Award for Excellence for the Dr. Martin Luther King, Jr. Library. The City was honored for its leadership in interregional cooperation.
- ❖ The library projects identified for funding in the \$212 library bond measure approved by San José voters in November 2000 are well under way. The new 24,000 square foot Vineland Branch Library celebrated its grand opening on January 17, 2004. It is the first of twenty projects funded by the bond measure to be completed. Construction of the Tully Community branch and the Berryessa branch is well underway and both are expected to open in early 2005. Groundbreakings were held for the Alum Rock and Rose Garden branches as well as the joint Almaden Community Center and branch library. Five more bond-funded projects are currently in the design stage. Community input into the location, design, and construction of the branch libraries continues to be an essential part of the program.

- ❖ The projects identified for funding in the \$228 million park and recreational facility improvements bond measure approved by San José voters in November 2000 have made significant progress. The 2000 Park Bond Program consists of 95 projects, including neighborhood park renovations, community centers, trails, citywide parks and sports parks. As of the close of FY 2003-04, 72 projects were completed and the remainder are scheduled for completion in future years.

### ***Transportation Services***

- ❖ During FY 2003-04, the City continued to work on the Bay Area Rapid Transit (BART) to San José project. The City has located two full-time employees on-site at the Valley Transportation Authority (VTA) to work directly with the BART Team throughout the Preliminary Engineering process. The City continues to work with VTA, BART, and neighboring cities to complete the Environmental Impact Statement/Environmental Impact Report, which is due to be completed by the end of calendar year 2004. Preliminary Engineering on the project will continue through early 2006 with the target of construction beginning as early as 2008.
- ❖ During FY 2003-04, the Valley Transportation Authority (VTA) light rail expansion program hit a major milestone on June 23, 2004 with the opening of the \$435 million, 8.2 mile Tasman East/ Capitol Light Rail Transit Project. The Tasman East/Capitol Project is an extension of the Guadalupe Corridor and provides service from the job centers in North San José, through Milpitas, and into East San José. Eleven new stations were constructed as part of the project. Community involvement in the artwork program, landscaped medians and roadway improvements has made a significantly positive impact along the corridor. The Vasona Light Rail Transit Project, which will provide light rail service from Downtown San José, through Willow Glen and into Downtown Campbell is scheduled to be completed in mid-2005.
- ❖ The highlights of highway projects during FY 2003-04 include the opening of Route 87 from Downtown San José to US 101. Included in the Route 87 Project was the opening of the Skyport Drive Interchange, providing direct service to Mineta San José International Airport. Construction of the I-880/Coleman Avenue Interchange Project began in March 2004 and is expected to be completed in mid-2006. In addition to relieving traffic congestion in the area, this \$81 million project is also directly linked to the City's ability to construct the improvements associated with the expansion of the Mineta San José International Airport.
- ❖ Traffic Calming continues to be a high priority for the City and the community. In FY 2003-04, speeding was actively enforced on more than 160 neighborhood streets through the Neighborhood Automated Speed Compliance Program (photo radar). In addition, solar powered flashing beacon lights were installed in two neighborhoods to enhance conditions for pedestrians using the crosswalks, and thirty-one school radar speed display signs were installed near schools to be utilized during the school drop off and pick up periods, when the legal speed limit adjacent to the schools drops to 25mph.

### ***Strategic Support Services***

- ❖ During FY 2003-04, despite the challenging economic environment, the City maintained its excellent general credit ratings of Aa1/AA+/AA+ which were reaffirmed by Moody's, Standard & Poor's and Fitch. These high credit ratings reflect the City's diverse economic base, strong financial position, moderate debt burden and prudent financial management policies.
- ❖ In April 2004, the City was named one of "America's Most Livable Communities" by Partners for Livable Communities, a national group based in Washington, D.C. The award recognizes American communities that have raised the banner of "livability" as a standard of excellence for municipal performance. Although thirty communities of all sizes across the nation were recognized, San José is one of only three large cities to receive the distinction. The communities honored in 2004 were evaluated on their strategies, visions, and actions in preparing for changes in the economic environment, as well as for creativity, leadership and collaborative efforts across ten areas: City Center, Housing, Regionalism, Tourism, Leadership, Neighborhoods, Environment, New Economy, Human Development, and Finance.

- ❖ The new San José City Hall complex, located on Santa Clara Street between Fourth and Sixth Streets, completed the steel erection on the 18-story tower in January 2004. The 535,000 square foot complex comprised of office and public space will include the 18-story tower, Council Chamber, domed rotunda, plaza and underground parking. With steel framing complete and exterior finishing underway, these structures add shape and texture to the downtown core. When completed, the new City Hall will provide a work environment designed to enhance efficiency and effectiveness of city operations, by improving the delivery of public services through consolidation of many City services in one geographic location that are currently provided in multiple locations throughout the City.
- ❖ The City received the American Public Works Association 2004 Management Innovation Award. This award recognizes an individual, team or organization for the development, management, and implementation of a creative idea, device, process, or system that enhances the goals of public works in serving the public and protecting the environment. The City was recognized for the Capital Project Management System, a project-tracking database developed by the City into a comprehensive collection of project management tools that assist in the on-time, on-budget delivery of quality projects in the City's \$3.5 billion Capital Improvement Program.

### **FIVE-YEAR CAPITAL IMPROVEMENT PROGRAM**

The City publishes a five-year Capital Improvement Program (CIP) which guides the City in the planning, scheduling, and budgeting of capital improvement projects during the next five-year period. The CIP is updated annually and approved by the City Council. Significant issues and projects included in the Proposed 2005-09 CIP, presented within the CSA structure, are as follows:

#### ***Aviation Services***

- The CIP for the Norman Y. Mineta San José International Airport (Airport) totals \$2.1 billion and contains eighty capital projects. The program is focused on the implementation of security driven projects in the near term, with other projects programmed to coincide with anticipated passenger demand levels.
- The Consolidated Terminal concept, which includes the North Concourse Building, the South Concourse Building and the Central Terminal Building, was approved by the City Council in 2001. The design and construction of the North Concourse Building is included in the CIP to implement federal Aviation and Transportation Security Act mandated security improvements, including a permanent, automated in-line explosive detection baggage screening system, security screening space, ticketing and baggage claim operations, holdrooms and jet bridge gates. The design and construction of the South Concourse Building and planning and design of the Central Terminal are being undertaken in recognition of the fact that current terminal facilities cannot serve the long-term passenger growth that is anticipated. Although the CIP shows a plan for implementation of the Consolidated Terminal Concept, actual implementation may vary based on the need to meet air carrier activity demand.
- The CIP also includes plans for the design and construction of parking structures. Major structures include the Rental Car Garage Phase I, South Concourse, an eventual multi-level 10,000 space rental car parking garage, and a Short-Term Public Parking Garage to provide a multi-level 4,000 space parking garage facility in front of the terminal facilities.
- A portion of the CIP is allocated to the design and construction of roadway improvements, including construction on the Double Level Roadway Ramps, which will connect the Double Level Roadway Deck and grade level at Airport Boulevard.

### ***Economic & Neighborhood Development Services***

- A highlight of the Economic and Neighborhood Development CSA is the Developer Assisted Projects Capital Program, which consists of the Underground Utility Fund and the Residential Construction Tax Contribution Fund (RCTCF). This program reimburses developers for the construction of street improvements throughout the City and encourages the undergrounding of existing overhead utilities. The objective of this program is to ensure that residential developments within San José include the construction of public improvements necessary to maintain or improve the infrastructure of the City.
- The Underground Utility Fund is used to collect developer fees when a developer opts out of placing facilities underground at the time of development. Projects are prioritized based on several criteria, the most significant of which is how much fee revenue has been collected within the proposed Underground District. Current priorities include five Underground Utility District projects within the City.
- Developers who construct residential dwelling units pay contributions to the RCTCF. Payments from the fund are made to developers who construct eligible improvements on major City streets in connection with new residential developments. Some major anticipated activities within the RCTCF include reimbursements to KB Homes South Bay and Summerhill Homes for median island construction and center strip paving related to the Communications Hill and Dairy Hill projects.

### ***Environmental & Utility Services***

- The most prominent projects in the FY 2005-09 CIP for the Sanitary Sewer system continue to be those related to the construction and/or rehabilitation of the North San José Interceptor System. Other projects funded in this CIP include Flow Monitoring and Master Planning, Inflow/Infiltration (I&I) Reduction, and Neighborhood Sewer Improvement Programs. The Neighborhood Sewer Improvement Program includes projects to rehabilitate and/or replace sewers in the Hester-Naglee, East San José, Hobson-Walnut, and Rosemary neighborhoods.
- The Storm Sewer System Capital Program includes the third and final year of a three-year Storm Sewer Service Charge Fee increase of approximately 4 to 4.5% per year to ensure the fiscal health of the storm sewer system and continue a modest capital program. The program will fund the Willow Glen-Guadalupe Drainage Improvement Phase II project (\$2.0 million), the Albany-Kiely Storm Drainage Improvement Phase II project (\$2.0 million), the Chateau Drive Storm Drain Improvement Phase I project (\$1.3 million), and various smaller neighborhood storm drain improvement projects including new inlet and lateral construction as well as the re-establishment of flow-lines to provide relief for minor drainage problems (\$1.4 million).
- The major areas of investment for the Water Pollution Control Capital Program over the five-year CIP are Plant Reliability Improvements, South Bay Action Plan (SBAP) projects to reduce average dry weather effluent flow from the Plant as required by the National Pollution Discharge Elimination System (NPDES), and several other new or expanded projects required to meet regulatory mandates or ensure process reliability.
- Capital projects to support the San José Municipal Water Utility System include the construction of new facilities, maintenance of existing infrastructure, and improvements to the Water Utility System facilities. One of the major expansion areas for the system is the primarily industrial North Coyote Valley Service Area. This project includes the rehabilitation of existing wells, installation of well pumps, design and construction of controls, piping, and enclosures at the existing Coyote Valley well sites, and construction of a new reservoir and related piping and appurtenances.

### ***Public Safety***

- On March 5, 2002, voters in San José approved the Neighborhood Security Act Bond Measure to provide the funding for the improvements through the issuance of General Obligation Bonds in an amount not to exceed \$159 million. The Public Safety Capital Improvement Program for FY 2004-09 consists of public safety projects that will support the many infrastructure improvements necessary to

provide prevention and emergency response services for crime, fire, medical, hazardous and disaster-related situations.

- Fire Department Bond Projects include the construction of four new fire stations, the relocation of four fire stations, the remodel of twenty fire stations and the 9-1-1 Communications Dispatch Center (also included as part of the Police Department's Bond Projects), and funding to upgrade the current Fire Training Center.
- Police Department Bond Projects include a South San José Police substation, four community policing centers, a driver safety training facility, and the remodel of the City's current 9-1-1 Communications Dispatch Center (also included as part of the Fire Department's Bond Projects).

### ***Recreation & Cultural Services***

- In November 2000, voters in San José approved Measure O, a \$212 million general obligation bond measure to improve the branch library system over a ten-year period in accordance with the City's Master Plan. Over the course of the Library's FY 2005-09 CIP, three new branches and twelve expansion/relocations will be completed, and four branches will be under construction. In addition, \$9.9 million is included for new library materials and \$3.4 million is included for automation projects and system maintenance to provide customer service enhancements, increase staff productivity and effectiveness, and increase the Library's ability to provide faster, better electronic access to information.
- In November 2000, voters in San José approved Measure P, a \$228 million general obligation bond measure for park and recreational facilities improvements. The Park and Community Facilities Development's FY 2005-09 CIP will provide funding to complete two new sports parks, renovate or build eight community centers, renovate the Emma Prusch Memorial Park, and make significant progress on the renovation and expansion of the Happy Hollow Park and Zoo. In addition, \$5.4 million is programmed for the development of trails.

### ***Transportation Services***

- The Parking CIP for FY 2005-09 includes funding for the completion of seismic upgrades to the Third Street Garage to prolong its life expectancy and help ensure the safe condition of the parking facility; the replacement of revenue control equipment in selected City parking facilities to reduce operating and maintenance costs; and investments in the Parking Guidance System to inform motorists of parking locations and availability using electronic message signs.
- The Traffic CIP includes funding for the development of arterial and collector projects throughout the City including the Senter Road and Oakland Road corridor projects and the Berryessa Road and Union Avenue widening projects; environmental enhancement projects to preserve and enhance neighborhood streetscapes; maintenance activities including street maintenance, land management and weed abatement; programs to construct, modify and synchronize traffic signals, expand pedestrian and bicycle facilities, install street lights and construct curb ramps; and funding to support the City's contribution to regional highway and transit systems.

### ***Strategic Support***

- The largest capital investment within the Strategic Support CIP is the construction of the new Civic Center and associated parking structures. Occupancy of this new facility is planned for 2005 and will house up to 1,950 employees. In addition, the CIP also includes funding for the replacement and upgrade of the City's public safety and non-public safety communications equipment.

## **FINANCIAL INFORMATION**

The management staff of the City is responsible for establishing and maintaining internal controls that will safeguard the assets of the government 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 (GAAP). 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 financial assistance, 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 City Auditor and the City's outside independent auditors.

As part of the City's single audit procedures, tests are performed to determine the effectiveness of the internal controls over Federal award programs and whether the City has complied with all applicable laws and regulations.

### ***Budgetary Controls***

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the majority of the funds are included in the annual appropriated budget. The level of budgetary control, at which expenditures cannot legally exceed the budgeted amount, is at the appropriation level. This means that expenditures cannot legally exceed the amount appropriated by the City Council.

The City also uses encumbrance accounting as another technique for accomplishing budgetary control over all fund types. A commitment for an expenditure is earmarked for its particular purpose and becomes unavailable for general spending. Appropriations that are not encumbered lapse at the end of the fiscal year. Year-end encumbrances are carried forward and become part of the following year's budget.

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.

### ***Retirement Systems***

Net assets of the Federated and Police and Fire Retirement Systems (Systems) increased by \$418.4 million in FY 2003-04. Changes in plan net assets of the Systems represent the net of additions to plan net assets, including investment income, securities lending activities and contributions, and deductions from plan net assets, including general and administrative costs, health insurance premiums, refunds to terminated employees and retirement benefits paid.

The Systems' aggregate additions to plan net assets for FY 2003-04 were \$569.1 million, or \$307.3 million higher than the prior fiscal year. The increase over the prior year is mainly attributable to a \$307.7 million appreciation in the fair value of plan investments. Net rental income from real properties decreased by \$3.5 million due to the disposal of three properties; however, the decrease was offset by increases in dividends and fixed income of \$0.7 million and increases in revenues from contributions of \$4.1 million.

The Systems' aggregate deductions from plan net assets for FY 2003-04 were \$150.7 million, or \$18.9 million higher than the prior fiscal year. Retirement benefits paid rose by \$6.5 million over the prior year and accounted for approximately 77% of the deductions in plan net assets. Other significant changes include an increase in health insurance costs of \$4.0 million and a \$0.33 million increase in refunds of employee contributions to employees who have terminated employment with the City.

## ***Cash Management***

The City's cash and investments were invested in accordance with the City's Investment Policy adopted by the City Council on April 2, 1985, as amended on March 23, 2004, and with established investment procedures. The earned interest yield and effective yield on these investments were 2.669% and 2.252%, respectively, for the year ended June 30, 2004.

Given that the City's investment portfolio is managed primarily on a "hold-to-maturity" strategy, the City benchmarks its portfolio on a comparable benchmark to the weighted average days to maturity of the City's investment portfolio, as a relative gauge of performance compared to the general market. The weighted average days to maturity as of June 30, 2004 was 462 days. During this period, the City's pool investments outperformed the six-month, one-year and two-year moving average yields on two-year U.S. Treasury securities and the monthly average yield on the State of California Local Agency Investment Fund (LAIF).

The City Investment Policy objectives are to preserve principal by mitigating credit and market or interest rate risks, provide sufficient liquidity to meet the City's cash flow requirements and attain the maximum yield possible consistent with the first two objectives. All securities purchased were held by the City's third-party safekeeping agent.

As of June 30, 2004, 99% of the City's risk categorized investments were classified in the category of lowest custodial risk as defined by the Governmental Accounting Standards Board.

## ***Risk Management and Workers' Compensation***

The City's Risk Management Program is responsible for managing the City's insured and self-insured programs by administering the City's Property & Liability Programs. This Program delivers and provides property and liability consulting services to departments on controlling, transferring, or eliminating exposures to loss. The Property and Liability program transferred significant risks of financial loss to vendors, contractors, or lessees of City property that have business relationships with the organization.

The Workers' Compensation Program is responsible for managing and administering the City's insured and self-insured Workers' Compensation Program. The Program delivers medical and wage loss benefits to injured workers. In FY 2003-04, workers' compensation claims payments increased 2.26% from the previous fiscal year. The City's workers' compensation cost containment program (Medical Bill Review, Diagnostic Testing and Medical Preferred Provider Organization Discounts, and Utilization Review) saved the City \$9.8 million in claim costs during FY 2003-04.

## ***Independent Audit***

The annual audit for the fiscal year ended June 30, 2004 was completed by Macias, Gini & Company LLP Certified Public Accountants in accordance with sections 805(a) and 1215 of the City Charter. In addition to meeting the requirements set forth in the City Charter, the audit was also designed to meet the requirements of Generally Accepted Auditing Standards (GAAS) and the Federal Single Audit Act Amendments of 1996 and the related Office of Management and Budget Circular A-133. The independent auditor's report is included in the financial section of this report.

## **AWARDS**

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the sixteenth 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 both accounting principles generally accepted in the United States of America, as well as all applicable legal requirements.

The Certificate of Achievement is valid for one year only. The City believes that this CAFR continues to conform to the Certificate of Achievement Program requirements and will be submitting it to GFOA to determine its eligibility for another certificate.

For the tenth consecutive year, the City received the Award for Outstanding Financial Reporting issued by the California Society of Municipal Finance Officers (CSMFO) for its CAFR for the fiscal year ended June 30, 2003. The award was issued in recognition of the City meeting the professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the report was prepared.

For the thirteenth consecutive year, the City received the GFOA Distinguished Budget Preparation Award for its annual budget for the fiscal year beginning July 1, 2003. To qualify for this award, the government unit must publish a budget document that meets program criteria as a policy document, as a financial plan, as an operations guide and as a communications medium.

The City was also presented with the "Excellence in Operational Budgeting" award for 2003-2004 by the CSMFO. This award recognizes the meritorious achievement in operational budgeting and reflects a highly professional budget document and the underlying budgeting process through which the budget is implemented.

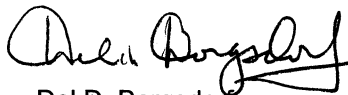
#### ACKNOWLEDGMENTS

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 unswerving personal determination and dedicated many long days of focused attention to produce this exemplary document.

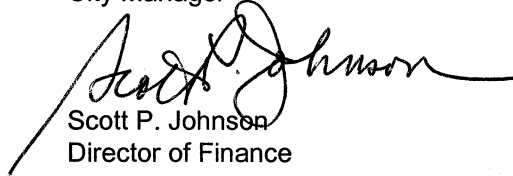
In addition, staff in all City departments should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Macias, Gini & Company LLP Certified Public Accountants should also be acknowledged as a significant contribution to a fine product.

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 in providing core services to the community.

Respectfully submitted,



Del D. Borgsdorf  
City Manager



Scott P. Johnson  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Jose,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# *California Society of Municipal Finance Officers*

Certificate of Award

*Outstanding Financial Reporting 2002-2003*

Presented to the

*City of San Jose*

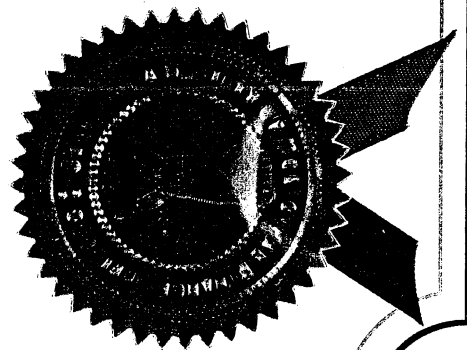
*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*March 1, 2004*

*Bret M. Lunde*

Chair, Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*



*California Society of  
Municipal Finance Officers*

Certificate of Award

*Excellence in Operational Budgeting 2003-04*

Presented to

*City of San Jose*

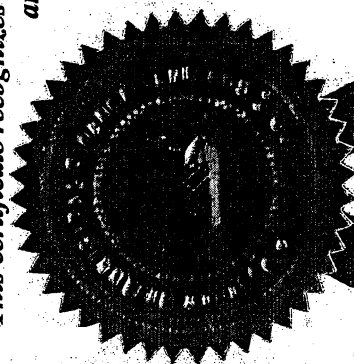
*This certificate recognizes Meritorious Achievement in Operational Budgeting and reflects a highly professional budget document  
and the underlying budgeting process through which the budget is implemented.*

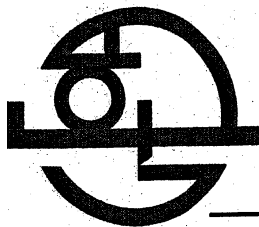
*March 1, 2004*



Chair, Budgeting & Financial Management

*Dedicated to Excellence in Municipal Financial Management*





The Government Finance Officers Association  
of the United States and Canada

presents this

## CERTIFICATE OF RECOGNITION FOR BUDGET PREPARATION

to

City Manager's Budget Office  
City of San Jose, California

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*The Certificate of Recognition for Budget Preparation is presented by the Government Finance Officers Association to those individuals who have been instrumental in their government unit achieving a Distinguished Budget Presentation Award. The Distinguished Budget Presentation Award, which is the highest award in governmental budgeting, is presented to those government units whose budgets are judged to adhere to program standards.*

Executive Director

Date

February 11, 2004

## San Jose Mayor & City Council

To contact members of the San Jose City Council by mail, send to:  
801 North First Street, Rm. 600, San Jose, CA 95110



**Mayor Ron Gonzales**  
(408) 277-4237  
[mayoremail@ci.sj.ca.us](mailto:mayoremail@ci.sj.ca.us)



**Ken Yeager**  
District 6  
(408) 277-5166  
[ken.yeager@ci.sj.ca.us](mailto:ken.yeager@ci.sj.ca.us)



**Linda J. LeZotte**  
District 1  
(408) 277-5438  
[linda.lezotte@ci.sj.ca.us](mailto:linda.lezotte@ci.sj.ca.us)



**Terry O. Gregory**  
District 7  
(408) 277-5226  
[district7@ci.sj.ca.us](mailto:district7@ci.sj.ca.us)



**Forrest Williams**  
District 2  
(408) 277-4282  
[forrest.williams@ci.sj.ca.us](mailto:forrest.williams@ci.sj.ca.us)



**David D. Cortese**  
District 8  
(408) 277-5242  
[dave.cortese@ci.sj.ca.us](mailto:dave.cortese@ci.sj.ca.us)



**Cindy Chavez**  
District 3  
(408) 277-5231  
[cindy.chavez@ci.sj.ca.us](mailto:cindy.chavez@ci.sj.ca.us)



**Judy Chirco**  
District 9  
(408) 277-5275  
[judy.chirco@ci.sj.ca.us](mailto:judy.chirco@ci.sj.ca.us)



**Chuck Reed**  
District 4  
(408) 277-5320  
[District4@ci.sj.ca.us](mailto:District4@ci.sj.ca.us)

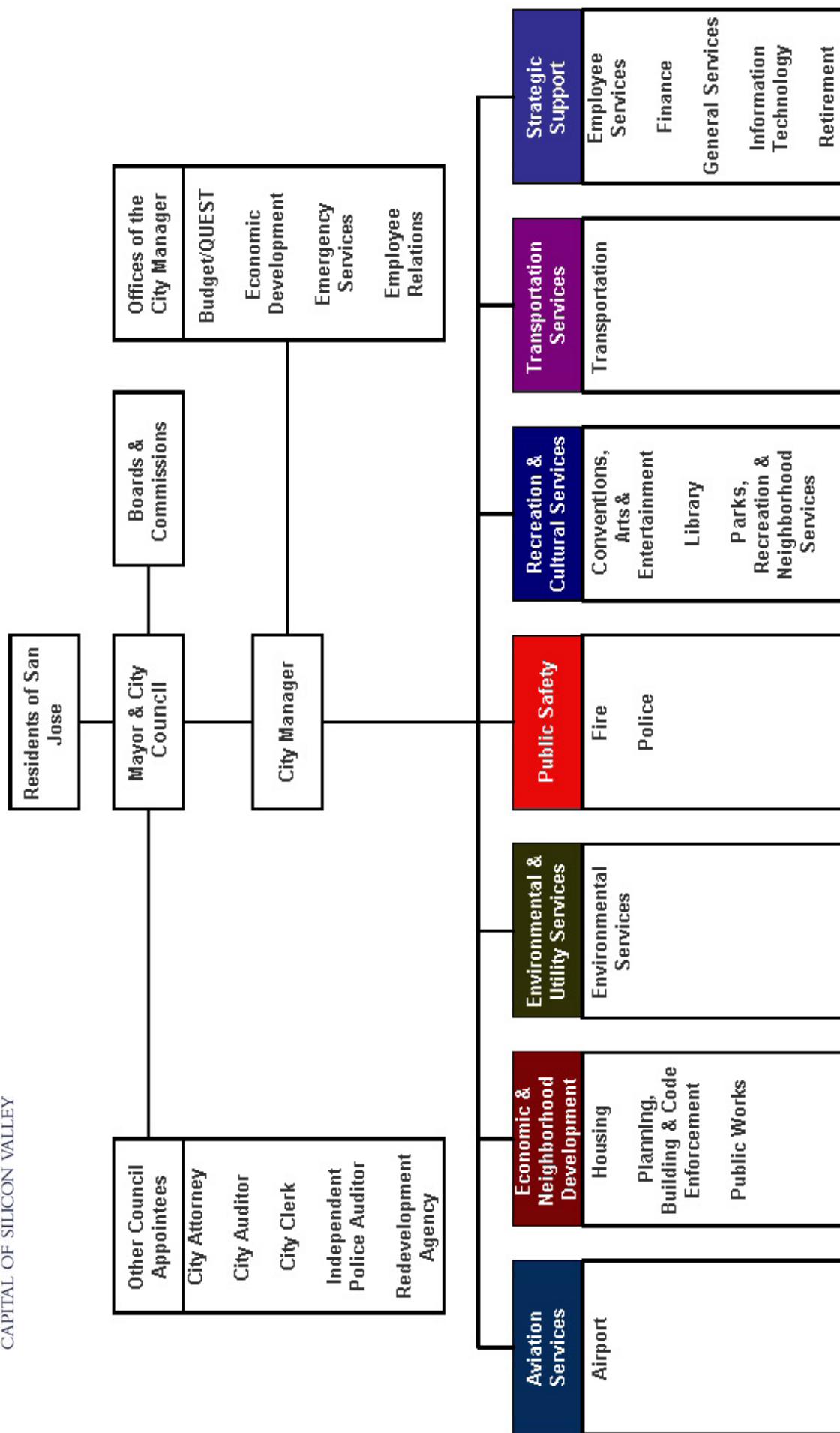


**Pat Dando**  
Vice Mayor  
District 10  
(408) 277-5251  
[pat.dando@ci.sj.ca.us](mailto:pat.dando@ci.sj.ca.us)



**Nora Campos**  
District 5  
(408) 277-5157  
[District5@ci.sj.ca.us](mailto:District5@ci.sj.ca.us)

## CITY OF SAN JOSE ORGANIZATIONAL STRUCTURE



**Statement Under Oath of Principal Financial Officer Regarding Facts and Circumstances Relating to the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2004**

I, Scott P. Johnson, Director of Finance, state and attest that:

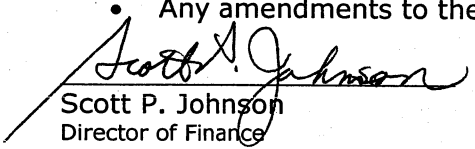
(1) To the best of my actual knowledge and belief, based upon a review of the covered reports of the City of San Jose, and, except as corrected or supplemented in a subsequent covered report:

- The covered report is accurate in all material respects; and
- Is reported in a manner designed to present fairly the financial position and results of operations of the City: and
- No covered report contained an untrue statement of a material fact as of the end of the period covered by such report; and
- No covered report omitted to state a material fact necessary to make the statements in the covered report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report.

(2) Each year, upon completion of the City's annual audit of its Financial Statements, City staff, along with the City's external Certified Public Accountant (CPA) auditing firm, present the City's Financial Statements and related independent auditor's report thereon to the Making Government Work Better (MGWB) Committee which then reports out to the full City Council. I will review the contents of this statement with the City Council's MGWB Committee, which functions as the Council's audit committee, at a regularly noticed meeting of the Committee in December of 2004.

(3) In this statement under oath, each of the following, as filed with the City Clerk, is a "covered report":

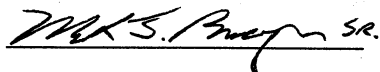
- The 88<sup>th</sup> Comprehensive Annual Financial Report of the City of San Jose for the fiscal year ended June 30, 2004;
- Any amendments to the foregoing.

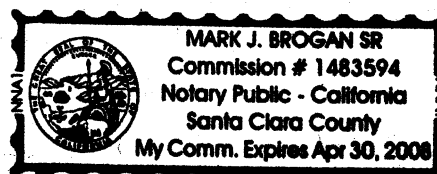
  
Scott P. Johnson  
Director of Finance

State of California, County of Santa Clara

On 11/29/04 before me, Mark J. Brogan, Sr., Notary Public, Personally appeared Scott P. Johnson, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

  
Mark J. Brogan, Sr., Notary Public



**Statement Under Oath of City Manager Regarding Facts and Circumstances Relating  
to the Comprehensive Annual Financial Report (CAFR)**

I, Del D. Borgsdorf, City Manager, state and attest that:


(1) To the best of my actual knowledge and belief, based upon a review of the covered reports of the City of San Jose, and, except as corrected or supplemented in a subsequent covered report:

- The covered report is accurate in all material respects; and
- Is reported in a manner designed to present fairly the financial position and results of operations of the City; and
- No covered report contained an untrue statement of a material fact as of the end of the period covered by such report; and
- No covered report omitted to state a material fact necessary to make the statements in the covered report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report.

(2) The contents of this statement will be reviewed with the City Council's Making Government Work Better Committee, which functions as the Council's audit committee, at a regularly noticed meeting of the Committee in December of 2004. Annually staff and the City's outside Certified Public Accountant (CPA) present the City's Financial Statements and independent auditor's report thereon to the Committee which then reports out to the full City Council.

(3) In this statement under oath, each of the following, as filed with the City Clerk, is a "covered report":

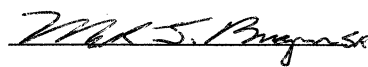
- The 88<sup>th</sup> Comprehensive Annual Financial Report of the City of San Jose for fiscal year ended June 30, 2004;
- Any amendments to the foregoing.

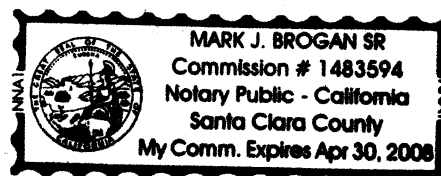
  
Del D. Borgsdorf  
City Manager

State of California, County of Santa Clara

On 12/6/04 before me, Mark J. Brogan, Sr., Notary Public, Personally appeared Del D. Borgsdorf, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

  
Mark J. Brogan, Sr., Notary Public



# Financial Section



## MACIAS GINI & COMPANY LLP

Mt. Diablo Plaza  
2175 N. California Boulevard, Ste. 645  
Walnut Creek, California 94596

925.274.0190 PHONE  
925.274.3819 FAX

City Council  
City of San José, California

### **Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (the City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the budgetary comparison information and the schedule of funding progress listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Macias, Dini & Company LLP*

Certified Public Accountants

Walnut Creek, California

November 19, 2004

# Management's Discussion and Analysis

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Management's Discussion and Analysis (MD&A) in conjunction with the transmittal letter (page v) and the City's basic financial statements (page 18) provides the reader an overview of the City's financial activities for the fiscal year ended June 30, 2004.

## FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the 2003-04 fiscal year by \$7.7 billion (net assets). Of this amount, \$465 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors, \$491 million is restricted for specific purpose (restricted net assets), and \$6.8 billion is invested in capital assets, net of related debt.
- The City's total net assets decreased by \$428 million during the fiscal year. A significant portion of this decrease is related to \$364 million depreciation.
- The City's governmental funds reported combined ending fund balances of \$1.325 billion, a decrease of \$171 million. Approximately 48.0 percent of the combined fund balances, \$630 million, is available to meet the City's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, unreserved fund balance for the general fund was \$153.8 million, or 27.3 percent of total general fund expenditures.
- The City's total long-term obligations increased by \$482 million compared to the prior year. The increase consisted of \$840 million of new debt issuance for Infrastructure, Redevelopment Agency projects, Airport facility improvements and refunding of prior bonds issued on behalf of the general government and the Redevelopment agency. These additions to long-term debt were offset by \$178 million of scheduled principal retirements and \$253 million of refunded Redevelopment agency tax allocation bonds and \$23 million of general government lease revenue bonds. Estimated liabilities for claims and judgments also experienced a significant increase of \$51 million mainly due to higher workers' compensation claims and an adjustment for incurred but not reported (IBNR) claims in the amount of \$21 million based a recent actuarial study.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components 1) Government-wide Financial Statements; 2) Fund Financial Statements; 3) Notes to the Basic Financial Statements; and 4) Required Supplementary Information. In addition this report also contains other supplementary information.

### Government-wide Financial Statements

**Government-wide Financial Statements** are designed to provide readers with a broad overview of City finances, in a manner similar to a private-sector business.

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

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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, such as

## Management's Discussion and Analysis (Continued)

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revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended 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, and sanitation. The business-type activities of the City include an airport, wastewater operations, water operations, and various parking facilities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency and three legally separate financing authorities for which the City is financially accountable. The business-type activities include the wastewater and parking financing authorities.

### Fund Financial Statements

**Fund Financial Statements** are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** are used to 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 determining what financial resources are available in the near future to finance the City's programs.

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 this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Redevelopment Agency, Housing Activities, Special Assessment Districts, and Civic Center which are considered to be major funds. The City maintains several individual governmental funds organized according to their type (special revenue, debt service, and capital projects funds). Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

**Proprietary funds** are generally used to account for services for which the City charges customers – either outside customers, or internal units of departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. *Proprietary funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses proprietary funds to account for the Norman Y. Mineta San José International Airport, Wastewater Treatment System, Municipal Water System, and Parking System.

## Management's Discussion and Analysis (Continued)

**Fiduciary funds** are used to account for resources held for the benefit of the City's employees and parties outside the City. The City's pension plan trust funds, private purpose trust fund, and agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the 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** is presented concerning the City's General Fund and Housing Activities budgetary schedules and the City's progress in funding its obligation to provide pension benefits. The City adopts an annual appropriated budget for its General Fund and Housing Activities. A budgetary comparison schedule has been provided for the General Fund and Housing Activities to demonstrate compliance with this budget. The City's pension schedules have been provided to present the City's progress in funding its obligation to provide pension benefits to City employees.

The **combining and individual fund statements and schedules** referred to earlier provide information for nonmajor governmental funds and fiduciary funds and are presented immediately following the required supplementary information.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Analysis of Net Assets:** As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$7.7 billion at the close of the current fiscal year.

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

#### Statement of Net Assets June 30, 2004 (in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003
<b>Assets:</b>						
Current and other assets....\$	1,666,590	1,803,873	789,989	597,183	2,456,579	2,401,056
Capital assets.....	8,321,084	8,430,073	1,087,590	953,262	9,408,674	9,383,335
Total assets.....	<u>9,987,674</u>	<u>10,233,946</u>	<u>1,877,579</u>	<u>1,550,445</u>	<u>11,865,253</u>	<u>11,784,391</u>
<b>Liabilities:</b>						
Current and other liabilities....	235,011	217,324	35,276	25,879	270,287	243,203
Long-term liabilities.....	3,187,374	2,945,725	681,649	441,118	3,869,023	3,386,843
Total liabilities.....	<u>3,422,385</u>	<u>3,163,049</u>	<u>716,925</u>	<u>466,997</u>	<u>4,139,310</u>	<u>3,630,046</u>
<b>Net assets:</b>						
Invested in capital assets,						
net of related debt.....	6,118,214	6,252,648	651,130	513,697	6,769,344	6,766,345
Restricted net assets.....	229,871	551,968	261,303	256,821	491,174	808,789
Unrestricted net assets.....	217,204	266,281	248,221	312,930	465,425	579,211
Total net assets.....\$	<u>6,565,289</u>	<u>7,070,897</u>	<u>1,160,654</u>	<u>1,083,448</u>	<u>7,725,943</u>	<u>8,154,345</u>

## Management's Discussion and Analysis (Continued)

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At the end of the current fiscal year, the City reported positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The largest portion of the City's net assets at \$6.8 billion (88.0 percent) reflects its investment in capital assets (e.g. infrastructure, land, buildings, improvements other than buildings, and vehicles and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the City's net assets, \$465 million (6.0 percent) represents unrestricted net assets which may be used to meet the City's ongoing obligations to citizens and creditors. For governmental activities, the City reported a positive balance of \$217 million in unrestricted net assets and for business-type activities, the City reported a positive balance of \$248 million in unrestricted net assets. An additional portion of the City's net assets of \$491 million (6.4 percent) represents resources that are subject to external restrictions on how they may be used.

The City's net assets decreased by 5.3 percent or \$428.4 million during the current fiscal year. The City is still experiencing the impact of the slow down in the economy which has resulted in a reduction in revenue streams in the face of increasing costs.

Key changes in the statement of net assets are as follows:

The City's capital assets increased by \$25 million or less than 1 percent. Governmental capital assets decreased by \$109 million offset by an increase in business-type capital assets of \$134 million. The decrease in governmental capital assets was mainly the result of depreciation on major infrastructure assets and the transfer of the 4<sup>th</sup> and San Fernando parking garage in the amount of \$56 million. The offsetting increase in business-type capital assets was due mostly to continued airport expansion construction projects and a parking garage asset transfer from the Redevelopment Agency.

The City's current and other assets increased by \$56 million or 2.3 percent. This increase is a result of a \$137 million decrease in governmental activities offset by a \$193 million increase in business-type activities. The decrease in governmental activities is mainly the result of spent general obligation bond proceeds for capital projects. Conversely the decrease was mainly offset by increases in business-type activities related to unspent bond proceeds of \$192 million for airport capital projects.

Long-term liabilities for the City increased \$482 million or 14.2 percent. This is mainly due to the issuance of bonds for airport improvements (\$250 million), and Redevelopment Agency tax allocation bonds, \$130 million net of refunding. The City also experienced an increase in Estimated Liabilities for Claims and Judgements of \$56 million partly due to higher cost of workers' compensation claims and an claims development adjustment of \$21 million based a recently completed actuarial study. Most of the growth in claims relate to Public Safety activities which experienced an increase of 258 open claims. Also the average cost of Public Safety claims rose 4.8 percent from \$21,000 to \$22,000.

Current and other liabilities for the City increased by \$27 million or 11.1 percent. This net increase is generally spread across all categories. Increases in Accounts payable, Accrued liabilities, Interest payable and Other liabilities (\$67 million) were offset by decreases in Due to outside agencies, Unearned revenue and Advances, deposits and reimbursable credits (\$40 million).

The City's net assets invested in capital assets net of related debt experienced a modest increase of \$3 million. While business-type activities category grew by \$137 million, this increase was offset by a decrease in general government activities in the amount of \$134 million.

## Management's Discussion and Analysis (Continued)

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

### Statement of Activities For the Year Ended June 30, 2004 (in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003
<b>Revenues:</b>						
Program revenues:						
Fees, fines, and charges for services..... \$	199,761	190,128	242,865	243,770	442,626	433,898
Operating grants and contributions.....	46,034	51,691	5,724	5,685	51,758	57,376
Capital grants and contributions.....	81,229	70,726	24,601	16,821	105,830	87,547
General revenues:						
Property taxes.....	338,210	351,902	-	-	338,210	351,902
Utility taxes.....	68,455	65,785	-	-	68,455	65,785
Franchise taxes.....	31,712	32,093	-	-	31,712	32,093
Transit and occupancy taxes.....	14,166	14,600	-	-	14,166	14,600
Sales taxes shared revenue.....	126,426	122,757	-	-	126,426	122,757
State of California in-lieu.....	41,455	53,787	-	-	41,455	53,787
Business license tax.....	36,201	35,594	-	-	36,201	35,594
Unrestricted interest and investment earnings	17,040	59,287	3,024	15,861	20,064	75,148
Other revenue.....	26,368	22,994	-	-	26,368	22,994
Gain on sale of capital assets.....	4,487	317	-	-	4,487	317
Total revenues.....	<u>1,031,544</u>	<u>1,071,661</u>	<u>276,214</u>	<u>282,137</u>	<u>1,307,758</u>	<u>1,353,798</u>
<b>Expenses:</b>						
General government.....	143,342	125,482	-	-	143,342	125,482
Public safety.....	353,009	323,461	-	-	353,009	323,461
Capital maintenance.....	502,812	652,748	-	-	502,812	652,748
Community services.....	277,404	222,250	-	-	277,404	222,250
Sanitation.....	76,889	77,001	-	-	76,889	77,001
Interest and fiscal charges.....	127,052	121,647	-	-	127,052	121,647
Norman Y. Mineta San José International						
Airport.....	-	-	117,122	112,723	117,122	112,723
Wastewater Treatment System.....	-	-	101,627	102,148	101,627	102,148
Municipal Water System.....	-	-	19,089	15,577	19,089	15,577
Parking System.....	-	-	9,952	7,479	9,952	7,479
Total expenses.....	<u>1,480,508</u>	<u>1,522,589</u>	<u>247,790</u>	<u>237,927</u>	<u>1,728,298</u>	<u>1,760,516</u>
Excess (deficiency) before transfers						
and special item.....	(448,964)	(450,928)	28,424	44,210	(420,540)	(406,718)
Transfers.....	(48,782)	7,338	48,782	(7,338)	-	-
Special item.....	(7,862)	-	-	-	(7,862)	-
Change in net assets.....	<u>(505,608)</u>	<u>(443,590)</u>	<u>77,206</u>	<u>36,872</u>	<u>(428,402)</u>	<u>(406,718)</u>
Net assets at beginning of year	<u>7,070,897</u>	<u>7,514,487</u>	<u>1,083,448</u>	<u>1,046,576</u>	<u>8,154,345</u>	<u>8,561,063</u>
Net assets at end of year..... \$	<u><u>6,565,289</u></u>	<u><u>7,070,897</u></u>	<u><u>1,160,654</u></u>	<u><u>1,083,448</u></u>	<u><u>7,725,943</u></u>	<u><u>8,154,345</u></u>

**Governmental activities:** Governmental activities decreased the City's net assets by \$506 million, which accounts for more than 100 percent of the total decrease in net assets of the City. This decrease in the City's net assets was partially offset by a \$77 million increase in the business-type activities as noted in greater detail below.

## Management's Discussion and Analysis (Continued)

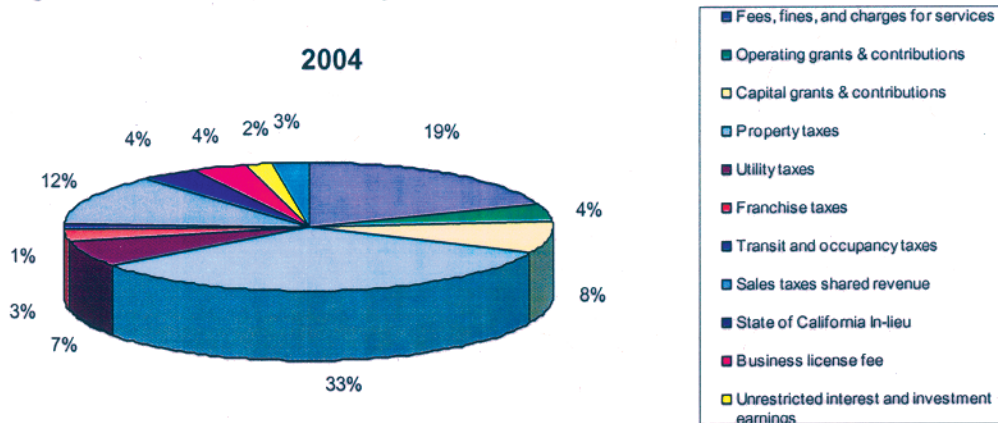
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Key elements of the decrease in net assets for governmental activities are as follows:

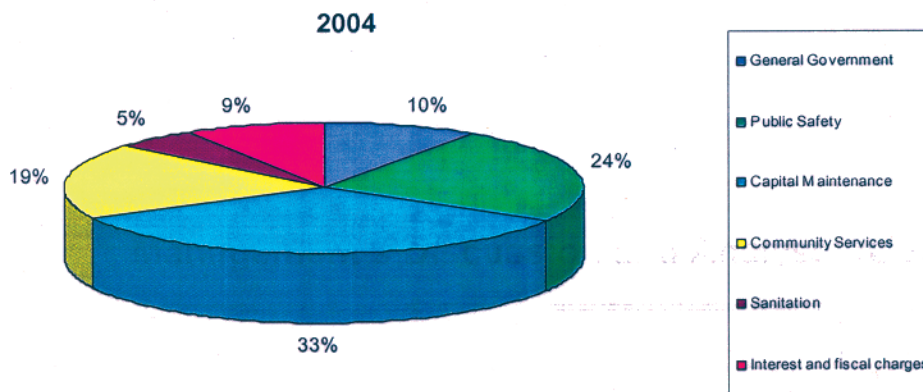
- The City maintained a balanced budget in the General Fund by utilizing a combination of on-going and one-time solutions by increasing various revenue sources, reducing service levels and related expenditures for various City programs and by utilizing a portion of its accumulated fund balance. As a result, the fund balance in the General Fund decreased by \$14 million contributing to the decrease in the governmental activities net assets.
- Property taxes decreased by \$13.7 million (3.9 percent) during the year. This decrease is primarily due to a decline of \$27.8 million in Redevelopment Agency tax increment revenue attributed to the effects of a continuing weak local economy, property owner assessment appeals and declining value of R&D/office property in redevelopment project areas. Increases in property tax and conveyance tax revenues helped offset the tax increment decrease by \$14.1 million. These increases are attributed to higher real estate resale values and increased property assessments.
- Sales taxes shared revenue increased by \$3.7 million or 3.0 percent during the year. This increase is mainly due to a one time collection from delinquent payers. Taking into account the one time collection, sales tax revenue compared to the prior year were essentially the same.
- Other revenues, including, utility taxes, business license tax and other revenues and gain on sale of capital asset increased by approximately \$10.8 million. These increases were offset by decreases in franchise taxes, hotel transient occupancy tax, State of California in-lieu revenue and lower investment earnings totaling approximately \$68.2 million. The most significant of these decreases are attributed to the state balancing action that reduced motor vehicle in-lieu fees (\$12.3 million) and reduced investment earnings (\$42 million) attributed to decreased cash flow and lower investment yields.
- Depreciation of infrastructure and other capital assets resulted in a decrease in net assets of \$324 million in depreciation expense during the year.
- During the year, the City's investment portfolio earned interest yield declined from 3.0 percent in FY 2003 to 2.2 percent for FY 2004. Factors contributing to this decrease included: 1) the general decline in interest rates during the fiscal year as a result of the Federal Reserve action that lowered the federal funds rate and the discount rate to stimulate the economy; and 2) the continued uncertainty of global political conditions and by the continued weakness in economic data.
- In January, 2004, the City entered into a management agreement with Dolce International to operate the City owned Hayes Mansion Conference Center. The special item in the amount of \$7.9 million represents the loss from the Hayes operations at this transition point.

## Management's Discussion and Analysis (Continued)

The following chart shows a graphical comparison of revenue sources for governmental activities as a percentage of total revenues for fiscal year 2004:



For the most part, increases in expenses paralleled increases in the cost of living in the Bay Area and growth in the demand for government services. The following chart shows a graphical comparison of governmental activity expenses for each category as a percentage of total expenses for fiscal year 2004:



Of the total amount of increases in Public Safety (\$30 million) and General Government (\$18 million), \$17 million for Public Safety and all of the General Government increase can be attributed to increases in cost for workers' compensation and general liability claims. The increase in Community Services is attributed to an increase in housing loan activity coupled with a loan reserve adjustment of \$48 million (see major fund activity analysis below). Capital maintenance decrease (\$150 million) reflects the sharp reduction in Redevelopment Agency capital project activity.

## Management's Discussion and Analysis (Continued)

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**Business-type activities:** Business-type activities increased the City's net assets by \$77 million, helping to offset the \$506 million decrease in governmental activities net assets resulting in an overall decrease in the City's net assets of \$428.4 million. Key factors of the business-type activities increase are as follows:

- The Norman Y. Mineta San José International Airport (Airport) net assets increased by \$15 million. The Airport's operating loss increased to \$21.7 million from an operating loss of \$17.7 million in fiscal year 2003. Nonoperating revenue, primarily passenger facility charges and operating grants, exceeded nonoperating expenses by \$25.1 million. The Airport is still experiencing the impacts of increased security measures, lower passenger activity, and reduced revenues that occurred after the September 11 attacks. In addition, the Airport received \$11.7 million in capital contributions, primarily from Airport Improvement Program grants.
- The Wastewater Treatment System net assets increased by \$0.3 million. The Wastewater Treatment System reported operating revenues of \$99 million, down \$3.5 million from operating revenues of \$103 million in the prior year. This reduction in addition to lower investment earnings of \$7.5 million were offset by increases in capital contributions of \$4 million and reduced operating expenses of \$0.2 million.
- The Municipal Water System net assets increased by \$6.7 million or 1 percent. Increases in operating revenues and capital contribution of \$2.5 million and \$4.6 million respectively were offset by higher operating expenses of \$3.5 million and lower non-operating revenue of \$0.6 million.
- The Parking System net assets increased by \$55 million or 151 percent. The Parking System reported operating revenues of \$9.6 million, down from \$10.1 million in fiscal year 2003. Nonoperating income of \$0.134 million was \$0.59 million less than nonoperating income of \$0.723 in fiscal year 2003 million mainly due to lower investment earnings. The transfer of the recently completed 4<sup>th</sup> Street Parking garage capital asset from the Redevelopment Agency increased net assets by \$56 million.

### 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.

**Governmental funds:** The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$1.325 billion, an decrease of \$171 million in comparison with the prior year. Approximately \$630 million of this total amount constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed: 1) to pay debt service (\$184 million); 2) to reflect advances, loans, and other assets that are long-term in nature and thus do not represent available spend able resources (\$240 million); 3) to liquidate contractual commitments of the period (\$272 million); and 4) for a variety of other restricted purposes (\$0.108 million).

Revenues and other financing sources for governmental functions totaled approximately \$1.878 billion in the fiscal year ended June 30, 2004, which represents a decrease of 17.7 percent from the fiscal year ended June 30, 2003.

## Management's Discussion and Analysis (Continued)

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### General Fund:

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$153.8 million while total fund balance was \$183.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 27.3 percent of total General Fund expenditures of \$562.4 million, while total fund balance represents 32.6 percent of that same amount.

General Fund revenues of \$522.7 million were \$3.7 million, or 0.7 percent higher than the prior fiscal year level of \$519.0 million. An increase in Licenses, Permits, and Fines (\$9.9 million) and Charges for Current Services (\$4.4 million) were driven by increased fees. These increases were offset by lower returns in investment interest (\$5.6 million) and lower Taxes and special assessment revenues (\$5.4 million). The change in tax revenues is net of increases in property tax (\$1.5 million), Sales Tax (\$3.2 million), and Utility Tax (\$2.7 million) against a lower State of California in-lieu fees (\$12.3 million) and other taxes (\$0.5 million).

General Fund expenditures of \$562.4 million decreased by \$27.8 million or 4.7 percent less than prior year expenditures of \$590.2 million. The decrease generally impacted all governmental functions with the exception of Public Safety which had higher local law enforcement grant expenditures (\$5.2 million) and higher personal service expenditures of \$8 million. With the exception of Public Safety which will continue to be of the highest priority, general decreases across the organization reflect budget and corresponding service level reductions mandated by shrinking revenues driven by sluggish state and local economies.

### Redevelopment Agency:

The Redevelopment Agency (Agency) fund accounts for the activities of the Redevelopment Agency of the City of San José which was created to redevelop and upgrade blighted areas of the City. The Agency's governmental funds reported combined fund balances of \$263.5 million, an increase of \$65.3 million in comparison with the prior year. Most of this total amount, \$230.1 million, is attributable to new debt, net of refunding, offset by excess expenditures over revenues (\$92.3 million), net transfers out (\$77.0 million) and proceeds from sale of capital assets \$4 million).

The following are some of the highlights for the Agency:

- Revenues decreased by \$60 million or 24.9 percent to \$181.3 million from \$241.3 million in the prior fiscal year. Most of this decrease relates to tax increment revenue which were lower by \$28 million, or 14 percent, and a decrease in developer contributions in the amount of \$25.8 million. The decrease in tax increment revenue reflects a continuing decline of the local economy that triggered a rise of assessment appeals from property owners and a declining value of R&D/office property in redevelopment project areas.
- Expenditures decreased \$100 million or 26.7 percent primarily due to deferrals of several redevelopment projects.

### Housing Activities:

The Housing Activities fund accounts for the City's commitment to ensure that lower and moderate income residents are provided with a diverse range of safe, decent, and affordable housing opportunities. In order to achieve this goal, the City works to preserve the existing affordable housing stock, continues to increase the supply of affordable housing, and provides services to homeless and at-risk populations in the City of San José. The fund's primary source of funding are proceeds from Redevelopment Agency tax allocation bonds and 20% of the gross property tax increment. As required by California State law, these 20% tax increment funds are used solely for affordable housing purposes. Loans to developers of

## Management's Discussion and Analysis (Continued)

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affordable housing project increased the Housing Activities fund loans receivable by \$48 million. Most of this growth was offset by an adjustment to loan reserves for a similar amount.

### Special Assessment Districts:

The Special Assessment Districts fund accounts for the activities related to the issuance of debt and the related capital improvements by special assessment districts in different parts of the City. In fiscal year 2004, \$12.5 million in new bonds were issued for one community facilities districts to finance roadway improvements in a new residential development.

At June 30, 2004, a total of \$85.1 million in special assessment debt was outstanding, issued by twelve special assessment and community facilities districts. The debt is secured by special assessments or special taxes on real property in the district issuing the debt, and the City is not obligated to cure any deficiency in redeeming the debt. However, the City is not prevented, in its sole discretion, from curing any deficiency.

**Proprietary funds:** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net assets for the Norman Y. Mineta San José International Airport were \$6 million, the Wastewater Treatment System were \$213 million, the Municipal Water System were \$11 million, and the Parking system amount of \$18 million.

The total growth in net assets for proprietary funds was \$77 million. Other factors concerning the activities of these funds have already been addressed in the discussion of the City's business-type activities above.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

General Fund differences between the original 2003-04 budget and the final amended budget resulted in an increase of \$10.6 million in budgeted revenues and transfers in an increase in appropriated expenditures and transfers out of \$22.2 million.

Overall increases in most categories of revenue were offset by reductions in State of California in-lieu fee (\$10.5 million) as a result in state balancing budget strategies. Utility taxes decreased \$2 million due to the impact of California Public Utilities settlement agreements with Pacific Gas and Electric.

The City charter mandates that the operating and capital budget be submitted to the City Council prior to the beginning of the fiscal year. Adjustments to the original budget, adopted by the City in June 2003, were driven by the delayed state budget action which was enacted in August 2003.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets:**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$9.4 billion (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, structures and improvements, vehicles and equipment, intangible assets, and construction in progress. The City's investment in capital assets increased by less than 1 percent. 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.

## Management's Discussion and Analysis (Continued)

Major capital asset events during the current fiscal year included the following:

- Construction in progress increased by \$175 million, or 39.5 percent. Of this amount \$135 million is attributable to the governmental activities. The new civic center project represents approximately \$100 million of the increase in construction in progress. The primary addition for business type activities were the continuing Airport expansion projects (\$17 million) and Waste Water Systems (\$16 million) mainly for the South Bay Water Recycling System improvements.
- Buildings increased by \$72 million or 10.3 percent. This increase is mainly due to the transfer of the 4<sup>th</sup> Street Parking garage in the amount of \$56 million from the Redevelopment Agency.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental activities		Business-type activities		Total		Increase/ (Decrease)
	2004	2003	2004	2003	2004	2003	Percent of Change
Land	\$ 474,260	480,729	126,645	117,211	600,905	597,940	0.50%
Construction in progress	491,415	356,265	126,325	86,448	617,740	442,713	39.54%
Buildings	407,321	375,448	363,386	323,350	770,707	698,798	10.29%
Improvements, other than buildings	31,518	28,912	449,752	403,603	481,270	432,515	11.27%
Infrastructure	6,897,718	7,164,126	-	-	6,897,718	7,164,126	-3.72%
Vehicles and equipment	16,533	21,963	7,506	7,895	24,039	29,858	-19.49%
Intangible assets	-	-	8,903	9,227	8,903	9,227	-3.51%
Property under capital leases	2,319	2,630	5,073	5,528	7,392	8,158	-9.39%
Total capital assets	\$ 8,321,084	8,430,073	1,087,590	953,262	9,408,674	9,383,335	0.27%

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34.

Commitments outstanding as of June 30, 2004, related to governmental and business-type activities construction in progress total approximately \$187.8 million and \$125.6 million respectively.

Additional information about the City's capital assets can be found in Note III.D to the financial statements.

### **Debt Administration:**

#### **Debt Management Policy**

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. 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. The Debt Management Policy establishes the following equally important objectives:

## Management's Discussion and Analysis (Continued)

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

### General Fund Bonded Debt Limit

The City of San Jose 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 taxable assessed value on the City's FY 2003-04 tax roll is \$92.4 billion, which results in a net total debt capacity of approximately \$13.8 billion. As of June 30, 2004, the City had \$178.5 million of General Obligation bonds outstanding.

### General Obligation Bond Rating

In June 2004, the City received confirmation of its general obligation bond ratings from the three major rating agencies: Aa1 from Moody's; AA+ from Standard & Poor's; and AA+ from Fitch. These ratings place San Jose in the second highest rating category (only one "notch" below Aaa/AAA/AAA), ranking it higher than the State of California and the highest-rated large city in California.

### Outstanding Debt

The City's debt service obligations include general obligation bonds, revenue bonds, lease revenue bonds, special assessment bonds and reassessment bonds, Redevelopment Agency tax allocation bonds, capital lease obligations, and commercial paper.

As of June 30, 2004, the City had \$2.9 billion of outstanding long-term debt related to Governmental Activities and \$670 million of debt related to Business-Type Activities, for a total of \$3.6 billion. These amounts for the fiscal year ended June 30, 2003 were \$2.7 billion for Governmental Activities and \$434 million for Business-Type Activities, for a total of \$3.2 billion.

The table below identifies the net changes in each category:

	As of June 30 2004	As of June 30 2003	Net Change
<b>Governmental Activities</b>			
GO bonds	\$ 178,480	184,720	(6,240)
Revenue bonds	45,000	47,545	(2,545)
Lease revenue bonds	579,277	573,140	6,137
Reassessment revenue bonds	2,935	4,960	(2,025)
Special assessments	85,142	80,708	4,434
Redevelopment agency	2,041,365	1,854,680	186,685
Equipment leases	17	81	(64)
Sub-total:	<u>2,932,216</u>	<u>2,745,834</u>	<u>186,382</u>
<b>Business-Type Activities</b>			
Revenue bonds	608,245	368,055	240,190
State of CA-Revolving Fund Loan	56,099	59,479	(3,380)
Commercial paper notes	5,786	6,658	(872)
Sub-total:	<u>670,130</u>	<u>434,192</u>	<u>235,938</u>
<b>Total:</b>	<u>\$ 3,602,346</u>	<u>3,180,026</u>	<u>422,320</u>

## **Management's Discussion and Analysis (Concluded)**

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Additional information about the City's long-term obligations can be found in Note III.F to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- The City currently faces a continuation of an unfavorable economic environment. The City faces the daunting task of creating a balanced budget in the face of a third straight year of declining revenues and a forecast that shows little chance of recovery in the near term.
- Following City Council priorities, the adopted budget will attempt to focus available resources on the most essential services – primarily public safety, meeting basic infrastructure requirements and maintaining the City Council's commitment to neighborhoods.
- Key revenues such as sales taxes and hotel transient occupancy tax continue to decline.
- Unemployment for the City remains at an uncomfortable 9.6% for 2003 which is well above state and national averages.
- Contract negotiations with the City's two largest labor organizations: the Police Officers Association and the International Association of Fire Fighters remain unresolved.
- Following Council direction from a year ago, a "Tier Two" strategy will be available in the form of a 2004-2005 Compensation/State Budget Impact Contingency Plan in the event a need for additional balancing actions prove to be necessary. These contingencies could be triggered depending on changes to employee compensation assumptions and, as in the prior year, additional revenue reduction which could result from final state budget actions.

All of these factors were considered in preparing the City's budget for fiscal year 2005.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 801 North First Street, Room 110, San José, CA 95110.

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# Basic Financial Statements

## Basic Financial Statements

**City of San José**  
**Statement of Net Assets**  
**June 30, 2004**  
**(\$000's)**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 670,214	367,435	1,037,649
Other cash and investments	99,055	-	99,055
Receivables (net of allowances for uncollectibles)	167,085	12,256	179,341
Due from outside agencies	359	130	489
Internal balances	(10,977)	10,977	-
Inventories	1,832	1,325	3,157
Loans receivable (net)	255,915	-	255,915
Advances and deposits	971	2,100	3,071
Other assets	10,294	179	10,473
Restricted assets:			
Equity in pooled cash and investments	74,509	262,639	337,148
Other cash and investments	367,324	115,371	482,695
Receivables (net of allowances for uncollectibles)	157	8,513	8,670
Deferred bond issuance costs (net of accumulated amortization)	29,852	9,064	38,916
Capital assets (net of accumulated depreciation):			
Nondepreciable	965,675	252,970	1,218,645
Depreciable	7,355,409	834,620	8,190,029
Total assets	<u>9,987,674</u>	<u>1,877,579</u>	<u>11,865,253</u>
<b>LIABILITIES</b>			
Accounts payable	57,376	24,149	81,525
Accrued liabilities	17,220	1,389	18,609
Interest payable	46,344	5,430	51,774
Due to outside agencies	16,015	-	16,015
Unearned revenue	19,195	878	20,073
Advances, deposits, and reimbursable credits	41,341	3,100	44,441
Other liabilities	37,520	330	37,850
Noncurrent obligations:			
Due within one year	108,351	29,356	137,707
Due in more than one year	3,079,023	652,293	3,731,316
Total liabilities	<u>3,422,385</u>	<u>716,925</u>	<u>4,139,310</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,118,214	651,130	6,769,344
Restricted for:			
Debt service	97,939	88,221	186,160
Capital projects	28,184	90,399	118,583
Community services	101,583	-	101,583
Public safety	2,165	-	2,165
Other purposes	-	82,683	82,683
Unrestricted	217,204	248,221	465,425
Total net assets	<u>\$ 6,565,289</u>	<u>1,160,654</u>	<u>7,725,943</u>

The notes to the financial statements are an integral part of this statement.

**City of San José**  
**Statement of Activities**  
**For the Year Ended June 30, 2004**  
**(\$000's)**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -Type Activities	Total
Governmental activities:							
General government	\$ 143,335	18,646	746	-	(123,943)	-	(123,943)
Public safety	353,009	18,856	9,588	-	(324,565)	-	(324,565)
Capital maintenance	502,819	28,359	8,206	81,229	(385,025)	-	(385,025)
Community services	277,404	53,635	27,209	-	(196,560)	-	(196,560)
Sanitation	76,889	80,265	285	-	3,661	-	3,661
Unallocated interest and fiscal charges *	127,052	-	-	-	(127,052)	-	(127,052)
Total governmental activities	1,480,508	199,761	46,034	81,229	(1,153,484)	-	(1,153,484)
Business -Type activities:							
Norman Y. Mineta San José							
International Airport	117,122	113,758	5,724	11,725	-	14,085	14,085
Wastewater Treatment System	101,627	99,511	-	4,624	-	2,508	2,508
Municipal Water System	19,089	20,013	-	8,252	-	9,176	9,176
Parking System	9,952	9,583	-	56,050	-	55,681	55,681
Total business-type activities	247,790	242,865	5,724	80,651	-	81,450	81,450
Total	\$ 1,728,298	442,626	51,758	161,880	(1,153,484)	81,450	(1,072,034)
General revenues:							
Taxes:							
Property					338,210	-	338,210
Utility					68,455	-	68,455
Franchise					31,712	-	31,712
Transit and occupancy					14,166	-	14,166
Sales taxes shared revenue					126,426	-	126,426
State of California in-lieu					41,455	-	41,455
Business license tax					36,201	-	36,201
Unrestricted interest and investment earnings					17,040	3,024	20,064
Other revenue					26,368	-	26,368
Gain on sale of capital assets					4,487	-	4,487
Transfers					(48,782)	(7,268)	(56,050)
Special item-Loss at transition					(7,862)	-	(7,862)
Total general revenues, transfers and special item					647,876	(4,244)	643,632
Change in net assets					(505,608)	77,206	(428,402)
Net assets - beginning					7,070,897	1,083,448	8,154,345
Net assets - ending					\$ 6,565,289	1,160,654	7,725,943

\* This amount excludes \$7,975 of interest expense that is included as direct expenses of the community services program.

The notes to the financial statements are an integral part of this statement.

**City of San José**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2004**  
**(\$000's)**

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Housing Activities</u>
<b>ASSETS</b>			
Equity in pooled cash and investments held in City Treasury	\$ 160,880	164,982	30,630
Other cash and investments	-	-	-
Receivables (net of allowance for uncollectibles)	50,792	1,544	2,111
Due from outside agencies	228	-	51
Due from other funds	2,364	4,332	-
Inventories	-	-	-
Loans receivable (net)	2,650	35,830	207,078
Advances and deposits	44	62	-
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	1,076	-	3
Other cash and investments	11	129,743	-
Accrued interest	-	157	-
Advances to other funds	3,734	16,780	-
Other assets	1,032	-	9,098
Total assets	<u>\$ 222,811</u>	<u>353,430</u>	<u>248,971</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 7,284	5,737	422
Accrued salaries, wages, and payroll taxes	14,360	317	206
Due to other funds	660	10,031	-
Due to other agencies	536	15,479	-
Deferred revenue	5,184	37,623	6,030
Advances, deposits, and reimbursable credits	7	20,682	-
Advances from other funds	-	-	16,780
Other liabilities	11,441	-	-
Total liabilities	<u>39,472</u>	<u>89,869</u>	<u>23,438</u>
Fund balances:			
Reserved for:			
Encumbrances	23,154	38,808	11,315
Noncurrent advances, loans and other assets	6,428	3,909	215,460
Debt service	-	76,737	-
Restricted cash commitments	-	-	3
Unreserved reported in:			
General fund	153,757	-	-
Special revenue funds	-	-	(1,245)
Capital projects funds	-	144,107	-
Total fund balances	<u>183,339</u>	<u>263,561</u>	<u>225,533</u>
Total liabilities and fund balances	<u>\$ 222,811</u>	<u>353,430</u>	<u>248,971</u>

The notes to the financial statements are an integral part of this statement.

Special Assessment Districts	Civic Center	Nonmajor Governmental Funds	Total Governmental Funds
11,570	-	302,152	670,214
-	-	99,055	99,055
85,503	-	27,135	167,085
5	-	75	359
-	-	33,129	39,825
-	-	1,832	1,832
-	-	10,357	255,915
415	-	450	971
28,570	-	44,860	74,509
16,760	128,639	92,171	367,324
-	-	-	157
-	-	-	20,514
-	-	164	10,294
<u>142,823</u>	<u>128,639</u>	<u>611,380</u>	<u>1,708,054</u>
430	16,522	26,981	57,376
13	22	2,302	17,220
-	3,552	32,032	46,275
-	-	-	16,015
85,552	-	7,482	141,871
3,871	-	16,780	41,340
-	-	8,261	25,041
-	-	26,079	37,520
<u>89,866</u>	<u>20,096</u>	<u>119,917</u>	<u>382,658</u>
3,610	81,722	113,625	272,234
5	-	13,714	239,516
19,876	-	87,296	183,909
-	-	105	108
-	-	-	153,757
-	-	192,374	191,129
29,466	26,821	84,349	284,743
<u>52,957</u>	<u>108,543</u>	<u>491,463</u>	<u>1,325,396</u>
<u>142,823</u>	<u>128,639</u>	<u>611,380</u>	<u>1,708,054</u>

**City of San José**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2004**  
**(\$000's)**

**Total fund balances-governmental funds (Page 21)** **\$ 1,325,396**

Amounts reported for governmental activities in the statement of net assets 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	\$	474,260	
Infrastructure assets		11,021,591	
Other capital assets		1,205,856	
Accumulated depreciation		(4,380,623)	
Total capital assets			8,321,084

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. (46,344)

Bond issuance costs are expended in governmental funds when paid, however, are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. 29,852

Deferred charges, net of amortization

Special Assessments are reported as revenue when levied in government-wide financial statements. In governmental funds, these assessments are reported as deferred revenue (a liability) since they are not available. 85,142

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis. 37,533

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

Bonds and notes payable	\$	(2,934,553)	
Accreted interest on capital appreciation bonds		(2,700)	
Capital leases		(17)	
Compensated absences		(77,246)	
Claims and judgments		(158,354)	
Other		(14,504)	
Total long-term liabilities			(3,187,374)

**Net assets of governmental activities (Page 18)** **\$ 6,565,289**

The notes to the 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, 2004**  
**(\$000's)**

	<u>General Fund</u>	<u>Redevelopment Agency</u>	<u>Housing Activities</u>
<b>REVENUES</b>			
Taxes and special assessments	\$ 374,614	170,208	-
Licenses, permits, and fines	83,631	-	-
Intergovernmental	10,105	-	2,136
Charges for current services	27,410	-	-
Rent	-	998	171
Interest and other revenues	26,940	10,106	4,743
Total revenues	<u>522,700</u>	<u>181,312</u>	<u>7,050</u>
<b>EXPENDITURES</b>			
Current:			
General government	67,747	22,423	-
Public safety	317,202	-	-
Capital maintenance	40,383	46,384	-
Community services	127,454	-	74,467
Sanitation	1,662	-	-
Capital outlay	7,888	61,993	-
Debt service:			
Principal	53	32,635	-
Interest and fiscal charges	2	89,388	-
Bond issuance costs	-	8,867	-
Payment to refunded bond escrow agent	-	11,952	-
Total expenditures	<u>562,391</u>	<u>273,642</u>	<u>74,467</u>
Excess (deficiency) of revenues over( under) expenditures	<u>(39,691)</u>	<u>(92,330)</u>	<u>(67,417)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from bonds	-	195,000	-
Proceeds from refunding bonds	-	350,985	-
Premiums (discount) on bonds	-	16,725	-
Payment to refunded bond escrow agent	-	(332,571)	-
Proceeds from sale of capital assets	-	4,487	-
Loan proceeds	-	-	-
Transfers in	33,021	15,875	70,803
Transfers out	(7,644)	(92,826)	(11,468)
Total other financing sources (uses)	<u>25,377</u>	<u>157,675</u>	<u>59,335</u>
<b>SPECIAL ITEM</b>			
Loss at transition	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(14,314)	65,345	(8,082)
Fund balances - beginning	197,653	198,216	233,615
Fund balances - ending	<u>\$ 183,339</u>	<u>263,561</u>	<u>225,533</u>

The notes to the financial statements are an integral part of this statement.

Special Assessment Districts	Civic Center	Nonmajor Governmental Funds	Total Governmental Funds
9,150	-	92,760	646,732
-	-	-	83,631
-	-	55,013	67,254
-	-	175,154	202,564
-	-	6,687	7,856
2,675	2,749	20,869	68,082
11,825	2,749	350,483	1,076,119
-	-	99,962	190,132
-	-	8,099	325,301
3,137	-	87,784	177,688
-	-	47,158	249,079
-	-	75,845	77,507
12,475	99,692	96,488	278,536
7,901	-	14,377	54,966
4,671	-	35,580	129,641
697	-	1,611	11,175
-	-	2,964	14,916
28,881	99,692	469,868	1,508,941
(17,056)	(96,943)	(119,385)	(432,822)
12,500	-	9,225	216,725
-	-	22,625	373,610
(16)	-	86	16,795
-	-	(20,258)	(352,829)
-	-	-	4,487
-	-	3,200	3,200
40	20,305	47,084	187,128
-	(415)	(67,507)	(179,860)
12,524	19,890	(5,545)	269,256
-	-	(7,862)	(7,862)
(4,532)	(77,053)	(132,792)	(171,428)
57,489	185,596	624,255	1,496,824
52,957	108,543	491,463	1,325,396

**City of San José**  
**Reconciliation of the Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2004**  
**(\$000's)**

**Net change in fund balances--total governmental funds (Page 25)** **\$ (171,428)**

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	\$ 278,536	
Depreciation expense	(321,043)	
Excess of depreciation expense over capital outlay		(42,507)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, retirements, trade-ins, donations)

Donated assets	\$ 18,852	
Transfers	(56,050)	
Disposal and other adjustments	(29,285)	
		(66,483)

Bond issuance 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.

Bond issuance costs	\$ 11,175	
Amortization of bond issuance costs	(559)	
Total bond issuance costs, net of amortization		10,616

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 assets 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 bond holders and HUD.

404,578

Accrued interest expense 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, discounts and deferred amounts on refunding should be expensed as a component of interest expense on the statement of activities. This amount represents the net accrued interest expense and the amortization of bond premiums, discounts and deferred amounts on refunding not reported in governmental funds.

Accrued interest on capital appreciation bonds	\$ (98)	
Discount/(premium) on bonds issued	16,811	
Increase in accrued interest expense	(2,777)	
Amortization of deferred amounts, premiums and discounts	(479)	
Deferred amounts on bonds issued premiums and discounts	(16,966)	
Total net interest expense and amortization of discount/premium		(3,509)

Bond and loan proceeds provide current financial resources to governmental funds, however, issuing debt increases long-term liabilities in the statement of net assets.

(593,535)

Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenue and are deferred in the governmental funds. Deferred revenues increased by this amount this year.

9,888

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 decrease in accrued landfill postclosure costs	\$ 465	
Net increase in net pension obligation	(24)	
Net increase in vacation, sick leave, and compensatory time	(2,469)	
Net increase in estimated liability for self-insurance	(51,220)	
Net decrease in arbitrage liability	20	
Total additional expenditures		(53,228)

**Change in net assets of governmental activities (Page 19)** **\$ (505,608)**

The notes to the financial statements are an integral part of this statement.

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**City of San José**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**June 30, 2004**  
**(\$000's)**

	<b>Norman Y. Mineta San José International Airport</b>	<b>Wastewater Treatment System</b>	<b>Municipal Water System</b>	<b>Parking System</b>	<b>Totals</b>
<b>ASSETS</b>					
Current assets:					
Equity in pooled cash and investments held in City Treasury	\$ 66,740	265,095	17,125	18,475	367,435
Receivables (net of allowance for uncollectibles)	2,400	6,641	2,594	621	12,256
Due from outside agencies	-	130	-	-	130
Due from other funds	-	6,450	-	-	6,450
Inventories	-	1,325	-	-	1,325
Total unrestricted current assets	<u>69,140</u>	<u>279,641</u>	<u>19,719</u>	<u>19,096</u>	<u>387,596</u>
Restricted assets:					
Equity in pooled cash and investments held in City Treasury	240,925	21,714	-	-	262,639
Other cash and investments	105,689	8,144	-	1,538	115,371
Receivables (net of allowances for uncollectibles)	8,513	-	-	-	8,513
Prepaid expenses, advances and deposits	179	-	-	-	179
Total restricted current assets	<u>355,306</u>	<u>29,858</u>	<u>-</u>	<u>1,538</u>	<u>386,702</u>
Total current assets	<u>424,446</u>	<u>309,499</u>	<u>19,719</u>	<u>20,634</u>	<u>774,298</u>
Noncurrent assets:					
Deferred bond issuance costs (net of accumulated amortization)	8,139	925	-	-	9,064
Advances and deposits	2,100	-	-	-	2,100
Advances to other funds	-	10,342	-	-	10,342
Capital assets (net of accumulated depreciation):					
Nondepreciable	125,674	101,441	7,231	18,624	252,970
Depreciable	360,754	365,534	55,010	53,322	834,620
Total noncurrent assets	<u>496,667</u>	<u>478,242</u>	<u>62,241</u>	<u>71,946</u>	<u>1,109,096</u>
Total assets	<u>921,113</u>	<u>787,741</u>	<u>81,960</u>	<u>92,580</u>	<u>1,883,394</u>

The notes to the financial statements are an integral part of this statement.

**City of San José**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**June 30, 2004**  
**(\$000's)**

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 4,240	3,035	1,495	883	9,653
Accrued liabilities	75	1,168	97	49	1,389
Interest payable	-	575	-	-	575
Accrued vacation, sick leave and compensatory time	-	3,693	40	83	3,816
Estimated liability for self-insurance	-	1,605	56	10	1,671
Loans payable	-	3,476	-	-	3,476
Total current liabilities	4,315	13,552	1,688	1,025	20,580
Current liabilities payable from restricted assets:					
Accounts payable and accrued liabilities	14,496	-	-	-	14,496
Interest payable	4,374	481	-	-	4,855
Accrued vacation, sick leave and compensatory time	2,548	-	-	-	2,548
Estimated liability for self-insurance	480	-	-	-	480
Advances and deposits payable	561	-	-	-	561
Deferred revenue	878	-	-	-	878
Current portion of loans payable	5,786	-	-	-	5,786
Current portion of bonds payable	7,869	3,710	-	-	11,579
Total current liabilities payable from restricted assets	36,992	4,191	-	-	41,183
Noncurrent liabilities:					
Estimated liability for self-insurance	3,637	4,111	-	-	7,748
Advances from other funds	-	-	5,815	-	5,815
Advance contributions from participating agencies	-	1,382	-	-	1,382
Advances, deposits and reimbursable credits	-	-	1,157	-	1,157
Loans payable	-	52,623	-	-	52,623
Bonds payable (net of discount and deferred loss on premium/refunding)	501,378	90,544	-	-	591,922
Other liabilities	330	-	-	-	330
Total noncurrent liabilities	505,345	148,660	6,972	-	660,977
Total liabilities	546,652	166,403	8,660	1,025	722,740
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	246,913	270,030	62,241	71,946	651,130
Restricted for debt service	76,837	9,845	-	1,539	88,221
Restricted for capital projects	44,711	45,688	-	-	90,399
City of Santa Clara equity in Wastewater Treatment System	-	82,683	-	-	82,683
Unrestricted	6,000	213,092	11,059	18,070	248,221
Total net assets	\$ 374,461	621,338	73,300	91,555	1,160,654

**City of San José**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**  
**(\$000's)**

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals
<b>OPERATING REVENUES</b>					
Charges for services	\$ 45,400	76,832	19,880	9,573	151,685
Rentals and concessions	40,242	991	-	-	41,233
Customer transportation fees	4,183	-	-	-	4,183
Service connection, engineering and inspection	-	5,348	-	-	5,348
Contributions	-	10,947	-	-	10,947
Other	-	5,368	-	-	5,368
Total operating revenues	<u>89,825</u>	<u>99,486</u>	<u>19,880</u>	<u>9,573</u>	<u>218,764</u>
<b>OPERATING EXPENSES</b>					
Operations and maintenance	71,568	56,435	16,114	2,555	146,672
General and administrative	21,944	21,738	723	5,058	49,463
Depreciation and amortization	18,016	17,860	2,100	2,242	40,218
Materials and supplies	-	220	-	97	317
Total operating expenses	<u>111,528</u>	<u>96,253</u>	<u>18,937</u>	<u>9,952</u>	<u>236,670</u>
Operating income (loss)	<u>(21,703)</u>	<u>3,233</u>	<u>943</u>	<u>(379)</u>	<u>(17,906)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Passenger facility charges	21,842	-	-	-	21,842
Operating grants	5,724	-	-	-	5,724
Investment income	1,060	1,770	67	127	3,024
Land and building rental	-	25	-	-	25
Interest expense	(5,594)	(5,095)	(152)	-	(10,841)
Contributions refunded to participating agencies	-	(275)	-	-	(275)
Loss on disposal of capital assets	-	(4)	-	-	(4)
Other revenues	2,091	-	133	10	2,234
Net nonoperating revenues (expenses)	<u>25,123</u>	<u>(3,579)</u>	<u>48</u>	<u>137</u>	<u>21,729</u>
Income before capital contributions and transfers	<u>3,420</u>	<u>(346)</u>	<u>991</u>	<u>(242)</u>	<u>3,823</u>
Capital contributions	11,725	4,624	8,252	56,050	80,651
Transfers in	-	-	-	20	20
Transfers out	-	(4,008)	(2,533)	(747)	(7,288)
Changes in net assets	15,145	270	6,710	55,081	77,206
Net assets - beginning	359,316	621,068	66,590	36,474	1,083,448
Net assets - ending	<u>\$ 374,461</u>	<u>621,338</u>	<u>73,300</u>	<u>91,555</u>	<u>1,160,654</u>

The notes to the 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, 2004**  
**(\$000's)**

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$ 91,090	90,172	19,256	9,411	209,929
Payments to suppliers	(41,681)	(36,910)	(12,881)	(2,132)	(93,604)
Payments to employees	(29,511)	(40,627)	(3,068)	(5,021)	(78,227)
Payments for interfund services	(16,830)	-	-	-	(16,830)
Claims paid	(371)	-	-	-	(371)
Other receipts (payments)	2,125	10,947	-	-	13,072
Net cash provided by operating activities	4,822	23,582	3,307	2,258	33,969
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfer (to) from other funds	-	(4,008)	(2,533)	(727)	(7,268)
Advances (to) from other funds	-	(4,203)	-	-	(4,203)
Subsidies from operating grants	5,592	-	-	-	5,592
Advances, deposits and credits	(2,100)	-	(133)	-	(2,233)
Net cash provided by (used in) by noncapital and related financing activities	3,492	(8,211)	(2,666)	(727)	(8,112)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Passenger facility charges received	22,000	-	-	-	22,000
Proceeds from debt	248,584	-	-	-	248,584
Proceeds from commercial paper	35,069	-	-	-	35,069
Payments to commercial paper	(35,941)	-	-	-	(35,941)
Subsidies from capital grants	9,611	530	-	-	10,141
Acquisition and construction of capital assets	(57,182)	(28,198)	(5,452)	(1,628)	(92,460)
Principal paid on debt	(6,270)	(6,920)	-	-	(13,190)
Bond issuance costs	(3,347)	-	-	-	(3,347)
Interest paid on debt	(13,322)	(5,057)	-	-	(18,379)
Net cash provided by (used in) capital and related financing activities	199,202	(39,645)	(5,452)	(1,628)	152,477
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	577,920	-	-	-	577,920
Purchase of investments	(575,679)	(11)	-	-	(575,690)
Interest and dividends received	2,509	2,449	141	161	5,260
Land and building rentals	-	25	-	-	25
Net cash provided by investing activities	4,750	2,463	141	161	7,515
Net change in cash and cash equivalents	212,266	(21,811)	(4,670)	64	185,849
Cash and cash equivalents - beginning	187,236	308,619	21,795	19,949	537,599
Cash and cash equivalents - ending	\$ 399,502	286,808	17,125	20,013	723,448

(Continued)

The notes to the 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, 2004**  
**(\$000's)**

	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Totals
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (21,703)	3,233	943	(379)	(17,906)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	18,016	17,860	2,100	2,242	40,218
Other nonoperating revenues(expenses)	2,091	-	133	10	2,234
Decrease (increase) in:					
Accounts receivable	1,579	1,568	(757)	(171)	2,219
Due from outside agencies	-	64	-	-	64
Inventories	-	(22)	-	-	(22)
Prepaid expenses	(178)	-	-	-	(178)
Increase (decrease) in:					
Accounts payable and accrued liabilities	2,751	(1,895)	871	541	2,268
Accrued vacation, sick leave and compensatory time	215	107	13	13	348
Estimated liability for self-insurance	1,967	2,667	4	2	4,640
Deferred revenues	304	-	-	-	304
Advances and deposits payable	(220)	-	-	-	(220)
Total adjustments	26,525	20,349	2,364	2,637	51,875
Net cash provided by operating activities	\$ 4,822	23,582	3,307	2,258	33,969
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>					
Equity in pooled cash and investments held in City Treasury					
Unrestricted	\$ 66,740	265,095	17,125	18,475	367,435
Restricted	240,924	21,714	-	-	262,638
Other investments	105,689	8,144	-	1,538	115,371
Less investments not meeting the definition of cash equivalents	(13,851)	(8,145)	-	-	(21,996)
	\$ 399,502	286,808	17,125	20,013	723,448
<b>Noncash noncapital, capital and related financing activities:</b>					
Loss on disposal of capital assets	\$ -	(4)	-	-	(4)
Acquisition of capital assets on accounts payable and accrued liabilities	10,408	582	-	-	10,990
Bond discount/(premium)	(820)	-	-	-	(820)
Capitalized interest	6,684	-	-	-	6,684
Unrealized loss on investments held by fiscal agent	(3)	-	-	-	(3)
Contributions from developers and other funds	-	1,936	8,252	56,050	66,238

The notes to the financial statements are an integral part of this statement.

**City of San José**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2004**  
**(\$000's)**

	<b>Pension Trust Funds</b>	<b>James Lick Private Purpose Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Equity in pooled cash and investments held in City Treasury	\$ -	13	4,442
Investments of retirement plans:			
Investments, excluding securities lending collateral	3,405,584	-	-
Securities lending collateral	331,815	-	-
Other cash and investments	-	32	-
Receivables (net of allowances for uncollectibles):			
Accrued investment income	14,249	-	21
Employee contributions	1,214	-	-
Employer contributions	2,306	-	-
Due from brokers	180,297	-	-
Other	2,071	-	-
<b>Total assets</b>	<b>3,937,536</b>	<b>45</b>	<b>4,463</b>
<b>LIABILITIES</b>			
Due to brokers	283,484	-	-
Accounts payable	-	-	1,370
Securities lending collateral, due to borrowers	331,815	-	-
Accrued salaries, wages and payroll taxes	-	-	9
Advances, deposits and reimbursable credits	376	-	-
Other liabilities	4,903	-	3,084
<b>Total liabilities</b>	<b>620,578</b>	<b>-</b>	<b>4,463</b>
<b>NET ASSETS</b>			
Held in trust for:			
Employees' pension benefits	3,209,831	-	-
Employees' postemployment healthcare benefits	107,127	-	-
Other purpose	-	45	-
<b>\$</b>	<b>3,316,958</b>	<b>45</b>	<b>-</b>

The notes to the financial statements are an integral part of this statement.

**City of San José**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2004**  
**(\$000's)**

	<b>Pension Trust Funds</b>	<b>James Lick Private Purpose Trust Fund</b>
<b>ADDITIONS</b>		
Investment income:		
Interest	\$ 50,317	2
Dividends	21,186	-
Net rental income	13,491	-
Net change in fair value of plan investments	387,164	-
Investment expenses	(12,645)	-
Securities lending activities:		
Securities lending income	3,824	-
Securities lending expenses	(3,055)	-
Contributions:		
Employer	72,385	-
Employees	36,514	-
Total additions	<u>569,181</u>	<u>2</u>
<b>DEDUCTIONS</b>		
General and administrative	3,999	-
Health insurance	20,966	-
Refunds to terminated employees	1,321	-
Retirement and other benefits paid:		
Death benefits paid	9,430	-
Retirement benefits paid	115,027	-
Total deductions	<u>150,743</u>	<u>-</u>
Change in net assets	418,438	2
Net assets - beginning	2,898,520	43
Net assets - ending	<u>\$ 3,316,958</u>	<u>45</u>

The notes to the financial statements are an integral part of this statement.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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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 operates under a Council-Manager form of government. The City has defined its reporting entity in accordance with accounting principles generally accepted in the United States of America (GAAP), 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 criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary government is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary government regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. 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" as though they are part of the primary government because the component unit's governing body is substantively the same as the City's governing body, and/or the component unit provides 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.

- **Redevelopment Agency of the City of San José** – The Redevelopment Agency of the City of San José (the Redevelopment Agency) was created by the City Council with the authority and responsibility for redeveloping and upgrading blighted areas of the City. The members of the City Council are also members of the Redevelopment Agency's Board of Directors and, as such, are authorized to transact business and exercise their power to plan, engineer, and carry out projects of the Redevelopment Agency.
- **Parking Authority of the City of San José** – The Parking Authority of the City of San José (the Parking Authority) was created by the City Council to provide funding through debt issuance for parking facilities constructed on City-owned land. Such parking facilities are leased to the City. Members of the City Council are also members of the Parking Authority's Board of Directors.
- **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, the City of Santa Clara, and certain other cities to finance the acquisition of 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 City Council of the City of San José and two are members of the City Council of the City of Santa Clara. The Clean Water Financing Authority and the participating cities subsequently entered into an Improvement Agreement, which requires the cities to make base payments that are at least equal to the debt service requirements of the Clean Water Financing Authority's outstanding revenue bonds.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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- **San José Financing Authority** – The San José Financing Authority (the Authority) was created by a Joint Exercise of Powers Agreement between the City and the Redevelopment Agency. The 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 Authority is governed by an 11 member Governing Board, which consists of the members of the City Council.

Separate financial reports for the year ended June 30, 2004, containing additional information as required by revenue bond indentures and more detailed information regarding financial condition and change in financial position, are available from the City's Director of Finance, 801 North First Street, Room 110, San José, CA 95110, for the following:

- Federated City Employees' Retirement System
- Police and Fire Department Retirement Plan
- Redevelopment Agency of the City of San José
- Norman Y. Mineta San José International Airport
- San José – Santa Clara Clean Water Financing Authority

### **B. New Pronouncements**

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

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. This statement is effective for the City's fiscal year ending June 30, 2005.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement is effective for the City's fiscal year ending June 30, 2007.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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In May 2004, 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 of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

### C. Financial Statement Presentation

**Government-wide Financial Statements.** The government-wide financial statements (i.e. the statement of net assets and the statement of activities) display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. For the most part, eliminations of internal activity have been made in these statements. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other nonexchange 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 for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a business-type activity or 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 meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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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 **Redevelopment Agency Fund** is a capital projects fund that accounts for administrative, operating, low-to-moderate income housing program, debt and construction activities necessary to carry out responsibilities for redeveloping and upgrading blighted areas in the City.

The **Housing Activities Fund** is a special revenue fund that accounts for the City's affordable housing activities.

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

The **Civic Center Fund** is a capital projects fund that accounts for the construction of a new civic center facility.

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 airport.

The **Wastewater Treatment System Fund** accounts for the financing, construction, and operation of the sewer system, the Water Pollution Control Plant (the Plant), and the regional water reclamation program.

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 parking lot facilities, parking lots and parking meters located within the City.

The City reports the following fiduciary fund types:

The **Pension Trust Funds** account for the accumulated resources to be used for retirement annuity payments to all members of the Federated City Employees' Retirement System and the Police and Fire Department Retirement Plan.

The **James Lick Private Purpose Trust Fund** is used to account for resources legally held in trust for use towards the support of the Eastfield Home of Benevolence (orphanage). All resources of the fund, including any earnings on invested resources, are used to support the organization's activities.

The **Agency Funds** account for assets held by the City in a custodial capacity on behalf of other agencies.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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### **D. Measurement Focus and Basis of Accounting**

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary and fiduciary funds (excluding agency funds) financial statements are reported using the economic resources measurement focus. The government-wide, proprietary fund and trust funds financial statements 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. Nonexchange 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 users 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. This focus is on the determination of, and changes in financial position, and generally only current assets and current liabilities are included in the balance sheet. These funds use the modified accrual basis of accounting, whereby 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 to be available if they are collected within sixty days of 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 only when payment is due.

In governmental funds, revenues from taxes, licenses, franchise taxes, interest, certain 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. Only the portion of special assessments receivables due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue items are considered to be 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. 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 assets 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.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board or any Accounting Research Bulletins unless those pronouncements conflict with or contradict GASB pronouncements.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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### **E. Assets, Liabilities, and Net Assets or Equity**

#### **1. 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 earned or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds and component units based on their proportionate shares of the average weekly cash balance.

#### **2. Deposits and Investments**

**Pooled Cash and Investments held in City Treasury.** Investments in securities purchased with the intent to trade for a profit are prohibited by the City's investment policy. 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*, which requires governmental entities to report certain investments at fair value in the statement of net assets or balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The City reports its investments held in 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 allocated directly to the General Fund rather than the fund that holds the investment on which the income was earned. The assignment of the income from these investments is supported by legal or contractual provisions approved by the City Council. The total investment income from these funds that was allocated to the General Fund was \$4,103,000 for the year ended June 30, 2004.

**Retirement Systems.** Investments of the Pension Trust Funds are reported at fair value and include securities lending transactions. 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 are reported at estimated fair value. The fair value of real estate investments is based on independent appraisals. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

Investments in forward currency contracts are recorded commitments to purchase or sell stated amounts of foreign currency. The Retirement Systems utilized these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2004, the Retirement Systems' net position in these contracts is recorded at fair value as short-term foreign currency investments. The fair value of forward currency contracts is determined by quoted currency prices from national exchanges. The Retirement Systems' investment in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2004, total commitments in forward currency contracts to purchase and sell foreign currencies were \$144,842,000 and \$144,842,000, respectively, with market values of \$144,712,000 and \$145,250,000, respectively. The Retirement Systems' commitments relating to forward currency contracts will be settled on a net basis.

The municipal code permits the Retirement Systems to use investments of the plans to enter into securities lending transactions with their principal custodian banks (Custodians). These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. The custodial agreements with the Retirement Systems' Custodians authorize such custodians to loan securities in the Retirement Systems' investment portfolio under such terms and conditions as the Custodians deem advisable and to permit the loaned securities to be transferred into the name of the borrowers. The Retirement

# City of San José

## Notes to Basic Financial Statements

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Systems receive a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the Custodians are responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the Custodians are required to credit the Retirement Systems' accounts with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the Retirement Systems or borrowers.

**Other Investments.** Non-pooled investments are generally carried at fair value. However, investments in guaranteed investment contracts are carried at cost and special assessments bonds at amortized cost. Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

### **3. 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.

### **4. Inventory**

Inventory of the proprietary funds is valued at the lower of cost (first-in/first-out) or market. In the governmental funds, inventory items are valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

### **5. Special items**

Special items are significant transactions under management's control that are infrequent in occurrence.

### **6. Special Assessment Districts**

Special assessments are recorded as receivables when they become a lien on property. Special assessments not considered available are recorded as receivables and offset by deferred revenues in the governmental fund financial statements. The special assessment 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 hence the City's management believes 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 assessment bond 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 and special assessment surpluses are reported as advances and deposits. In the governmental fund statements noncurrent portions of these are offset equally by either a deferred credit or a fund balance reserve account that indicates they do not constitute expendable financial resources available for appropriation.

# City of San José

## Notes to Basic Financial Statements

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### 8. Other Assets

Other assets primarily consist of real properties acquired outright and/or through foreclosure in connection with the housing rehabilitation program. These assets are recorded at the lower of cost or estimated net realizable value.

### 9. Bond Issuance Costs; Original Issue Discounts and Premiums and Deferred Amounts on Refundings

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are deferred and are amortized over the term of the related debt. Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

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. Capital Assets

Capital assets, which 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 extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. 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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 over the same period. Amortization of assets acquired under capital leases is based on the shorter of the lease term or the estimated useful life of the asset and is included in depreciation and amortization. Buildings and improvements, infrastructure, and vehicles and equipment 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
Intangible assets	40 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 road,

# City of San José

## Notes to Basic Financial Statements

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bridges, drainage systems, and lighting systems.

### **11. Compensated Absences – Accrued Vacation, Sick Leave, and Compensatory Time**

Vested vacation, sick leave, compensatory time, and related benefits are accrued as appropriate. 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 enterprise funds, compensated absences are expensed when earned by employees. At year-end, accrued but unpaid compensated absence obligations are recorded as current and non-current liabilities in the appropriate enterprise funds.

Vacation pay may be accumulated up to a total of 160 hours and carried forward for one year in most circumstances. Sick pay vests when a full-time employee reaches 15 years of service (20 years for police officers and firefighters) based on the following percentages, up to a maximum of 1,200 accumulated hours:

<u>Hours Accumulated</u>	<u>Amount Vested</u>
1 to 399	50%
400 to 799	60%
800 to 1,200	75%

The amount vested for police officers who have accumulated over 1,200 hours of sick leave and firefighters who have accumulated over 1,680 hours of sick leave is 100%, provided that the employee is a service retiree (nondisability) or died while on active service.

Management employees who have 15 years of service become vested for 75% of an additional 192 hours of sick leave above the 1,200 hour maximum, provided these hours were earned in the last 2 years of service.

Payments for vacation and compensatory time to regularly scheduled part-time employees who retire after 15 years of service are prorated accordingly.

### **12. Interfund Transactions**

Interfund transactions are reflected as loans, services provided, reimbursements 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, and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans and unsettled service transactions) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are 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.

### **13. Self-Insurance**

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## Notes to Basic Financial Statements

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The City is self-insured for workers' compensation, general liability, auto liability, and certain other risks. 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 are 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.

### **14. Net Assets/Fund Equity**

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category represents net assets 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.
- *Unrestricted Net Assets* - This category represents net assets of the City, not restricted for any project or other purpose.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2004, reservations of fund balance are described below:

- *Encumbrances* - to reflect the outstanding contractual obligations for which goods and services have not been received.
- *Noncurrent advances, loans, other assets, and cash commitments* - to reflect the portion of assets which are not available spendable resources.
- *Debt service* - to reflect the funds held by trustees or fiscal agents for future payment of bond principal and interest. These funds are not available for general operations.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures. Fund balance designations include:

- *Contingencies* - to reflect management's intent to expend certain funds for unanticipated needs.
- *Future projects and redevelopment activities* - to reflect management's intent to expend certain funds approved for capital projects in prior year's but not yet completed.

The unreserved governmental fund balance designations at June 30, 2004 are composed of the

# City of San José

## Notes to Basic Financial Statements

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following (in thousands):

	General Fund	Redevelopment Agency	Housing Activities	Special Assessment Districts	Civic Center	Nonmajor Funds	Total
Unreserved, designated for:							
Future projects	\$ 85,146	-	-	29,466	26,821	276,723	418,156
Contingencies	68,611	-	-	-	-	-	68,611
Redevelopment activities	-	144,107	-	-	-	-	144,107
Undesignated	-	-	(1,245)	-	-	-	(1,245)
Total unreserved fund balances							
fund balances	\$ 153,757	144,107	(1,245)	29,466	26,821	276,723	629,629

### 15. Property Taxes

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

The County assesses property values, levies, bills, and collects the related property taxes as follows:

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

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

General property taxes are based either on a flat 1% rate applied to the fiscal 1976 full value of the property or on 1% of the sales price of the property on sales transactions and construction that occur after the fiscal 1976 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise at a maximum of 2% per year depending on increases in the consumer price index.

The City's net assessed valuation for the year ended June 30, 2004, was approximately \$90,040,619,000, an increase of approximately 4% over the previous year. The tax rate was approximately \$0.181 per \$100 of assessed valuation, which included the 1% basic levy and additional levies for general obligation bonds Measures "O" and "P".

### 16. Wastewater Treatment System

The Wastewater Treatment System is an enterprise of the City and is comprised of the Water Pollution Control Plant (the Plant), South Bay Water Recycling, the Clean Water Financing Authority, and the San José Sewage Collection System.

The Plant provides wastewater treatment services to the City of San José and to seven other sewage collection agencies. The Clean Water Financing Authority was established to provide financing for the capital programs of the Plant and the regional water reclamation program. The

# City of San José

## Notes to Basic Financial Statements

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City's sewer service rates pay for the City's share of the Plant operations, maintenance, administration and capital costs.

In 1959, the City and the City of Santa Clara entered into an agreement to jointly own and operate the Plant. Under the agreement, the City of San José serves as the administering agency and is responsible for operating and maintaining the Plant. The cities own an undivided interest in the Plant and 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. Such percentages are determined annually and applied to the capital and operating costs of the funds, determined on an accrual basis.

For the year ended June 30, 2004, the City's portion was approximately 80% and, based on operations through the year ended June 30, 2004, the City's interest in the net assets of the Plant is approximately 80%.

### **17. Use of Estimates**

A number of estimates and assumptions relating to the reporting of revenues, expenditures/expenses, assets and liabilities, 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.

## **II. Stewardship, Compliance, and Accountability**

### **A. Deficit Fund Balances**

The nonmajor capital project Fiber Optics Development fund and the Civic Center Improvement fund reported deficit fund balances of \$2,358,000 and \$1,014,000 respectively. The Fiber Optic fund deficits will be eliminated with future lease revenues. The Civic Center Improvement fund deficit will be eliminated from commercial paper proceeds in fiscal year 2005. The nonmajor Convention and Cultural Facilities fund also reported a deficit fund balance of \$544,000. It is anticipated this deficit will be eliminated with future operating transfers from the General Fund.

## **III. Detailed Notes on All Funds**

### **A. Cash and Investments**

**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 statement of net assets as "Equity in pooled cash and investments held in City Treasury."

The City Council adopted an investment policy on April 2, 1985, as amended on March 23, 2004, related to the City's cash and investment pool which is subject to annual review. The policy permits investments in obligations of the U.S. government, commercial paper of domestic corporations with assets in excess of \$500,000,000 and the highest ranking or with the highest letter and number rating as provided for by Standard and Poor's, Moody's Investors Service or Fitch, bankers' acceptances, negotiable certificates of deposit, insured time deposits, uninsured time deposits of City area banks rated "B" or better by Fitch, repurchase agreements, reverse repurchase agreements, money market mutual funds, the State of California Local Agency Investment Fund, and medium-term U.S. corporation notes. Guaranteed investment contracts may be used for the investment of bond proceeds in accordance with the permitted investment provisions of the specific bond indentures.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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Reverse repurchase agreements under the City's investment 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.

No more than 5% of the total portfolio can be invested in instruments of any single institution other than securities issued by the U.S. government and its affiliated agencies.

The City has the ability and generally has the intention to hold all investments until their respective maturity dates. The average maturity of the City's pooled cash and investments as of June 30, 2004, was approximately 15 months. If it becomes necessary or strategically prudent for the City to sell a security prior to maturity, the investment policy allows for occasional restructuring of the portfolio to minimize the loss of market value and/or to maximize cash flows.

In order to protect against sudden declines in fair value, the investment policy requires that securities used as collateral for all repurchase agreements have a market value of no less than 102% of the face value of the securities. The City Treasurer monitors compliance with this policy daily.

The City's investment 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 investment policy and applicable City, State and Federal laws. Whenever a deviation from this policy is made, it must be reported to the City Manager and the City Council within one business day. No deviations from the City's policy occurred during fiscal 2004.

Other deposits and investments outside the City Treasury are invested pursuant to governing bond covenants, San José Municipal Code or California Government Code provisions. The following provides a brief description of the nature of these investments.

**Pension Trust Funds.** The Retirement Systems' funds are invested pursuant to policy guidelines established by the Retirement Systems' Boards. The objective of the 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. As of June 30, 2004, the Retirement Systems had no investments in any one organization that represented 5% or more of plan net assets.

**Other Investments.** Other 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.

### **1. Deposits and Investments**

Total City deposits and investments, at fair value, are as follows (in thousands of dollars):

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

	Governmental Activities	Business-type Activities	Fiduciary Funds			Carrying Value
			Private-Purpose Trust	Pension Trust	Agency	
Equity in pooled cash and investments	\$ 670,214	367,435	13	-	4,442	1,042,104
Other cash and investments	99,055	-	32	-	-	99,087
Restricted investments:						
Equity in pooled cash and investments	74,509	262,639	-	-	-	337,148
Other cash and investments	367,324	115,371	-	-	-	482,695
Investment in retirement plans	-	-	-	3,737,399	-	3,737,399
Total deposits and investments	\$ 1,211,102	745,445	45	3,737,399	4,442	5,698,433
Deposits						37,924
Investments						5,660,509
Total deposits and investments						\$ 5,698,433

The City entered into several repurchase agreements during the year ended June 30, 2004. However, at year-end, there were no outstanding, unfulfilled agreements.

### 2. Deposits

As of June 30, 2004 the carrying amount of the City's deposits was \$37,924,000, and the bank balance was \$62,648,000. The difference between the carrying amount and bank balance relates to outstanding checks and wire transfers issued against the general operating account. Of the bank balance, \$484,000 was covered by federal depository insurance and \$62,164,000 was uninsured. The uninsured deposits of \$62,164,000 are held by financial institutions which are legally required by the California Government Code to collateralize the City's deposits by pledging government securities or first trust deed mortgage notes. The market value of the pledged government securities and first trust deed mortgage notes 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.

### 3. Investments

The City's investments that are represented by specific identifiable investment securities are categorized by level of custodial credit risk (the risk that a counterparty to an investment transaction will not fulfill its obligation). Category 1, the lowest risk, includes investments that are insured or registered or for which securities are held by the City or its agent in the City's name. Category 2 includes investments that are uninsured and unregistered with securities held by a counterparty's trust department or agent in the City's name. Category 3, the highest risk, includes investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in the City's name. At June 30, 2004, the City did not hold any category 3 investments.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

The City's investments by category as of June 30, 2004, are as follows (in thousands of dollars):

Type of Investment	Category		Non	Carrying
	1	2	Categorized	Value
Pooled investments in the City Treasury:				
U.S. Treasury bills	\$ 290	-	-	290
U.S. Treasury notes and bonds	79,852	-	-	79,852
U.S. Government securities	846,000	-	-	846,000
Bankers' acceptances	8,922	-	-	8,922
Commercial paper	95,662	-	-	95,662
Money market mutual funds	-	-	5,104	5,104
Local agency investment fund	-	-	362,341	362,341
Total pooled investments in the City Treasury	1,030,726	-	367,445	1,398,171
Retirement Systems:				
U.S. Treasury notes and bonds:				
Not on securities loan	95,348	-	-	95,348
Loaned securities for non cash collateral	12,162	-	-	12,162
U.S. Government securities	371,194	-	-	371,194
Foreign government bonds	166,703	-	-	166,703
Domestic corporate bonds:				
Not on securities loan	248,597	-	-	248,597
Loaned securities for non cash collateral	4,411	-	-	4,411
Foreign corporate bonds	57,702	-	-	57,702
Domestic equity securities	1,243,040	-	-	1,243,040
Foreign equity securities:				
Not on securities loan	617,075	-	-	617,075
Loaned securities for non cash collateral	2,024	-	-	2,024
State and local obligations	1,711	-	-	1,711
Investments held by broker-dealer under securities loans for:				
U.S. Treasury notes and bonds	-	-	80,036	80,036
U.S. Government securities	-	-	18,568	18,568
Foreign government bonds	-	-	2,535	2,535
Domestic corporate bonds	-	-	107,008	107,008
Domestic equity securities	-	-	75,364	75,364
Foreign corporate bonds	-	-	1,010	1,010
Foreign equity securities	-	-	35,310	35,310
Short-term foreign currency investments	-	-	(538)	(538)
Collective short-term investment fund	-	-	101,017	101,017
Real estate	-	-	165,307	165,307
Investments in lending agents' short-term investment pool	-	-	331,815	331,815
Total investments in retirement plans	2,819,967	-	917,432	3,737,399
Other funds:				
U.S. Treasury bills	-	3,545	-	3,545
U.S. Treasury notes and bonds	-	18,553	-	18,553
U.S. Government securities	-	35,714	-	35,714
Money market mutual funds	-	-	184,746	184,746
Guaranteed investment contracts	-	-	43,373	43,373
Investment in refunding and special assessment bonds	-	-	3,252	3,252
Local agency investment fund	-	-	235,756	235,756
Total other funds	-	57,812	467,127	524,939
Total investments	\$ 3,850,693	57,812	1,752,004	5,660,509

## City of San José

### Notes to Basic Financial Statements

June 30, 2004

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Included in "Restricted assets: Other investments" in the governmental funds are \$2,815,000 of the City's 1994 Consolidated Refunding Bond Series 24M with interest rates ranging from 5.59% to 6.0% and maturing in September 2007 and \$437,000 of the City's Seismic Resistance Improvement Series 24K Special Assessment Bonds with interest rates of 8.50% and maturing in September 2013. The carrying amount of these two investments was \$3,252,000, including unamortized discount of \$125,000, as of June 30, 2004.

The Local Investment Advisory Board (Board) has oversight responsibility for the State of California's Local Agency Investment Fund (LAIF). The Board consists of five members as designated by state statute. The value of the pool shares in LAIF that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the City's position in the pool.

As of June 30, 2004, the City's investment in LAIF is \$598,097,000. The total amount recorded by all public agencies in LAIF at that date is \$57,601,000,000. Of that amount, 98% is invested in non-derivative financial products and 2% in structured notes and asset backed securities.

In return for loaned securities, the Retirement Systems receives collateral in the form of cash or securities at 102% to 107% of the principal plus accrued interest for reinvestment. Securities lent at year-end for cash collateral are presented as noncategorized in the preceding categorization of the Retirement Systems' investments; securities lent for noncash collateral are categorized according to the category of related collateral.

Securities lending collateral represents investments in an investment pool purchased with cash collateral, as well as securities collateral that the Retirement Systems may pledge or sell without a borrower default, are not reported as assets and liabilities in the fiduciary statement of net assets. The Retirement Systems do not match the maturities of cash collateral with the securities on loan.

As of June 30, 2004, the underlying securities loaned out for the Retirement Systems as a whole amounted to approximately \$338,428,000. The cash collateral and the noncash collateral as a whole totaled approximately \$331,815,000 and \$19,134,000, respectively. The Retirement Systems have no exposure to credit risk related to the securities lending transactions as of June 30, 2004.

The collective short-term investment fund is used for overnight investment of all excess cash in the Retirement Systems' funds. It is invested by the Retirement System custodians, and held in the Retirement System custodians' names. This fund consists of:

- Short-term fixed obligations of the U.S. government or any federal agency, or of other issuers that are fully guaranteed by the U.S. government or a federal agency as to repayment of principal and the payment of interest;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and
- Fully insured bank deposits.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### B. Receivables, Net of Allowances

Receivables at year-end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows (in thousands of dollars):

Receivables – Governmental Activities:	General Fund	Redevelopment Agency	Housing Activities	Special Assessment Districts	Nonmajor Funds	Total Governmental Activities
Taxes	\$ 33,739	-	-	2	7,515	41,256
Accrued interest	1,927	293	1,185	180	3,139	6,724
Grants	785	-	772	-	8,215	9,772
Special assessments	-	204	-	85,263	-	85,467
Other	22,573	1,212	154	61	8,875	32,875
Less: allowance for uncollectibles	(8,232)	(8)	-	(3)	(609)	(8,852)
Total receivables, net	\$ 50,792	1,701	2,111	85,503	27,135	167,242

Business-Type Activities:	Norman Y. Mineta San José International Airport	Wastewater Treatment System	Municipal Water System	Parking System	Total Business-Type Activities
Accounts	\$ 8,076	2,983	2,520	531	14,110
Accrued interest	1,108	1,297	86	98	2,589
Grants	2,178	2,688	-	-	4,866
Less: allowance for uncollectibles	(449)	(327)	(12)	(8)	(796)
Total receivables, net	\$ 10,913	6,641	2,594	621	20,769

### C. Loans Receivable

The composition of the City's loans receivable as of June 30, 2004 is as follows (in thousands of dollars):

Type of Loan	General Fund	Redevelopment Agency	Housing Activities	Nonmajor Funds	Total Governmental Activities
20% Housing Program Developer, rehabilitation, second mortgage and relocation loans	\$ -	4,548	402,726	-	407,274
Loans funded by federal grants	-	3,227	27,266	-	30,493
Economic development, real estate developer and other loans	2,650	31,501	74	13,531	47,756
Less: allowance	-	(3,446)	(222,988)	(3,174)	(229,608)
Total loans, net	\$ 2,650	35,830	207,078	10,357	255,915

California Community Redevelopment Law requires that at least 20% of the incremental tax revenues generated from redevelopment project areas be used to increase, improve, and preserve the affordable housing stock for families and individuals with very low, low, and moderate incomes. In response to this requirement, the City established its 20% Housing Program to offer financial assistance to qualified developers, families, and individuals by providing loans at "below market" rates.

## City of San José

### Notes to Basic Financial Statements

June 30, 2004

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Typical loans and related terms are summarized as follows:

<u>Loan Type</u>	<u>Interest Rate</u>	<u>Due</u>
New construction	0 - 4%	up to 55 years
Multi-unit rental rehabilitation	3%	5 or more years
Take-out (first time homeowners)	4%	7 to 40 years
Home improvement	3 - 6%	1 to 30 years

Loans are secured by first, second, or third deeds of trust except for take-out loans, which are all secured by second deeds of trust. Interest and principal are typically due in installments, except for take-out loans, which do not require payments until their due date.

The City has also invested in multi-family rental housing projects serving low to moderate income individuals through subordinate loans with terms of up to 40 years. Generally, these loans are to be repaid through fixed payments or net cash flow from project operations, and the term and potential risk of each loan is different. Because of the net cash flow feature of these second mortgages, earnings and repayments are not as definite as with other loans receivable. There is greater risk of variability in the timing of payments and, potentially, a lower probability of eventual repayment on these second mortgage loans than on other loans.

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 with amortizing and 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 through charges to the allowance and any subsequent recoveries are added to 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 20% Housing Program loans receivable as of June 30, 2004.

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, 2004. These commitments involve elements of credit and interest rate risk similar to those described above for outstanding loans

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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receivable. As of June 30, 2004, amounts committed to extend credit under normal lending agreements totaled approximately \$7,413,000.

### **D. Capital Assets**

#### ***1. Summary Schedule***

The following is a summary of capital assets activity for the fiscal year ended June 30, 2004 (in thousands):

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

	Balance June 30, 2003	Additions	Deletions	Transfers	Balance June 30, 2004
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 480,729	29,692	26,731	(9,430)	474,260
Construction in progress	356,265	237,122	2,339	(99,633)	491,415
Total capital assets, not being depreciated	836,994	266,814	29,070	(109,063)	965,675
Capital assets, being depreciated:					
Buildings	526,465	2,183	-	45,673	574,321
Improvements, other than buildings	34,407	-	-	4,365	38,772
Infrastructure	10,991,415	27,202	-	2,974	11,021,591
Vehicles and equipment	86,993	4,556	3,580	-	87,969
Property under capital leases	13,379	-	-	-	13,379
Total capital assets, being depreciated	11,652,659	33,941	3,580	53,012	11,736,032
Less accumulated depreciation for:					
Buildings	151,017	15,983	-	-	167,000
Improvements, other than buildings	5,495	1,759	-	-	7,254
Infrastructure	3,827,289	296,584	-	-	4,123,873
Vehicles and equipment	65,030	9,861	3,455	-	71,436
Property under capital leases	10,749	311	-	-	11,060
Total accumulated depreciation	4,059,580	324,498	3,455	-	4,380,623
Total capital assets, being depreciated, net	7,593,079	(290,557)	125	53,012	7,355,409
Governmental activities capital assets, net	\$ 8,430,073	(23,743)	29,195	(56,051)	8,321,084
<b>Business-type Activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 117,211	4	-	9,430	126,645
Construction in progress	86,448	84,023	-	(44,146)	126,325
Total capital assets, not being depreciated	203,659	84,027	-	(34,716)	252,970
Capital assets, being depreciated:					
Buildings	558,840	1,881	-	56,993	617,714
Improvements, other than buildings	655,384	30,229	-	33,653	719,266
Vehicles and equipment	31,041	1,226	87	121	32,301
Intangible assets	15,188	-	-	-	15,188
Property under capital leases	13,406	-	-	-	13,406
Total capital assets, being depreciated	1,273,859	33,336	87	90,767	1,397,875
Less accumulated depreciation for:					
Buildings	235,490	18,838	-	-	254,328
Improvements, other than buildings	251,781	17,733	-	-	269,514
Vehicles and equipment	23,146	1,732	83	-	24,795
Intangible assets	5,961	324	-	-	6,285
Property under capital leases	7,878	455	-	-	8,333
Total accumulated depreciation	524,256	39,082	83	-	563,255
Total capital assets, being depreciated, net	749,603	(5,746)	4	90,767	834,620
Business-type activities capital assets, net	\$ 953,262	78,281	4	56,051	1,087,590

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 2. Depreciation

Depreciation expense was charged to functions/programs of the City as follows (in thousands):

#### Governmental activities:

General government	\$	6,464
Public safety		1,931
Capital maintenance		298,164
Community services		17,923
Sanitation		16
Total depreciation expense governmental activities	\$	<u>324,498</u>

#### Business-type activities:

Norman Y. Mineta San José International Airport	\$	17,066
Wastewater Treatment System		17,674
Municipal Water System		2,100
Parking System		2,242
Total depreciation expense business-type activities	\$	<u>39,082</u>

### 3. Intangible Assets

Intangible assets consist primarily of the Airport's acquisition of certain habitational rights and navigation/relocation easements made in accordance with its land acquisition program under the California Noise Reduction Act. All costs associated with such acquisitions have been capitalized as intangible assets. Amortization of such intangible assets is calculated using the straight-line method over a 40 year estimated useful life.

### 4. Capitalized Interest

Interest costs that related to the acquisition of buildings and improvements and equipment acquired with tax-exempt debt are capitalized for business-type activities. The amount of interest to be capitalized is calculated by off-setting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested debt proceeds over the same period. Capitalized interest cost is prorated to completed projects based on the completion date of each project. For the year ended June 30, 2004, the total amount of interest capitalized in the Airport Enterprise Fund, net of allowable interest earned of temporary investment proceeds, was \$6,684,000.

### 5. Construction Commitments

Commitments outstanding as of June 30, 2004, related to governmental and business-type activities construction in progress totaled approximately \$203,157,000 and \$125,655,000, respectively.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### E. Leases

#### 1. Governmental Activities

**General Fund.** In October 1991, the City entered into a 15-year agreement with the San José Arena Management Corporation (the Manager), an unrelated entity, regarding the management, operations, and maintenance of the San José Arena, and use of the San José Arena by the San José Sharks, a franchise of the National Hockey League. The Manager is required to pay the City an annual payment of \$500,000 in each of the first 6 years of the agreement. The annual payment increases by \$100,000 each year in years 7 through 10 and totals \$1,000,000 annually in years 11 through 15. Additionally, the City will receive a portion of luxury box suite revenue beginning in year 4 and may receive a portion of hockey ticket sales revenues in years 11 through 15. Fiscal year 2004 was year 11 of the lease for which the City received approximately \$4,149,000.

**Lease Commitments.** The City has commitments under various operating lease agreements for business equipment, office facilities and land necessary for City operations which expire at various dates through 2019. Various governmental funds include expenditures related to such lease agreements. The lease agreements are cancelable by the City at any time. Annual rent in fiscal 2004 for such operating leases for the General Fund and the Redevelopment Agency Fund was approximately \$6,000,000 and \$4,119,000, respectively. In addition, the City is party to a master equipment capital program and is authorized up to \$15,000,000 for various equipment and properties, the terms of which extend through the year 2005. The assets and related obligations for capital lease agreements are recorded in the government-wide financial statements.

The following is a schedule, by year, of future minimum rental payments required under several noncancelable operating and capital leases as of June 30, 2004 (in thousands):

Fiscal Year Ending June 30,	General Fund		Redevelopment Agency		
	Operating Leases	Capital Leases	Minimum Payment Operating Leases	Income from Subleases	Net Minimum Payments
2005	\$ 5,075	17	3,554	(301)	3,253
2006	2,778	-	1,699	(98)	1,601
2007	1,301	-	782	-	782
2008	1,134	-	605	-	605
2009	1,124	-	556	-	556
2010-2014	-	-	2,987	-	2,987
2015-2019	-	-	3,463	-	3,463
Future minimum payments	\$ 11,412	17	13,646	(399)	13,247

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 2. Business-Type Activities

**Lease Commitments.** The Airport is served by 15 major commercial airlines under terms and conditions that provide the airlines with the right to use the Airport's facilities, equipment, improvements and services, and to occupy certain premises and facilities. Of these airlines, 9 operate under long-term lease agreements, while the 6 remaining airlines operate on a month-to-month basis. Such long-term lease agreements incorporate a "residual cost methodology," as called for under the Master Lease Agreements, whereby landing fees and terminal rents are set such that, over time, the Airport's total revenues equal total expenses, including debt service requirements and certain budgeted capital items, as well as estimated maintenance and operation expenses, but excluding depreciation.

As provided in the Master Lease Agreements, actual year-end surplus, as defined, can be used to lower or stabilize airline rates in future fiscal years. For the year ended June 30, 2004, the Airport's actual revenues exceeded its expenses and reserve requirements by approximately \$26,264,000. The surplus for 2004 will be credited to the airlines as a reduction of future rates and charges.

The Airport 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. The terms of these operating leases range from 1 month to 34 years. The leases with concessionaires are generally based on the greater of a percentage of their sales or a minimum annual guaranteed amount.

The future minimum rentals to be received from the aforementioned operating leases as of June 30, 2004, are as follows (in thousands):

#### Fiscal Year Ending June 30,

2005	\$	23,150
2006		14,416
2007		13,957
2008		8,386
2009		4,716
2010-2014		15,274
2015-2019		10,111
2020-2024		7,717
2025-2028		7,448
2030-2034		5,335
2035-2038		3,824
Future minimum lease rentals	\$	<u>114,334</u>

These future minimum rentals are based upon annual rates and charges agreed to by the airlines and other tenants. In addition to the future minimum rentals disclosed above, the Airport expects to receive approximately \$12,536,000 from month-to-month rentals in fiscal 2005.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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In June 1998, the Airport entered into an operating lease agreement for the rental of office space. The lease, which commenced on December 1, 1998, is for a period of seven years, with an option to extend for one additional period of three years. In November 2000, the operating lease agreement was amended to include additional office space. The amendment to the lease commenced on November 15, 2000, with the same terms as the original lease. In June 2003, the operating agreement was again amended to extend the term through December 2009. The amended agreement also decreased the rate for the current space and increased the leased space effective December 1, 2003. In July 2003, the Airport entered into a sublease agreement for the rental of additional office space. The lease commenced on August 1, 2003, and will expire on January 31, 2009. Rental expenses for the office space was \$2,771,000 for the fiscal year ended June 30, 2004.

The future minimum lease payments anticipated under the existing lease commitments as of June 30, 2004, are as follows (in thousands):

<u>Fiscal Year Ending June 30,</u>	<u>Operating Leases</u>
2005	\$ 3,084
2006	3,090
2007	2,901
2008	2,745
2009	3,024
2010	<u>1,548</u>
Total minimum lease payments	<u>\$ 16,392</u>

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 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, 2004 (in thousands):

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (millions)	Balance, June 30, 2004
<b>Governmental Activities:</b>							
City of San Jose:							
General Obligation Bonds:							
Series 2001 (Libraries and Parks)	Community Facilities	\$ 71,000	06/01/2001	09/01/2031	4.25-5.125%	2.37	\$ 66,260
Series 2002 (Libraries, Parks, Public Safety)	Community Facilities	116,090	07/18/2002	09/01/2032	3.00-5.00%	3.87	112,220
							<u>178,480</u>
City of San Jose Financing Authority:							
Lease Revenue Bonds:							
Series 1993B (Community Facilities)	Community Facilities	18,045	03/01/1993	11/15/2018	5.40-6.00%	0.81-1.11	11,513
Series 1997A (Golf Course Project)	Community Facilities	6,875	07/01/1997	08/15/2027	5.30-5.60%	0.13-0.46	6,395
Series 1997B (Fire, Childcare, Library Land)	Community Facilities	9,805	07/01/1997	08/01/2012	4.35-4.875%	0.36-1.07	5,395
Series 2000B (Tuers-Capitol/Camden)	Golf Course/Refunding	22,635	08/08/2000	08/15/2030	4.70-5.50%	0.14-1.67	22,245
Series 2000C (Taxable) (Ice Centre)	Refunding	22,200	12/13/2000	12/01/2021	Variable	0.75-2.05	22,200
Series 2001B (Taxable) (Hayes Mansion)	Conference Center	24,000	02/14/2001	07/01/2024	Variable	0.10-2.20	24,000
Series 2001C (Taxable) (Hayes Mansion)	Conference Center	18,500	02/14/2001	07/01/2024	Variable	0.10-1.70	18,500
Series 2001D (Hayes Mansion)	Conference Center	10,800	02/14/2001	07/01/2026	Variable	1.80-4.60	10,800
Series 2001E (Communication Center)	Refunding	18,610	03/01/2001	05/01/2010	4.00-5.00%	1.78-4.04	13,720
Series 2002B (Civic Center Project)	Civic Center	292,425	11/14/2002	06/01/2037	3.00-5.25%	0.14-33.45	292,425
Series 2002C (Civic Center Project)	Civic Center	60,000	11/14/2002	06/01/2039	Variable	17.10-21.79	60,000
Series 2002D (Civic Center Project)	Civic Center	60,000	11/14/2002	06/01/2039	Variable	17.10-21.78	60,000
Series 2003A (Central Service Yard)	Refunding	22,625	09/18/2003	10/15/2023	3.00-4.70%	0.75-1.61	22,625
Series 2004A (Taxable) (Ice Centre)	Ice Centre	9,225	06/03/2004	12/01/2024	Variable	2.05-2.55	9,225
							<u>579,043</u>
Reassessment Revenue Bonds							
Series 1994A	Consolidated Refunding	16,680	06/23/1994	09/02/2005	5.40%	0.28-1.13	1,405
Series 1994B (Subordinate)	Consolidated Refunding	8,035	06/23/1994	09/02/2007	6.00%	0.18-0.52	1,530
							<u>2,935</u>
Special Assessment Bonds with Limited Governmental Commitment:							
Special Assessment Bonds:							
Series 24C (Evergreen Creek)	Public Infrastructure	1,080	09/07/1988	09/02/2009	8.10-8.20%	0.07-0.10	505
Series 24H (Hellyer-Fontanoso)	Refunding	8,560	04/15/1992	09/02/2004	7.00%	1.04	1,035
Series 24K (Seismic Retrofit)	Seismic Retrofit	823	06/29/1993	09/02/2013	8.50%	0.03-0.07	437
Series 24M (Consolidated Refunding)	Consolidated Refunding	22,240	06/01/1994	09/02/2007	5.59-6.00%	0.39-1.67	2,940
Series 24Q (Hellyer-Piercy)	Public Infrastructure	27,595	06/02/2001	09/02/2023	4.80-5.88%	0.77-2.05	25,765
Series 24R (2002 Consolidated Refunding)	Consolidated Refunding	13,940	07/03/2002	09/02/2015	1.90-4.375%	0.98-1.24	12,965
Special Tax Bonds:							
CFD No. 1 (Capitol Expressway Auto Mall)	Public Infrastructure	4,100	11/18/1997	11/01/2022	4.80-5.70%	0.12-0.30	3,600
CFD No. 6 (Great Oaks-Route 85)	Public Infrastructure	12,200	12/18/2001	09/01/2003	4.50-6.00%	0.37-0.97	12,200
CFD No. 9 (Bailey/Highway 101)	Public Infrastructure	13,560	02/13/2003	09/01/2032	2.70-6.65%	0.21-0.95	13,195
CFD No. 10 (Hassler-Silver Creek)	Public Infrastructure	12,500	07/23/2003	09/01/2023	3.30-5.25%	0.37-0.94	12,500
							<u>85,142</u>

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

	Purpose	Issue Amount	Issue Date	Final Maturity	Range of Interest Rates	Principal Payments (millions)	Balance, June 30, 2004
<b>Governmental Activities (continued):</b>							
Redevelopment Agency:							
Tax Allocation Bonds:							
Series 1993 (Merged Area Refunding)	Advance Refundings	\$ 692,075	12/15/1993	02/01/2024	4.75-6.00%	5.84-42.41	\$ 323,175
Series 1997 (Merged Area)	Redevelopment Projects	106,000	03/27/1997	08/01/2028	5.375-5.625%	0.16-8.49	85,780
Series 1998 (Merged Area)	Redevelopment Projects	175,000	03/19/1998	08/01/2029	5.00-5.25%	1.23-31.35	169,545
Series 1999 (Merged Area)	Redevelopment Projects	240,000	01/06/1999	08/01/2031	4.75-5.00%	3.87-23.60	225,985
Series 2002 (Merged Area)	Redevelopment Projects	350,000	01/24/2002	08/01/2032	3.00-5.00%	7.14-29.89	309,225
Series 2003 (Merged Area)	Redevelopment Projects	135,000	12/22/2003	08/01/2033	3.00-5.00%	0.73-34.10	129,010
Series 2004A (Merged Area)	Refunding	281,985	05/27/2004	08/01/2019	2.00-5.25%	0.54-31.90	281,985
							<u>1,524,705</u>
Revenue Bonds (Subordinate):							
Series 1996A (Merged Area)	Redevelopment Projects	29,500	06/27/1996	07/01/2026	Variable	0.70-2.00	29,500
Series 1996B (Merged Area)	Redevelopment Projects	29,500	06/27/1996	07/01/2026	Variable	0.70-2.00	29,500
Series 2003A (Taxable) (Merged Area)	Redevelopment Projects	45,000	08/27/2003	08/01/2028	Variable	45.00	45,000
Series 2003B (Merged Area)	Redevelopment Projects	15,000	08/27/2003	08/01/2032	Variable	15.00	15,000
							<u>119,000</u>
City of San Jose Financing Authority Revenue Bonds (Subordinate):							
Series 2001A (4th & San Fernando)	Parking Facility	48,675	04/10/2001	09/01/2026	3.80-5.25%	1.23-3.21	46,370
Series 2001F (Convention Center)	Refunding	186,150	07/01/2001	09/01/2022	4.00-5.00%	4.54-14.73	181,390
							<u>227,760</u>
HUD Section 108 Note	Redevelopment Projects	5,200	02/11/1997	08/01/2016	Variable	Various	4,125
Housing Set-Aside Tax Allocation Bonds:							
Series 1993D (Merged Area)	Affordable Housing	10,525	12/01/1993	08/01/2024	5.75%	0.88-2.36	10,525
Series 1997E (Merged Area)	Affordable Housing	17,045	06/23/1997	08/01/2027	5.75-5.85%	0.34-3.67	17,045
Series 2000F (Merged Area)	Affordable Housing	44,205	12/13/2000	08/01/2030	7.70-7.80%	1.11-4.24	44,205
Series 2002G (Merged Area)	Affordable Housing	35,000	05/29/2002	08/01/2029	Variable	1.00-3.40	35,000
Series 2002H (Merged Area)	Affordable Housing	35,000	05/29/2002	08/01/2029	Variable	1.00-3.40	35,000
Series 2003J (Merged Area)	Afford. Housing/Refunding	55,265	07/10/2003	08/01/2024	2.00-5.25%	2.02-3.51	55,265
Series 2003K (Merged Area)	Afford. Housing/Refunding	13,735	07/10/2003	08/01/2029	2.00-4.40%	0.23-1.07	13,735
							<u>210,775</u>
Total Governmental Activities - Bonds, Certificates of Participation and Notes Payable							<u>\$ 2,931,965</u>
<b>Business-type Activities:</b>							
Norman Y. Mineta San Jose International Airport:							
Revenue Bonds:							
Series 1994	Refunding	\$ 19,345	01/25/1994	03/01/2007	5.875%	1.76-1.83	\$ 5,380
Series 1998A	Refunding	14,015	01/27/1998	03/01/2018	4.20-4.75%	0.57-1.09	11,140
Series 2001A	Runway Construction	158,455	08/14/2001	03/01/2031	3.05-5.25%	3.11-10.06	155,435
Series 2002A	Refunding	53,600	01/09/2003	03/01/2018	4.00-5.375%	4.46-9.29	53,600
Series 2002B	Refunding	37,945	01/09/2003	03/01/2012	3.00-5.00%	2.38-6.55	36,945
Series 2004A (AMT)	Airport Facilities	70,000	06/24/2004	06/01/2034	Variable	7.58-16.05	70,000
Series 2004B (AMT)	Airport Facilities	70,000	06/24/2004	06/01/2034	Variable	7.58-16.05	70,000
Series 2004C (AMT)	Airport Facilities	75,730	06/24/2004	03/01/2026	4.625-5.25%	1.00-10.59	75,730
Series 2004D	Airport Facilities	34,270	06/24/2004	03/01/2028	5.00%	9.96-12.56	34,270
							<u>512,500</u>
Clean Water Financing Authority:							
Revenue Bonds:							
Series 1995A	Wastewater Facilities	68,820	11/30/1995	11/15/2020	4.70-5.375%	1.79-8.38	67,120
Series 1995B	Wastewater Facilities	26,700	11/30/1995	11/15/2011	Variable	3.90-5.00	26,700
Series 1995C	Refunding	12,230	11/01/1995	11/15/2004	4.70%	1.93	1,925
							<u>95,745</u>
State of California - Revolving Fund Loan	Wastewater Facilities	73,566	Various	Various	Various	3.44	56,099
Total Business-type Activities - Bonds and Loan Payable							<u>\$ 664,344</u>

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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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.

### **3. Legal Debt Limit and Margin**

The City's legal debt limit and debt margin (as defined by Section 1216 of the City Charter) as of June 30, 2004, are approximately \$13,862,178,000 and \$13,683,698,000, respectively. In accordance with the California Community Redevelopment Law, the Redevelopment Agency establishes its own legal debt limit, based primarily on the aggregate of all future projected tax increment revenues from existing redevelopment areas. The amount of the Redevelopment Agency's legal debt limit as of June 30, 2004, is approximately \$7,600,000,000.

### **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 rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. During the current year, the City performed calculations of excess investment earnings on various bonds and financings. Liabilities were calculated for the issues listed above. However, the five-year reporting period has not yet occurred and therefore the amount calculated has been recorded as a liability to the IRS. The rebate amount is recorded as a liability in the Governmental Activities column of the government-wide statements in the amount of \$143,000.

### **5. Special Assessment Bonds with Limited City Commitment**

All obligations of the City under the Special Assessment Bonds are not considered general obligations of the City, but are considered limited obligations, payable solely from the assessments and from the funds pledged therefore under the Paying 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. Notwithstanding any other provision of the Paying Agent Agreement, the City is not obligated to advance available surplus funds from the City Treasury to cure any deficiency in the Redemption Fund; provided, however, the City is not prevented, in its sole discretion, from so advancing funds. As of June 30, 2004, the City has recorded approximately \$85,552,000 of deferred revenue and related special assessments receivables in the Special Assessments Fund. These balances consist primarily of property tax assessments to be collected in the future by the County for the City for debt service.

As of June 30, 2004, there are assessment surpluses of approximately \$2,294,000 that have been declared by the City Council. These are included in advances and deposits on the accompanying statement of net assets and governmental funds balance sheet. Such surpluses will be used to correct construction deficiencies or be returned to the assessment district property owners.

## City of San José

### Notes to Basic Financial Statements

June 30, 2004

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#### **6. Conduit Debt**

The City has outstanding approximately \$527,429,000 of tax exempt multifamily housing revenue bonds due through March 2039. Multifamily housing revenue bonds were issued to provide funds for secured loans to builders of multifamily housing projects. The purpose of the program is to provide needed rental housing for low to moderate-income households. To comply with Internal Revenue Service requirements, the owner is required to set aside 20% of all units built for low-income households. The bonds are payable solely from payments made on the related secured loans.

In October 1993, the Agency served as the conduit issuer of \$11,700,000 Multifamily Housing Revenue Refunding Bonds in connection with the refunding of the 1983 Floating Rate Monthly Demand Multi-Family Housing Revenue Bonds that were used to finance the acquisition and construction of a multifamily rental housing project known as the Colonade Apartments. The Agency has no obligation for these bonds, as they are payable solely from revenues and property pledged to the extent provided in the indenture. As of June 30, 2004, there have been no principal retirements.

In August 1997, the Redevelopment Agency served as the conduit issuer of \$10,595,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance a multifamily rental housing project in the Japantown Redevelopment Project Area. The Redevelopment Agency has no obligation for these bonds as they are secured primarily by fully modified pass-through mortgage-backed securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association. The bonds were issued for the purpose of expanding the community's supply of low to moderate-income housing, and to construct a community center and retail space. The loan is secured on a nonrecourse basis, and is insured by the Federal Housing Authority pursuant to and in accordance with the provisions of Section 221(d)(4) of the National Housing Act and applicable regulations thereunder. At June 30, 2004, the outstanding balance was \$10,237,000.

In April 1998, the Redevelopment Agency served as the conduit issuer of \$38,000,000 in Multifamily Housing Revenue Bonds in order to provide funds for a mortgage loan to finance the acquisition and construction of a multifamily residential project in the Century Center Redevelopment Project Area. The Redevelopment Agency has no obligation for these bonds as they will be payable solely from and secured, to the extent and as provided in the indenture, by a pledge of certain revenues and other amounts to be received by the Redevelopment Agency under the Loan Agreement. The borrower, a developer, has arranged for an initial irrevocable direct pay letter of credit to be issued in favor of the trustee. As of June 30, 2004, there has been no principal retirement.

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 the bonds.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 7. Summary of Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2004, are as follows (in thousands):

	June 30, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Long-term debt payable:					
General Obligation bonds	\$ 184,720	-	(6,240)	178,480	6,240
San Jose Financing Authority					
Lease and Reassessment revenue bonds	575,498	31,850	(28,071)	579,277	6,697
Special Assessment bonds with					
limited governmental commitment	80,543	12,500	(7,901)	85,142	5,599
Add current amounts reported in					
the Special Assessment fund	165	-	(165)	-	-
Redevelopment Agency					
Revenue bonds	291,985	60,000	(5,225)	346,760	7,165
HUD Section 108 notes payable	4,315	-	(190)	4,125	205
Tax allocation bonds	1,605,925	485,985	(356,430)	1,735,480	23,845
Less deferred amounts:					
For refunding	(3,352)	(16,966)	297	(20,021)	-
For issuance premiums	10,265	16,811	(877)	26,199	870
For issuance discounts	(3,898)	(16)	117	(3,797)	116
Total long-term debt payable	2,746,166	590,164	(404,685)	2,931,645	50,737
Accreted interest on capital appreciation bonds	2,602	328	(230)	2,700	378
Loan to Hayes Mansion operator	-	3,200	(292)	2,908	500
Obligations under capital lease	81	-	(64)	17	17
Arbitrage liability	163	-	(20)	143	-
Accrued vacation, sick leave and compensatory time	74,777	38,496	(36,027)	77,246	36,000
Accrued landfill postclosure costs	11,625	-	(465)	11,160	465
Estimated liability for self-insurance	107,134	70,544	(19,324)	158,354	20,000
Net pension obligation	3,177	254	(230)	3,201	254
Governmental activity long-term obligations	\$ 2,945,725	702,986	(461,337)	3,187,374	108,351

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

Debt service payments are made from various sources. General Obligation bonds debt service payments are made from property taxes recorded in the Nonmajor Governmental Funds. Lease Revenue Bonds debt service payments are made from lease rental revenue from "lessee" departments in the General Fund and Nonmajor Funds. Assessment and Reassessment Bonds debt service payments are made from property tax assessments and reassessments recorded in the Special Assessments Fund. Tax Allocation Bonds and Redevelopment Agency Revenue Bonds debt service payments are made from tax increment revenue recorded in the Redevelopment Agency Fund. Other Long-Term Obligations payments are primarily made from general revenue recorded in the General Fund.

	June 30, 2003	Additional Obligations and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
<b>Business-Type Activities:</b>					
Norman Y. Mineta San Jose International Airport:					
Revenue bonds	\$ 268,770	250,000	(6,270)	512,500	8,615
Less deferred amounts:					
For refunding	(7,331)	-	879	(6,452)	(859)
For issuance premiums	6,088	-	(98)	5,990	153
For issuance discounts	(1,414)	(1,415)	38	(2,791)	(40)
Commercial paper notes	6,658	35,069	(35,941)	5,786	5,786
Clean Water Financing Authority:					
Revenue bonds	99,285	-	(3,540)	95,745	3,710
Less deferred amounts:					
For refunding	(144)	-	105	(39)	-
For issuance discounts	(1,546)	-	94	(1,452)	-
State of California - Revolving Fund Loan	59,479	-	(3,380)	56,099	3,476
Accrued vacation, sick leave and compensatory time	6,015	3,888	(3,539)	6,364	6,364
Estimated liability for self-insurance	5,258	5,127	(486)	9,899	2,151
Business-type long-term obligations	\$ 441,118	292,669	(52,138)	681,649	29,356

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in their respective enterprise funds.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 8. Annual Requirements to Maturity

The annual requirements to amortize all bonds, notes, and certificates of participation outstanding as of June 30, 2004, are as follows (in thousands):

Fiscal Year Ending June 30,	Governmental Activities				
	General Obligation Bonds		Lease Revenue Bonds <sup>(1)</sup>		
	Principal	Interest	Principal	Accreted	
				Interest	Interest
2005	\$ 6,240	8,251	6,697	378	24,951
2006	6,240	8,025	5,644	406	24,728
2007	6,240	7,800	6,217	433	24,524
2008	6,240	7,555	5,897	458	24,327
2009	6,240	7,296	6,235	480	24,113
2010-2014	31,190	32,400	34,402	2,118	117,410
2015-2019	31,175	25,224	54,110	-	110,842
2020-2024	31,175	17,473	84,240	-	98,727
2025-2029	31,175	9,618	88,050	-	81,555
2033-2034	22,565	2,092	105,850	-	60,138
2035-2039	-	-	181,935	-	27,599
Total	\$ 178,480	125,734	579,277	4,273	618,914

Fiscal Year Ending June 30,	Governmental Activities			
	Special Assessment Bonds With Limited Government Commitment		Redevelopment Agency <sup>(1)</sup>	
	Principal	Interest	Principal	Interest
2005	\$ 5,599	4,249	31,215	92,094
2006	3,542	4,043	40,200	94,432
2007	3,526	3,898	45,475	92,697
2008	3,685	3,746	48,095	90,496
2009	3,405	3,595	50,755	88,109
2010-2014	18,830	15,542	303,025	400,170
2015-2019	18,685	10,764	395,630	318,304
2020-2024	21,210	5,387	510,025	215,143
2025-2029	3,220	1,704	408,120	107,067
2033-2034	3,440	476	253,825	25,682
Total	\$ 85,142	53,404	2,086,365	1,524,194

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

Fiscal Year Ending June 30,	Business-Type Activities					
	Airport <sup>(1)</sup>		Wastewater Treatment System <sup>(1)</sup>			
	Revenue Bonds		Revenue Bonds		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 8,615	18,260	3,710	3,840	3,441	1,022
2006	8,975	19,760	3,890	3,660	3,504	960
2007	9,365	19,373	3,900	3,546	3,568	896
2008	9,745	19,002	4,100	3,505	3,633	831
2009	11,180	18,561	4,300	3,460	3,699	764
2010-2014	63,320	84,653	25,620	16,091	19,533	2,786
2015-2019	75,635	67,066	33,900	9,139	18,721	939
2020-2024	78,245	47,776	16,325	889	-	-
2025-2029	102,940	25,743	-	-	-	-
2033-2034	144,480	6,546	-	-	-	-
Total	\$ 512,500	326,740	95,745	44,130	56,099	8,198

(1) Projected interest payments for the variable rate series of bonds are based on the following rates in effect on June 30, 2004. Lease Revenue Bonds: Series 2000C (1.34%), Series 2001B (1.14%), Series 2001C (1.35%), Series 2001D (1.00%), Series 2002C (4.30% long rate), Series 2002D (5.00% long rate), Series 2004A (1.30%). Redevelopment Agency Revenue Bonds: Series 1996A (1.04%), Series 1996B (1.03%), Series 2003A (1.34%), 2003B (1.05%), HUD Section 108 Loans (1.51%). Redevelopment Agency Housing Set-Aside Tax Allocation Bonds: Series 2002G (1.37%), Series 2002H (1.35%). Airport Revenue Bonds: Series 2004A (1.10%), Series 2004B (1.28%). Clean Water Financing Authority Revenue Bonds: Series 1995B (1.04%). Each series may be set at different interest rate calculation modes, including daily, weekly, monthly, and long rates.

For governmental and business-type activities, the specific year for payment of estimated liabilities for accrued vacation, sick leave and compensatory time, accrued landfill postclosure cost, estimated liability for self-insurance and for the net pension obligation is not practicable to determine.

### 9. New Debt Issuances and Unused Authorizations

#### Governmental Activities

**Housing Set-Aside Tax Allocation Bonds.** On July 10, 2003, the Redevelopment Agency issued \$55,265,000 of Series 2003J (taxable) and \$13,735,000 of Series 2003K housing set-aside tax allocation bonds (the "Refunding Bonds"). The bond proceeds were used to current refund the Agency's Series 1993A and Series 1993C housing set-aside tax allocation bonds and advance refund the Agency's Series 1993B housing set-aside tax allocation bonds (collectively, the "Refunded Bonds"), repay \$12,635,000 of the existing \$50,000,000 line of credit with Bank of New York and fund additional affordable housing projects (see note IV D2). The Series 2003J bonds bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2024. The Series 2003K bonds bear interest at fixed rates ranging from 2.00% to 4.40%, and have a final maturity date of August 1, 2029.

A refunding escrow, in the amount of \$44,502,000, was funded from a combination of Refunding Bonds net proceeds and cash remaining in the debt service funds of the Refunded Bonds. The refunding escrow, deposited in an irrevocable trust with an escrow agent, provided for the principal, call premium and accrued interest through the date of redemption for each series of Refunded Bonds. The Series 1993A and Series 1993B Bonds were redeemed on August 1, 2003, and the Series 1993C Bonds were redeemed on February 1, 2004. The Refunded Bonds have been

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

removed from the City's basic financial statements.

Although the refunding resulted in the accounting recognition of a deferred loss of \$3,032,000 for the fiscal year ending June 30, 2004, the refunding achieved economic savings in the following amounts (in thousands) over the next 18 years.

	Series 1993A	Series 1993B	Series 1993C
Aggregate Debt Service Savings (net of available funds)	\$1,001	\$1,812	\$2,406
Net Present Value (NPV) Debt Service Savings	\$1,447	\$1,079	\$2,664
NPV Savings as a % of Refunded Principal	11.03%	13.78%	13.20%

**City of San José CFD No. 10 (Hassler – Silver Creek), Special Tax Bonds, Series 2003.** On July 23, 2003, the City issued \$12,500,000 of special tax bonds to finance the acquisition of certain roadway improvements necessitated by development in the Silver Creek area. The bonds are secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 10 ("CFD No. 10"). The CFD No. 10 bonds bear interest at fixed rates ranging from 3.30% to 5.25%, and have a final maturity date of September 1, 2023.

**Redevelopment Agency of the City of San José Merged Area Redevelopment Project Revenue Bonds (Subordinate Tax Allocation), Series 2003A (Taxable) and Series 2003B.** On August 27, 2003, the Redevelopment Agency issued \$45,000,000 of Series 2003A (taxable) and \$15,000,000 of Series 2003B revenue bonds. The bond proceeds were used to finance redevelopment activities within the Agency's Merged Area Redevelopment Project. Debt service is payable on a subordinate basis from the Agency's tax increment revenues. The Series 2003A bonds were issued as variable rate securities, bearing interest initially at a weekly rate, which on June 30, 2004, was 1.34%, and have a final maturity of August 1, 2028. The Series 2003B bonds were also issued as variable rate securities, bearing interest initially at a weekly rate, which on June 30, 2004 was 1.05%, and have a final maturity of August 1, 2032.

**City of San José Financing Authority Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project).** On September 18, 2003, the City of San José Financing Authority issued \$22,625,000 of Series 2003A lease revenue bonds. The bond proceeds were used to current refund the Authority's Series 1993D lease revenue bonds issued to acquire and construct the City's Central Service Yard. The Series 2003A bonds, which are insured by Ambac, bear interest at fixed rates ranging from 3.00% to 4.70%, and have a final maturity date of October 15, 2023.

A refunding escrow, in the amount of \$23,221,000, was funded from a combination of refunding bonds net proceeds and cash remaining in the debt service and reserve funds of the refunded bonds. The refunding escrow provided for the principal, call premium and accrued interest through the date of redemption for the refunded bonds. The refunded bonds were redeemed on October 20, 2003, and have been removed from the City's basic financial statements.

## City of San José

### Notes to Basic Financial Statements

June 30, 2004

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This refunding achieved approximately \$1,621,000 in aggregate debt service savings net of available funds, and net present value savings of \$988,000, which is 4.45% of the refunded principal.

**Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Bonds, Series 2003.** On December 22, 2003, the Redevelopment Agency issued \$135,000,000 of Series 2003 tax allocation bonds. The bond proceeds were used to finance multiple redevelopment projects within the Agency's Merged Area Redevelopment Project. Debt service is payable from the Agency's tax increment revenues. The Series 2003 bonds, which are insured by Financial Guaranty Insurance Company, bear interest at fixed rates ranging from 3.00% to 5.00%, and have a final maturity date of August 1, 2033.

**Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2004A.** On May 27, 2004, the Redevelopment Agency issued \$281,985,000 of Series 2004A tax allocation bonds. The bond proceeds were used to current refund a portion of the Agency's Series 1993 tax allocation bonds and advance refund portions of the Agency's Series 1993, Series 1997, Series 2002, and Series 2003 tax allocation bonds (collectively, the "Partially Refunded Bonds"). Debt service is payable from the Agency's tax increment revenues. The Series 2004A bonds, the majority of which are insured by MBIA, bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2019.

A refunding escrow, in the amount of \$299,890,000, was funded from a combination of refunding bonds net proceeds and cash remaining in the debt service funds of the Partially Refunded Bonds. The refunding escrow, deposited in an irrevocable trust with an escrow agent, provided for the principal, call premium and accrued interest through the date of redemption for each series of Partially Refunded Bonds. The Partially Refunded Bonds have been removed from the City's basic financial statements.

Although the refunding resulted in the accounting recognition of a deferred loss of \$13,933,000 for the fiscal year ended June 30, 2004, the refunding achieved approximately \$12,044,000 in aggregate debt service savings net of available funds, and net present value savings of \$10,407,000, which is 3.63% of the refunded principal.

**Dolce Hayes Conference Center.** On October 30, 2003, the City entered into a loan agreement with Comerica Bank (Bank) in order to assume operations of the Hayes Conference Center and to pay off the loan owed by the previous operator, Hayes Renaissance, L.P. (HRLP) to the Bank. The City's term loan is \$2 million with monthly principal reduction payments in the amount of \$42,000 until October 29, 2007, at which time the City shall pay in full the outstanding principal balance of the loan, together with all accrued and unpaid interest. The term loan bears variable interest rate at LIBOR plus 0.75 percent. In addition, in consideration of the execution of the Transition Agreement with HRLP, the City agreed to assume the HRLP's liability to Devcon Construction Incorporated (Devcon) in the amount of \$1.2 million with no payment of interest, no maturity date, on a subordinated basis from the Fund's net revenues, as defined.

## City of San José

### Notes to Basic Financial Statements

June 30, 2004

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**City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2004A (Ice Centre of San José Expansion Project).** On June 3, 2004, the City of San José Financing Authority issued \$9,225,000 of Series 2004A taxable lease revenue bonds. The bond proceeds will be used to expand and renovate portions of the City's Logitech Ice Centre of San José. Debt service on the bonds will be paid from base rental payments received by the City from the Ice Centre operator, Silicon Valley Sports and Entertainment. The Series 2004A Bonds, which are insured by MBIA, were issued as auction rate securities, accruing interest at auction rates for successive 28-day auction periods, and have a final maturity date of December 1, 2024. On June 30, 2004, the interest rate on the Series 2004A Bonds was 1.30%.

**City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Notes Payable.** On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed \$98,000,000. This commercial paper program was established as a mechanism for financing public improvements of the City including the offsite parking garage for the new Civic Center and non-construction costs for technology, furniture, equipment and relocation services for the new Civic Center.

Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and additionally secured by a letter of credit provided by State Street Bank and Trust Company and the California State Teachers' Retirement System (CalSTRS).

On June 30, 2004, \$22,673,000 of Authority commercial paper notes were outstanding at an interest rates ranging from 1.02% to 1.20%. The commercial paper notes payable is recorded as part of other liabilities in the government-wide statement of net assets and the governmental fund balance sheet.

**Unused General Obligation Bonds Authorization.** The City has issued \$187,090,000 in general obligation bonds to provide funds for the acquisition and construction of major capital facilities and parks. Of this amount, as of June 30, 2004, \$178,480,000 is outstanding. Of the total authorized to issue amount of \$527,820,000, there remains an unused balance of \$340,730,000.

#### **Business-Type Activities**

**City of San José Airport Revenue Bonds, Series 2004A (AMT), Series 2004B (AMT), Series 2004C (AMT), and Series 2004D (Non-AMT).** On June 24, 2004, the City issued \$70,000,000 of Series 2004A, \$70,000,000 of Series 2004B, \$75,730,000 of Series 2004C, and \$34,270,000 of Series 2004D airport revenue bonds (the "2004 Bonds"). The proceeds of the 2004 Bonds will be used to pay (and to redeem commercial paper notes issued to pay) a portion of the costs of designing and constructing certain security-related capital improvements at the Norman Y. Mineta San José International Airport. Debt service on the 2004 Bonds will be paid from General Airport Revenues and certain other funds. The 2004 Bonds are insured by MBIA.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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The Series 2004A Bonds were issued as auction rate securities, accruing interest at auction rates for successive 7-day auction periods, and have a final maturity of June 1, 2034. On June 30, 2004, the interest rate on the Series 2004A Bonds was 1.10%. The Series 2004B Bonds were issued as auction rate securities, accruing interest at auction rates for successive 35-day auction periods, and have a final maturity of June 1, 2034. On June 30, 2004, the interest rate on the Series 2004B Bonds was 1.28%. The Series 2004C Bonds bear interest at fixed rates ranging from 4.625% to 5.25%, and have a final maturity date of March 1, 2026. The Series 2004D Bonds bear interest at a fixed rate of 5.00% and have a final maturity date of March 1, 2028.

A note repayment fund for the Series B commercial paper notes, in the amount of \$34,450,801, was funded from a combination of Series 2004C and Series 2004D Bonds net proceeds. All of the Series B commercial paper notes were redeemed on June 29, 2004, and have been removed from the City's basic financial statements.

**Airport Commercial Paper Notes Payable.** On November 2, 1999, the City Council adopted a resolution authorizing the issuance of City of San José, San José International Airport subordinated commercial paper notes in several series in an amount not to exceed \$100,000,000. The commercial paper program was established to provide an interim source of financing for the initial capital projects in the Airport Master Plan until a permanent financing plan was finalized and implemented.

Under this program, the Airport is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper is secured by a subordinate pledge of the Airport's revenues and additionally secured by a letter of credit provided by JPMorgan Chase Bank.

On June 29, 2004, all \$34,400,000 of outstanding Series B (subject to alternative minimum tax) commercial paper notes were refunded with a portion of the proceeds of the Series 2004C and Series 2004D Airport Revenue Bonds. On June 30, 2004, \$5,786,000 of Series C (taxable) commercial paper notes were outstanding maturing within 10 to 23 days after year-end with an interest rate ranging from 1.1% to 1.15%.

### **10. 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 \$11,160,000 related to the closed landfills is recorded in the government-wide financial statements as of June 30, 2004. 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.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 11. 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. The City maintains an all-risk property policy where the maximum total liability in a single occurrence for all coverage combined will not exceed \$1,000,000,000, with a single occurrence deductible of \$100,000 for property damage and time element combined. This policy also provides coverage for loss due to flood in the amount for Zone A and V of \$15,000,000. Zone B \$25,000,000 and \$50,000,000 in all other flood zones with flood deductibles ranging from \$100,000 to \$1,000,000 per occurrence depending on the flood zone. The City has an airport liability policy covering the Airport, which provides a limit of \$200,000,000 per occurrence with an annual deductible of \$100,000 per occurrence. During the past three years there have been no instances of the amount of claim settlements exceeding insurance coverage. After September 11, 2001 there was a dramatic reduction in property insurance capacity worldwide.

Claims expenditures/expenses and liabilities are reported as appropriate when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. This represents the City's best estimate based upon available information. The workers' compensation estimated outstanding loss in the amount of \$119,800,000 at June 30, 2004 has been discounted at 3.5%. Changes in the reported liability since July 1, 2002, resulted from the following (in thousands):

Liability as of July 1, 2002	\$	97,000
Claims and changes in estimates during 2003		36,998
Claims payments		<u>(21,606)</u>
Liability as of June 30, 2003		112,392
Claims and changes in estimates during 2004		75,671
Claims payments		<u>(19,810)</u>
Liability as of June 30, 2004	\$	<u>168,253</u>

With respect to the general liability accrual, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2004. The City Attorney and the City's Risk Manager 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.

#### (a) Owner Controlled Insurance Programs

On October 1, 2002 and on March 31, 2004 the City bound certain liability insurance coverage (see chart below) for major components of the "2004 Security Projects" and the "New Civic Center Project" through Owner Controlled Insurance Programs ("OCIP"). An OCIP is a single insurance program that provides commercial general liability, excess liability and workers' compensation insurance coverage for construction job site risks of the project owner, general contractors and all subcontractors associated with construction at the designated project site.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

Coverage	2004 Security Projects		New Civic Center Project	
	Limits	Deductible	Limits	Deductible
General Liability	\$2 million per occurrence/ \$4 million / aggregate for general liability	\$250,000 per occurrence	\$2 million per occurrence/ \$4 million / aggregate for general liability	None
Workers' Compensation	Workers' Compensation - Statutory  Employers' Liability - \$2 million per accident	\$250,000 per occurrence	Workers' Compensation - Statutory  Employers' Liability - \$1 million per accident	None
Excess Liability	\$150,000,000	None	\$100,000,000	None

The 2004 Security Project OCIP and the new Civic Center Project terms include a 36-month construction period with ten years completed operations and a 33 month construction period with five year completed operations, respectively, for general liability. The benefits to the City for implementing OCIP programs for the Airport Master Plan projects include providing \$150 million of general liability coverage along with ten-years of completed operations coverage and for the New Civic Center Project include \$100 million of general liability coverage along with five-years of completed operations coverage.

### 12. Net Pension Obligation

The City determined the net pension obligation at transition (July 1, 1997) amounted to \$2,300,000 for the Federated Employees' Retirement System (the System) in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The methods and assumptions that apply for the calculation of the net pension obligation are those that are used for amortizing actuarial experience gains and losses in determining the City's contribution rates. The System's amortization factors incorporate the use of an investment return rate of 8% and an inflation rate of 5%, with an amortization period of 24 years as a level percentage of projected payroll on an open basis, resulting in an amortization factor of 13.8 for fiscal 2004 (see note IV)

### G. Interfund Transactions

The composition of interfund balances as of June 30, 2004, with explanations of significant transactions, is as follows (in thousands):

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 1. Due from/Due to other funds

#### Due From/Due to other funds

Receivable Fund	Payable Fund	Amount
General Fund	Redevelopment Agency	\$ 652 (1)
	Nonmajor Governmental Funds	1,712 (2)
Nonmajor Government Funds	Nonmajor Governmental Funds	20,202 (3)
	Civic Center Fund	3,548 (4)
	Redevelopment Agency	9,379 (5)
Redevelopment Agency	General Fund	660 (6)
	Nonmajor Governmental Funds	3,668 (7)
	Civic Center Fund	4
Wastewater Treatment System	Nonmajor Governmental Funds	6,450 (8)
		<u>\$ 46,275</u>

- (1) Reflects amount due for Code Enforcement expenditures.
- (2) Accrual of gas tax transfer from the Gas Tax Funds and Construction & Conveyance tax transfers.
- (3) Short-term borrowing for working capital.
- (4) Short-term borrowing for working capital.
- (5) Reflects amount due for park development fees.
- (6) Accrual of interest receivable of pooled cash funds.
- (7) Accrual of reimbursement of new civic center parking land acquisition.
- (8) Short-term loan to the Branch Libraries Bond Project Fund.

### 2. Advances to/Advances from other funds

#### Advance to/Advance from other funds

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 3,734 (1)
Redevelopment Agency	Housing Activities	16,780 (2)
Wastewater Treatment System	Nonmajor Governmental Funds	4,527 (3)
	Municipal Water System	<u>5,815 (4)</u>
		<u>\$ 30,856</u>

- (1) Loan to support City owned golf course operations until they are self supporting.
- (2) Reflects line of credit loan and a discounted loan for the YMCA Villa Nueva Housing project.
- (3) Long-term loans for the Fiber Conduit project and a loan for sewer extension project.
- (4) Loan for the North Coyote Valley Water Project.

## City of San José

### Notes to Basic Financial Statements

June 30, 2004

#### 3. 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 schedule summarizes the City's transfer activity with explanations of significant transactions:

##### Between Governmental and Business-type Activities:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
Nonmajor Governmental Funds	Parking System	20
Parking System	Redevelopment Agency	20
	Nonmajor Governmental Funds	727
Municipal Water System	General Fund	2,533 (1)
Wastewater Treatment System	General Fund	4,008 (2)
		<u>\$ 7,308</u>

(1) Municipal Water System payments for in-lieu taxes and rate of return on capital.

(2) Wastewater Treatment System payments for in-lieu taxes.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### Between Funds within the Governmental Activities: <sup>(A)</sup>

Transfers from	Transfers to	Amount
General Fund	Redevelopment Agency	760
	Nonmajor Governmental Funds	6,884 (1)
Redevelopment Agency	General Fund	316
	Housing Activities Fund	69,728 (2)
	Special Assessment District Fund	28
	Nonmajor Governmental Funds	22,754 (3)
Housing Activities Fund	Redevelopment Agency	11,468 (4)
Nonmajor Governmental Funds	Redevelopment Agency	3,627 (5)
	General Fund	26,164 (6)
	Housing Activities Fund	1,075 (7)
	Special Assessment District Fund	12
	Nonmajor Governmental Funds	16,304 (8)
	Civic Center Fund	20,305 (9)
Civic Center Fund	Nonmajor Governmental Funds	415
		<u>\$ 179,840</u>

(1) Various transfers for grants and debt service payments.

(2) Transfers for Housing 20% increment tax, bond proceeds and for Multiple Source housing projects.

(3) Transfers for debt service, various capital projects and payment of parkland development fees.

(4) Transfer from the Housing Activities for debt service.

(5) Transfer to agency for various capital projects.

(6) Transfer from various nonmajor governmental funds to support various activities within general fund programs..

(7) Transfer to Multi-Source Housing Fund for Land Acquisition.

(8) Transfers for debt service and also funding for convention and cultural facilities operations.

(9) Transfer of commercial paper proceeds.

(A) These transfers were eliminated in the consolidation, by column for the governmental and business-type activities.

The remaining interfund transactions resulted from the time lag between dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

In the fund financial statements, total transfer in the amount of \$187,128,000 are greater than total transfer out of \$179,860,000 because of the treatment of transfer of capital asset to the Parking System fund. During the year the 4<sup>th</sup> and San Fernando parking garage capital assets, related to governmental funds, with a book value of \$56,050,000 was transferred to the Parking System fund. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the Parking System fund did report a capital contribution in for the capital resources received.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### IV. Other Information

#### A. Employee Defined Benefit Retirement Systems

##### 1. Systems Description

The City sponsors and administers two single employer defined benefit retirement systems, the Federated City Employees' Retirement System (the "System") and the Police and Fire Department Retirement Plan (the "Plan" and collectively, "the Retirement Systems"), which together cover all full-time and certain part-time employees of the City. Each of them provides postemployment health subsidy benefits in addition to regular retirement benefits. The Retirement Systems are accounted for as separate Pension Trust Funds. The estimated payrolls for employees covered under the System and the Plan for the year ended June 30, 2004, were approximately \$288,136,000 and \$203,953,000, respectively. The City's total payroll for the year ended June 30, 2004, was approximately \$533,572,000.

The separately issued annual reports of the Retirement Systems and the City's municipal code provide more detailed information about the Retirement Systems. Those reports may be obtained by writing to the City of San José Office of Retirement Services, 1737 North First Street, Suite 580, San José, California 95112.

The Retirement Systems provide general retirement benefits under Defined Benefit Pension Plans, including pension, death, disability, as well as postemployment medical and dental benefits under the Postemployment Healthcare Plans. Benefits are based on average final compensation, years of service, and limited required cost-of-living increases.

The current membership in the Retirement Systems as of June 30, 2004, is as follows:

	<u>Police and Fire</u>	<u>Federated</u>
Defined Benefit Pension Plans, excluding		
Postemployment Healthcare Plans:		
Retirees and beneficiaries currently receiving benefits	1,363	2,332
Terminated vested members not yet receiving benefits	67	443
Active members	<u>2,052</u>	<u>4,307</u>
Total	<u>3,482</u>	<u>7,082</u>
Postemployment Healthcare Plans:		
Retirees and beneficiaries currently receiving benefits	1,238	1,711
Terminated vested members not yet receiving benefits	5	62
Active members	<u>2,052</u>	<u>4,307</u>
Total	<u>3,295</u>	<u>6,080</u>

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

The Retirement Systems are not subject to the provisions of the Employee Retirement Income Security Act of 1974. It is the City's policy to obtain actuarial valuations for the Retirement Systems every two years.

### 2. Funding Policy

Contributions to the Defined Benefit Pension Plan for each Retirement System for both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. Contributions to the Postemployment Healthcare Plan for both the City and the participating employees are based upon an actuarially determined percentage of employees base salary sufficient to provide adequate assets to pay benefits when due, over the next 10 years for the Plan, and over the next 15 years for the System. The significant assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funding Progress for the Defined Benefit Pension Plan.

Contribution rates for the City and the participating employees for fiscal 2004 were established in accordance with actuarially determined requirements computed through actuarial valuations dated June 30, 2001. The contribution rates and the amounts contributed to the Plan and the System for the fiscal year ended June 30, 2004, are as follows (in thousands):

	Police and Fire			Federated		
	City	Participants	Total	City	Participants	Total
Actuarial Rate:						
Defined Benefit Plan:						
6/23/03 - 6/30/04	12.01%	8.44%		13.82%	4.04%	
Post Employment Healthcare Plan:						
6/23/03 - 6/30/04	2.21%	1.81%		1.38%	1.04%	
Annual Pension Contribution (in thousands):						
Defined Benefit Plan	\$ 24,412	17,233	41,645	39,534	12,394	51,928
Post Employment Healthcare Plan	4,491	3,696	8,187	3,948	3,191	7,139
	<u>\$ 28,903</u>	<u>20,929</u>	<u>49,832</u>	<u>43,482</u>	<u>15,585</u>	<u>59,067</u>

The Retirement Systems completed new actuarial valuations dated June 30, 2003 and the rates were adopted effective July 4, 2004. The new rates increased the Plan's contribution from the City from 14.22% to 25.04% and for the employees the rate increases from 10.25% to 11.16%. Funding status of the Plan was reduced from 114.8% to 100.2%. The new rates increased the System's contributions from the City from 15.20% to 17.12% and for the employees the rate increases from 5.08% to 6.06%. Funding status of the System was reduced from 99% to 98%.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 3. Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to the Plan and the System as of and for the year ended June 30, 2004, were as follows (dollar amounts expressed in thousands):

	<u>Police and Fire</u>	<u>Federated</u>
Annual required contribution	\$ 28,903	43,482
Interest on net pension obligation	-	254
Adjustment to annual required contribution	-	(230)
Annual pension cost	28,903	43,506
Contributions made	(28,903)	(43,482)
Increase in net pension obligation	-	24
Net pension obligation – beginning of year	-	3,177
Net pension obligation – end of year	\$ -	3,201

The following is three year trend information for the City's single-employer pension plans (in thousands):

	<u>Fiscal year ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent APC Contributed</u>	<u>Net Pension Obligation</u>
Police and Fire Retirement Plan	6/30/02	\$ 28,115	100%	\$ —
	6/30/03	27,762	100%	—
	6/30/04	28,903	100%	—
Federated Retirement System	6/30/02	\$ 45,138	100%	\$ 3,148
	6/30/03	42,305	100%	3,177
	6/30/04	43,506	100%	3,201

The June 30, 2001 actuarial study reported unfunded healthcare benefits liabilities for the Plan and the System are as follows (in thousands of dollars):

	<u>Police and Fire</u>	<u>Federated</u>
Healthcare benefits liability	\$ 86,880	139,936
Less:		
Actuarial value of assets for healthcare benefits	57,283	67,495
Unfunded healthcare benefits liability	\$ 29,597	72,441

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

### 4. Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the Retirement Systems for the fiscal year ended June 30, 2004 are as follows:

<u>Method/Assumption</u>	<u>Police and Fire Department Retirement Plan</u>	<u>Federated City Employees' Retirement System</u>
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period, closed	18 years	19 years
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Investment rate of return	8% per annum	8.25% per annum
Postretirement mortality	The 1994 Male Group Annuity Mortality Table, with a three year set back, is used for male members.  The 1994 Female Group Annuity Mortality Table, with a one year set forward, is used for female members.	The 1983 Group Annuity Mortality Table for males, with a one year set back, is used for male members.  The 1983 Group Annuity Mortality Table for females, with a one year set forward, is used for female members.
Active service, withdrawal, death, disability service retirement	Based upon the June 30, 2001 Experience Analysis	Tables based on current experience
Salary increases	10.3% for employees for the first five years of service; graded increases thereafter ranging from 10.1% at age 25 to 4.6% at ages 60 and over. Of the total salary increases 4.5% is inflation	In general, merit and longevity increases plus assumed general wage increase of 4.50% per year.
Cost-of-living adjustments	4.5% a year	3.0% a year
Health and dental cost inflation rates	5.75% to 8.00%	7.5%

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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### **B. Defined Contribution Retirement Plan**

In January 1995, the Redevelopment Agency adopted a single employer defined contribution retirement plan, the Redevelopment Agency of the City of San José Retirement Plan (the Retirement Plan), which provides pension benefits for its non-civil service employees. For eligible employees who contribute 3.5% of their annual base salary, the Redevelopment Agency contributes approximately 9.0%. The Redevelopment Agency's contributions are based on a formula taking into account employee annual base salary and length of service. The Redevelopment Agency's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service from the original date of employment. The Redevelopment Agency's contributions and interest forfeited by employees who leave employment before vesting occurs may be used to reduce the Redevelopment Agency's contribution requirement or to offset plan operating expenses. The Redevelopment Agency contracts with an advisor to manage the pension plan with all assets of the plan being held in trust by a third party custodian in the name of each of the Plan's participants. Each of the Plan's participants directs the investments of their separate account. The Redevelopment Agency Board of Directors may authorize changes to the plan.

The Redevelopment Agency's total payroll in fiscal year 2004 for all non-civil service employees was approximately \$8,668,000. Both the Redevelopment Agency and the participating employees made contributions to the Retirement Plan amounting to approximately \$772,000 and \$288,000, respectively.

### **C. Special item**

In January 2004, the City entered into a management agreement with Dolce International to manage the operations of the City owned Hayes Conference Center. The financial activity of this operation has been incorporated with the nonmajor special revenue Community Facilities Revenue fund. As of June 30, 2004, the financial impact of this transaction for this transition year resulted in a loss of \$7,862,000. This loss includes loan write offs to the previous operator in the amount of \$6,381,000.

### **D. Commitments and Contingencies**

#### **1. Norman Y. Mineta San José International Airport**

**Purchase Commitments.** As of June 30, 2004, the Airport was obligated for purchase commitments of approximately \$61,460,000, primarily for the noise attenuation, design and construction of the North Concourse building, runway extension and rental car garage projects. Additionally, the Airport has projected that it will expend or encumber approximately \$1,872,632,000 on proposed capital projects during the next five fiscal years. It is anticipated that funding for such capital projects will be provided primarily by proceeds from passenger facility charges (PFC), federal grant monies, bond proceeds and other Airport revenues.

**Fuel Storage Facility.** During fiscal 1987, a fuel leak was discovered in the Airport's fuel storage facility. The Airport and the fuel supplier agreed to share the costs of a study to develop an acceptable cleanup program. The cleanup program submitted to the Santa Clara Valley Water District, the responsible regulatory authority, was approved, and the cleanup work commenced during fiscal 1990. The agreement between the Airport and the fuel supplier provides for a sharing of cleanup costs between the Airport and the fuel supplier. The fuel supplier also receives a 10% management fee for overseeing the cleanup operation. As of June 30, 2004, the Airport accrued

## City of San José

### Notes to Basic Financial Statements

June 30, 2004

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\$330,000 of the estimated remaining costs of its portion of the initial phase of the cleanup program. Due to minimal fuel activities, the Airport temporarily closed its portion of the facility on December 22, 1998, and ceased operation at that time. As of June 30, 2004 the timing of the complete closure of the facility, which is dependent upon the construction of the new fuel farm facility, and the full costs of remediation have not yet been determined. Based on presently available information, the Airport's management does not anticipate that the full costs of remediation of the fuel storage facility will have a significant impact on the Airport's financial position or results of operations.

**Acoustical Treatment Program.** The Airport has an Acoustical Treatment Program (ACT) to comply with the requirements of Title 21 of the California Noise Standard. The program provides acoustical treatment to residences in the noise impact areas surrounding the Airport, at no cost to the property owners. The program is primarily funded by grants from the Federal Aviation Administration (FAA) and by PFC revenues. The Airport expended approximately \$13,464,000 on noise attenuation projects during the year ended June 30, 2004 and expects to spend approximately \$24,305,000 during fiscal year 2005.

**Master Plan.** In June 1997, the San José City Council approved a Master Plan for the Airport, which will serve as a long-range guide for its future development. In December 1999, the FAA issued a Record of Decision certifying the Environmental Impact Statement and approving the Airport Layout Plan, thus completing the final step in the 11-year process of updating the Airport Master Plan. The Airport Master Plan includes plans for expanded airfield, terminal, cargo, road, and parking facilities intended to accommodate expected growth in passenger and cargo traffic at the Airport through 2010.

On December 14, 1999, the Airport Traffic Relief Act (ATRA) Ordinance was approved by the City Council, which links specific traffic improvement projects on and off the Airport to the Airport Master Plan development program. The ATRA Ordinance also provides that, to the extent permitted by law, Airport funds, rather than the City's General Fund, are to be used to pay for the required transportation projects and that all other Airport projects are not conditioned upon the development of these transportation projects.

To accommodate the security requirements imposed after the terrorist attacks on September 11, 2001, the City Council on November 26, 2002, adopted a resolution placing an amendment to the ATRA Ordinance on the ballot for voter approval. At a March 4, 2003 special election, San José voters passed the Airport Security and Traffic Relief Act (ASTRA), an amendment to the ATRA Ordinance. ASTRA allows the Airport to expand terminal facilities as needed to accommodate baggage and passenger screening equipment and personnel, thus avoiding substantial expenditures for interim facilities that would have to be dismantled once permanent terminal facilities are completed. ASTRA also allows the Airport to begin construction of the full Airport terminal facility once the City Council formally identifies the funding source for the people mover connection and determines that the other required traffic relief projects are within three years of completion.

On November 13, 2001, the City Council approved a new centralized terminal concept, which called for adjustments to square footage limitations on terminal space and rental car ready-return spaces. Continued study was also approved for an Airport people mover transit connection to Valley Transportation Authority light rail.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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### **2. Redevelopment Agency**

**Line of Credit.** In March 2003, the Agency entered into a line of credit agreement with a bank for an amount not to exceed \$50,000,000, to provide interim funding for various housing projects. The line of credit is secured by the 20% tax increment housing funds, which bears interest at an annual rate of LIBOR plus 0.75%, and is available until April 1, 2005. The entire principal amount then outstanding shall be repaid in quarterly installments over five years and shall bear interest at annual rates ranging from LIBOR plus 1.35% to LIBOR plus 3.35%. As of June 30, 2004, the outstanding balance is \$16,200,000.

**Tax Sharing Agreement with the County of Santa Clara.** On May 22, 2001, the County of Santa Clara, City of San José and the Agency amended and restated the 1993 Tax Revenue Sharing Agreement (the new agreement). The new agreement requires the Agency to share, in addition to the 1993 revenue sharing amounts, a portion of its tax increment revenue with the County. The money will be used by the County to undertake redevelopment projects in or of benefit to the merged area, and requires the Agency to transfer funds to the County to pay for each such projects (Delegated Payments). Until June 30, 2004, the Delegated Payment is equal to the County's pass-through payment. After January 1, 2004, the 20% of the proceeds of any debt secured by the Agency's tax revenues (excluding refunding bonds) must be paid to the County as a Delegated Payment.

For the fiscal year 2003-04, the pass-through payment totaled \$14.4 million and the Delegated Payment totaled \$15.5 million.

### **3. San José - Santa Clara Water Pollution Control Plant**

The City's 2004-2008 Five-Year Capital Improvement Program includes the South Bay Water Reclamation (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. Failure to maintain effluent flows below the allowed maximum level could result in regulatory action by the RWQCB.

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 \$141,000,000 funded by the tributary agencies, grants, and bond proceeds.

Recycled water is sold on a wholesale basis to four water retailers: City of Santa Clara, City of San José Municipal Water System, City of Milpitas Water Company and the San José Water Company. The wholesale cost of recycled water is indexed to the wholesale cost of untreated potable water, currently \$260 per acre-foot. In addition, the City provides a discount to landscape irrigation customers of \$80 per acre-foot, and industrial and agricultural customers of \$240 per acre-foot. Also, the Santa Clara Valley Water District provides a rebate of \$115 per acre-foot to the City in recognition of the avoided cost of purchasing additional potable water supplies.

# City of San José

## Notes to Basic Financial Statements

June 30, 2004

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Proceeds from the 1995 Series A and B Sewer Revenue Bonds and other funds were used to pay for the City's share of Phase I costs. The City of Santa Clara's share of Phase I costs was approximately \$20,067,000. Sources of funding included credit for the City of Santa Clara's existing nonpotable water reclamation distribution system, in-kind services, additional construction, and City of Santa Clara sewer utility cash reserves. Other sources of funding for Phase I included U.S. Bureau of Reclamation grants, \$6,449,000 transferred in fiscal year 1995 from the Authority to the City's Wastewater Treatment Plant Capital Fund, and cash contributions from the other participating agencies.

In June 1997, the RWQCB and the City approved the Proposed Revision to the South Bay Action Plan, which describes the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 million gallons per day (mgd) 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 nonpotable 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 is \$127,500,000, of which \$74,500,000 has been expended or encumbered. These estimated cost are to be funded by the City and other tributary agencies through a combination of State Revolving Fund Loans, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

#### **4. Federal Financial Assistance Programs**

The City participates in a number of federally assisted grant programs, primarily with the Department of Housing and Urban Development, the Department of Transportation, Department of Interior, the Department of Labor, and the Department of Justice. These programs are subject to program compliance audits by the grantors or their representatives.

Although the City's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 for the year ended June 30, 2004, these programs are still subject to financial and compliance audits by federal auditors, and to resolution of identified findings and questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time.

#### **D. Subsequent Event**

**General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety Projects).** The City issued \$118,700,000 of Series 2004 general obligation bonds on July 14, 2004. The proceeds will be used to fund \$58,300,000 of library projects, \$46,000,000 of neighborhood parks and recreation projects, and \$14,400,000 of public safety projects. Debt service on the Series 2004 bonds is payable from ad valorem taxes levied upon all property subject to taxation by the City. The Series 2004 bonds bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of September 1, 2034.

## Required Supplementary Information

**City of San José**  
**General Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**For the Year Ended June 30, 2004**  
**(\$000's)**

(Unaudited-see accompanying independent auditor's report)

	<b>Budgeted Amounts</b>		<b>Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budgetary to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>	
	<b>Original</b>	<b>Final</b>					
<b>REVENUES</b>							
Taxes:							
Property	\$ 93,451	97,457	(875)	96,582	-	96,582	
Sales	128,818	128,818	1,880	130,698	-	130,698	
Utility	66,979	64,979	3,476	68,455	-	68,455	
State of California in-lieu	53,575	43,049	(1,594)	41,455	-	41,455	
Franchise	32,406	32,406	(694)	31,712	-	31,712	
Other	6,718	6,118	(406)	5,712	-	5,712	
Licenses, permits and fines	79,618	80,532	3,099	83,631	-	83,631	
Intergovernmental	5,794	14,872	(4,767)	10,105	-	10,105	
Charges for current services	24,955	26,953	457	27,410	-	27,410	
Interest and other revenues	30,043	37,767	(6,214)	31,553	(4,613)	26,940	(1)
Total revenues	<u>522,357</u>	<u>532,951</u>	<u>(5,638)</u>	<u>527,313</u>	<u>(4,613)</u>	<u>522,700</u>	
<b>EXPENDITURES</b>							
Current:							
General government	87,364	94,157	(21,560)	72,597	(4,850)	67,747	(2), (3)
Public safety	314,987	327,810	(7,131)	320,679	(3,477)	317,202	(2)
Capital maintenance	56,461	58,681	(14,334)	44,347	(3,964)	40,383	(2)
Community services	140,302	143,237	(8,796)	134,441	(6,987)	127,454	(2)
Sanitation	2,986	2,284	(277)	2,007	(345)	1,662	(2)
Capital outlay	12,800	10,977	(99)	10,878	(2,990)	7,888	(2), (3)
Debt service:							
Principal	53	53	-	53	-	53	
Interest	2	2	-	2	-	2	
Total expenditures	<u>614,955</u>	<u>637,201</u>	<u>(52,197)</u>	<u>585,004</u>	<u>(22,613)</u>	<u>562,391</u>	
Excess (deficiency) of revenues over expenditures	<u>(92,598)</u>	<u>(104,250)</u>	<u>46,559</u>	<u>(57,691)</u>	<u>18,000</u>	<u>(39,691)</u>	
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	28,303	28,650	4,371	33,021	-	33,021	
Transfers out	(6,326)	(7,860)	216	(7,644)	-	(7,644)	
Total other financing sources (uses)	<u>21,977</u>	<u>20,790</u>	<u>4,587</u>	<u>25,377</u>	<u>-</u>	<u>25,377</u>	
Net change in fund balances	<u>(70,621)</u>	<u>(83,460)</u>	<u>51,146</u>	<u>(32,314)</u>	<u>18,000</u>	<u>(14,314)</u>	
Fund balances - beginning	159,573	159,573	-	159,573	38,080	197,653	
Beginning encumbrance	-	-	-	26,195	-	-	
Fund balances - ending	<u>\$ 88,952</u>	<u>76,113</u>	<u>51,146</u>	<u>153,454</u>	<u>56,080</u>	<u>183,339</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**  
**Housing Activities**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**For the Year Ended June 30, 2004**  
**(\$000's)**

(Unaudited-see accompanying independent auditor's report)

	<b>Budgeted Amounts</b>		<b>Actual Amounts Budgetary Basis Variance with Final Budget Over (Under)</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budgetary to GAAP Differences</b>	<b>Actual Amounts GAAP Basis</b>
	<b>Original</b>	<b>Final</b>				
<b>REVENUES</b>						
Intergovernmental	\$ 8,820	9,958	(7,074)	2,884	(748)	2,136 (1, 3)
Charges for current services	25	25	146	171	-	171
Interest and other revenues	15,981	17,181	10,116	27,297	(22,554)	4,743 (1, 3)
Total revenues	<u>24,826</u>	<u>27,164</u>	<u>3,188</u>	<u>30,352</u>	<u>(23,302)</u>	<u>7,050</u>
<b>EXPENDITURES</b>						
Current:						
Community services	188,715	182,462	(78,246)	104,216	(29,749)	74,467 (2, 3)
Total expenditures	<u>188,715</u>	<u>182,462</u>	<u>(78,246)</u>	<u>104,216</u>	<u>(29,749)</u>	<u>74,467</u>
Excess (deficiency) of revenues over expenditures	<u>(163,889)</u>	<u>(155,298)</u>	<u>81,434</u>	<u>(73,864)</u>	<u>6,447</u>	<u>(67,417)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Capital lease financing proceeds					-	
Transfers in	160,517	162,800	(91,997)	70,803	-	70,803
Transfers out	(12,441)	(13,626)	2,158	(11,468)	-	(11,468)
Total other financing sources (uses)	<u>148,076</u>	<u>149,174</u>	<u>(89,839)</u>	<u>59,335</u>	<u>-</u>	<u>59,335</u>
Net change in fund balances	(15,813)	(6,124)	(8,405)	(14,529)	6,447	(8,082)
Fund balance - beginning	9,218	9,218	-	9,218	224,397	233,615
Add beginning encumbrance balance				20,410		
Fund balances - ending	<u>\$ (6,595)</u>	<u>3,094</u>	<u>(8,405)</u>	<u>15,099</u>	<u>230,844</u>	<u>225,533</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

Schedule of Funding Progress (Dollars in Thousands)

(Unaudited-See accompanying independent auditor's report)

<b>Police and Fire Department Retirement Plan</b>						
<b>Actuarial Valuation Date (a)</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Overfunded) AAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>(Overfunded) AAL as a Percentage of Covered Payroll</b>
6/30/99 (b)	\$ 1,440,117	\$ 1,276,364	\$ (163,753)	113%	\$ 144,125	(114)%
6/30/01	1,713,812	1,492,732	(221,080)	115%	171,779	(129)%
6/30/03	1,826,287	1,823,200	(3,087)	100%	202,222	2%
<b>Federated City Employee's Retirement System</b>						
<b>Actuarial Valuation Date (a)</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded AAL as a Percentage of Covered Payroll</b>
6/30/99	\$ 804,860	\$ 862,226	\$ 57,366	93%	\$ 176,284	29%
6/30/01	1,060,144	1,072,333	12,189	99%	252,696	5%
6/30/03	1,280,719	1,311,691	30,972	98%	292,961	11%

(a) The actuarial valuations have been performed biennially (through June 30, 2003).

(b) After reflection of benefit improvements effective February 4, 2000.

**City of San José**  
Notes to Required Supplementary Information  
June 30, 2004

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**I. Budgetary Information**

The adopted budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation.

Annual budgets are prepared for the general fund and all special revenue funds except for the following:

- Developers' Fees
- William F. Prusch, Jr.
- Special Assessment Special Services

Capital project budgets are based on a project time frame rather than a fiscal year time frame and therefore are not included. Debt Service Funds appropriations were implicitly adopted by the Council when the formal bond resolutions were approved.

**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 schedule 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 the 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 for the GAAP basis and as expenditures for the budgetary basis. When loan repayments are received, they are recorded as reductions to receivables for the GAAP basis, but are recognized as revenues for the 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 for the 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 statements, but is an expenditure for the GAAP basis.
- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial statements.

**City of San José**  
Notes to Required Supplementary Information  
June 30, 2004

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**III. Budget Revisions**

On November 9, 2004, the City Council approved certain fiscal 2004 budget revisions that increased appropriations for various expenditure categories. The budget amounts presented in the accompanying combined statement of revenues, expenditures, and changes in fund balances - budget and actual (budgetary basis) reflect such budget revisions.

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# Combining Nonmajor Governmental Funds Statements

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2004**

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Equity in pooled cash and investments held in City Treasury	\$ 252,032,312	15,401,233	34,717,778	302,151,323
Other cash and investments	751,661	98,303,707	-	99,055,368
Receivables (net of allowance for uncollectibles)	25,614,628	110,417	1,410,051	27,135,096
Due from other funds	11,747,285	-	21,381,223	33,128,508
Due from outside agencies	40,099	35,142	-	75,241
Inventories	1,831,823	-	-	1,831,823
Loans receivable (net)	8,316,072	-	2,041,112	10,357,184
Advances and deposits	353,105	-	96,972	450,077
Restricted assets:				
Equity in pooled cash and investments held in City Treasury	-	-	44,860,264	44,860,264
Other investments	104,868	-	92,066,415	92,171,283
Other assets	163,968	-	-	163,968
Total assets	\$ 300,955,821	113,850,499	196,573,815	611,380,135
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	19,572,881	24,479	7,383,815	26,981,175
Accrued salaries, wages, and payroll taxes	1,825,290	-	476,430	2,301,720
Due to other funds	4,080,523	-	27,951,119	32,031,642
Deferred revenue	7,482,445	-	-	7,482,445
Advances, deposits, and reimbursable credits	16,780,272	-	-	16,780,272
Advances from other funds	1,375,353	3,733,754	3,152,000	8,261,107
Other liabilities	3,405,532	22,673,000	-	26,078,532
Total liabilities	54,522,296	26,431,233	38,963,364	119,916,893
Fund balances:				
Reserved for:				
Encumbrances	42,378,203	123,353	71,123,405	113,624,961
Noncurrent advances, loans and other assets	11,576,206	-	2,138,084	13,714,290
Debt service	-	87,295,913	-	87,295,913
Restricted cash commitments	104,868	-	-	104,868
Unreserved:				
Special revenue funds	192,374,248	-	-	192,374,248
Capital projects funds	-	-	84,348,962	84,348,962
Total fund balances	246,433,525	87,419,266	157,610,451	491,463,242
Total liabilities and fund balances	\$ 300,955,821	113,850,499	196,573,815	611,380,135

**City of San José**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2004**

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes and special assessments	\$ 65,910,804	12,886,042	13,962,903	92,759,749
Intergovernmental	53,692,669	-	1,320,695	55,013,364
Charges for current services	175,045,995	-	108,238	175,154,233
Rent	6,687,047	-	-	6,687,047
Gifts	-	-	-	-
Interest and other revenues	14,391,261	2,435,099	4,042,947	20,869,307
Total revenues	<u>315,727,776</u>	<u>15,321,141</u>	<u>19,434,783</u>	<u>350,483,700</u>
<b>EXPENDITURES</b>				
Current:				
General government	99,962,284	-	-	99,962,284
Public safety	8,099,374	-	-	8,099,374
Capital maintenance	61,709,358	-	26,074,319	87,783,677
Community services	47,157,703	-	-	47,157,703
Sanitation	75,845,020	-	-	75,845,020
Capital outlay	23,138,021	-	73,350,036	96,488,057
Debt service:				
Principal	302,978	14,073,738	-	14,376,716
Interest and fiscal charges	884	35,579,316	-	35,580,200
Bond issuance cost	-	1,611,333	-	1,611,333
Payment to refunded bond escrow agent	-	2,964,098	-	2,964,098
Total expenditures	<u>316,215,622</u>	<u>54,228,485</u>	<u>99,424,355</u>	<u>469,868,462</u>
Deficiency of revenues under expenditures	<u>(487,846)</u>	<u>(38,907,344)</u>	<u>(79,989,572)</u>	<u>(119,384,762)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	1,225,000	8,000,000	9,225,000
Proceeds from refunding bonds	-	22,625,000	-	22,625,000
Bond premium	-	86,044	-	86,044
Payment to refunded bond escrow agent	-	(20,257,740)	-	(20,257,740)
Loan proceeds	3,200,000	-	-	3,200,000
Transfers in	14,852,910	16,292,987	15,937,699	47,083,596
Transfers out	(30,067,573)	(26,112,791)	(11,326,557)	(67,506,921)
Total other financing sources (uses)	<u>(12,014,663)</u>	<u>(6,141,500)</u>	<u>12,611,142</u>	<u>(5,545,021)</u>
<b>SPECIAL ITEM</b>				
Loss at transition	<u>(7,862,451)</u>	<u>-</u>	<u>-</u>	<u>(7,862,451)</u>
Net change in fund balances	(20,364,960)	(45,048,844)	(67,378,430)	(132,792,234)
Fund balances - beginning	266,798,485	132,468,110	224,988,881	624,255,476
Fund balances - ending	<u>\$ 246,433,525</u>	<u>87,419,266</u>	<u>157,610,451</u>	<u>491,463,242</u>

# Nonmajor Special Revenue Funds

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Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision, local ordinance, or Federal grant regulation to finance particular operating or capital functions of the City.

The Special Revenue Funds of the City of San José include the following:

Emma Prusch Memorial Park Fund - The Emma Prusch Memorial Park Fund was established for the development and improvement of the Emma Prusch Memorial Park.

Gift Trust Fund - The Gift Trust Fund was established to receive gifts, donations, and bequests.

Developer Fees - The Developers' Fund was established to account for developer deposits relating to certain development projects as mandated by the State of California Assembly Bill # 518.

William F. Prusch, Jr. Fund - The William F. Prusch, Jr. Fund was established for the construction of the Emma Prusch Memorial Park.

Employee Benefit Fund - To account for the cost of funding the City's portion of employee fringe benefits.

Workforce Investment Act Fund - To account for federal funds for training and placement of dislocated and economically disadvantaged workers.

Construction and Property Conveyance Tax Funds - To account for the collection of taxes from construction and property transfers, for the acquisition, construction, and improvement of libraries, parks, recreational, public works, and communication facilities.

Special Assessment Maintenance Districts Funds - To account for assessments involving Maintenance District activities.

Special Assessment Special Services Fund - To account for assessments and reimbursements from property owners for sidewalk repair, refuse removal and other costs incurred for public improvement and safety.

Subdivision Park Trust Fund - To account for the payment of fees and/or the dedication of land for parks and recreational purposes in residential subdivisions.

Emergency Reserve Fund - To account for reserves established from local revenues to meet public emergencies and Federal and State grants received to meet natural and other disasters.

1943 and 1964 Gas Tax Maintenance and Construction Funds - To account for gas taxes collected for the acquisition, construction, improvement, and maintenance of public streets subject to provisions of Streets and Highway Code of the State of California under Sections 2105, 2106, 2107, and 2107.5, imposing the State gas tax law.

Library Benefit Assessment Fund - To account for the annual assessment revenues to be used for enhancing the City's library services and facilities.

Storm Drainage Fee Fund - To account for fees collected from developers as a result of connections to the storm drainage sewer system which may be used for construction, reconstruction, and maintenance of storm drainage systems and for land acquisition for such system.

Supplemental Local Law Enforcement Fund - To account for revenues received from the State of California (AB 3229) to be used for front line municipal police service.

Federal Local Law Enforcement Block Grant Fund - To account for revenues received from the United States Department of Justice to be used for reducing crime and improving public safety.

Underground Utility Fund - To account for revenues received as assessments and fees for the City's costs and expenses to place certain utility facilities underground, including wires, pipes, and communications facilities which are to be newly installed or which were previously located above ground.



State Drug Forfeiture Fund - To account for State drug forfeiture monies received pursuant to California Health and Safety Code Section 11489.

Federal Drug Forfeiture Fund - 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 Codes.

Residential Construction Tax Contribution Fund - To account for the accumulation of residential construction tax monies for eligible street improvements.

Arterial and Major Collectors Fund - To account for funds repaid by abutting landowners for City costs of acquisition and construction of existing and proposed arterial and major collector streets.

Community Facility Revenue Funds - To account for the rental revenues received from the Hayes Mansion and the Ice Rink Center 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 - To account for activities related to the Integrated Waste Management Program which includes garbage collection, recycling services, and related billing operations.

Tobacco Settlement Fund - To account for revenues received per the Master Settlement Agreement in the tobacco industry lawsuit.

Building and Structures Construction Tax Fund - To account for revenues received from the issuance of building permits and expenditures of the construction, reconstruction, replacement, and widening of existing and proposed city streets.

Development Enhancement Fund - To account for loans and loan guarantees to assist small business development.

Community Development Block Grant Fund - 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 - 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 Fund - To account for revenues collected from owners of properties benefited by the storm drainage service which may be used for the construction, reconstruction, maintenance, and operation of the storm drainage system.

Transient Occupancy Tax Fund - To account for transient occupancy tax revenues and to provide for the funding of fine arts and cultural grant programs.

Lake Cunningham Park Fund - To account for the parking fees and lease payment revenues used for the purchase of equipment, maintenance, and operations at Lake Cunningham Park.

Municipal Golf Courses - The Municipal Golf Courses Fund was established in 1969 to manage and operate the public golf courses.

Convention and Cultural Facilities - The Convention and Cultural Facilities Fund was established in 1977 to manage and operate the Center of the Performing Arts, Civic Auditorium, McCabe Hall, Montgomery Theater, Exhibit Hall, and the newly built San José McEnery Convention Center, and their related facilities and grounds.

Stores Fund - To account for the purchase and issuance of materials and supplies consumed by the departments for their general operations.

Vehicle Maintenance Fund - To account for the cost of operating a maintenance facility for automotive equipment used by other City departments.

Repair and Demolition Fund - To account for the cost of repair, demolition, or other abatement of dangerous buildings. Included in Stores Vehicle Maintenance and Operations column heading.

## Nonmajor Special Revenue Funds

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2004**

	Emma Prusch Memorial Park (Fund 131)	Gift Trust (Fund 139)	Developer Fees (Fund 138)	William F. Prusch Jr. (Fund 151)
<b>ASSETS</b>				
Equity in pooled cash and investments				
held in City Treasury	\$ 288,814	1,473,042	8,908,508	13,856
Other cash and investments	-	1,023	-	-
Receivables (net of allowance for uncollectibles)	6,991	7,381	42,979	67
Due from outside agencies	-	-	-	-
Due from other funds	-	-	-	-
Inventories	-	-	-	-
Loans receivable (net)	-	-	-	-
Advances and deposits	-	-	-	-
Restricted assets:				
Other investments	-	-	-	-
Other assets	-	-	-	-
Total assets	\$ 295,805	1,481,446	8,951,487	13,923
<b>LIABILITIES</b>				
Accounts payable	97	10,218	-	-
Accrued salaries, wages and payroll taxes	-	1,086	-	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Advances, deposits and reimbursable credits	-	-	8,951,487	-
Advances from other funds	-	-	-	-
Other liabilities	-	-	-	-
Total liabilities	97	11,304	8,951,487	-
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	-	14,044	-	-
Noncurrent advances, loans, and other assets	-	-	-	-
Restricted cash commitments	-	-	-	-
Unreserved:				
Designated for future expenditures	-	-	-	-
Undesignated	295,708	1,456,098	-	13,923
Total fund balances	295,708	1,470,142	-	13,923
Total liabilities and fund balances	\$ 295,805	1,481,446	8,951,487	13,923

Employee Benefit (Funds 155-161)	Workforce Investment Act (Fund 290)	Construction and Property Conveyance (Funds 377-398)	Special Assessment Maintenance Districts (Funds 351-369 371-373)	Special Assessment Special Services (Fund 350)	Subdivision Park Trust (Fund 375)	Emergency Reserve (Funds 405-407)	1943 Gas Tax Maintenance and Construction (Fund 409)
5,577,063	-	66,487,542	8,372,100	54,468	39,952,438	4,571,809	-
-	-	-	-	-	-	-	-
313,266	2,704,644	7,201,277	150,717	169,925	468,705	-	620,000
-	-	-	-	-	-	-	-
-	-	-	-	-	9,378,400	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	7,105	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,890,329	2,704,644	73,695,924	8,522,817	224,393	49,799,543	4,571,809	620,000
265,386	1,616,078	1,069,625	136,078	17,891	430,318	-	-
213,858	85,447	127,749	19,199	-	22,579	-	-
-	704,896	441,639	-	-	-	-	620,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
479,244	2,406,421	1,639,013	155,277	17,891	452,897	-	620,000
20,203	2,532,640	6,946,465	987,788	6,874	1,237,573	-	-
-	-	7,105	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	4,973,548	-	-	32,013,609	-	-
5,390,882	(2,234,417)	60,129,793	7,379,752	199,628	16,095,464	4,571,809	-
5,411,085	298,223	72,056,911	8,367,540	206,502	49,346,646	4,571,809	-
5,890,329	2,704,644	73,695,924	8,522,817	224,393	49,799,543	4,571,809	620,000

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2004**

	1964 Gas Tax Construction and Maintenance (Funds 410-411)	Library Benefit Assessment (Fund 412)	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Federal LLEBG Program (Fund 415)
<b>ASSETS</b>					
Equity in pooled cash and investments					
held in City Treasury	\$ -	2,007,247	1,602,789	1,621,824	407,078
Other cash and investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles)	650,000	181	3,671	7,901	2,017
Due from outside agencies	-	12,503	-	-	-
Due from other funds	-	-	-	-	-
Inventories	-	-	-	-	-
Loans receivable (net)	-	-	-	-	-
Advances and deposits	-	-	-	-	-
Restricted assets:					
Other investments	-	-	-	-	-
Other assets	-	-	-	-	-
Total assets	\$ 650,000	2,019,931	1,606,460	1,629,725	409,095
<b>LIABILITIES</b>					
Accounts payable	-	58,722	-	21,643	4,386
Accrued salaries, wages and payroll taxes	-	96,141	2,851	149	-
Due to other funds	650,000	-	-	-	-
Deferred revenue	-	-	-	1,201,155	371,899
Advances, deposits and reimbursable credits	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total liabilities	650,000	154,863	2,851	1,222,947	376,285
<b>FUND BALANCES</b>					
Re Reserved for:					
Encumbrances	-	11,515	114,500	92,910	57,626
Noncurrent advances, loans, and other assets	-	-	-	-	-
Restricted cash commitments	-	-	-	-	-
Unreserved:					
Designated for future expenditures	-	279,154	-	313,868	-
Undesignated	-	1,574,399	1,489,109	-	(24,816)
Total fund balances	-	1,865,068	1,603,609	406,778	32,810
Total liabilities and fund balances	\$ 650,000	2,019,931	1,606,460	1,629,725	409,095

Underground Utility (Fund 416)	State Drug Forfeiture (Fund 417)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432)	Integrated Waste Management (Fund 423)	Tobacco Settlement (Fund 426)
641,316	914,105	803,410	899,843	2,197,919	4,501,375	30,249,928	6,727,078
-	-	-	-	-	745,188	-	-
1,347,316	4,410	3,876	2,440	28,221	466,273	4,232,899	33,993
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	150,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	163,968	-	-
<u>1,988,632</u>	<u>918,515</u>	<u>807,286</u>	<u>902,283</u>	<u>2,226,140</u>	<u>5,876,804</u>	<u>34,482,827</u>	<u>6,911,071</u>
36,222	-	-	-	4,963	575,426	10,407,803	1,593,369
7,877	-	-	-	6,676	-	163,666	45,579
-	-	-	-	-	-	-	-
-	-	-	-	-	97,197	2,086,796	-
-	-	-	-	-	704,687	7,084,098	-
-	-	-	-	-	-	-	-
-	-	-	-	-	3,405,532	-	-
<u>44,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,639</u>	<u>4,782,842</u>	<u>19,742,363</u>	<u>1,638,948</u>
231,274	12,584	679	350	97,970	-	5,091,352	3,013,550
-	-	-	-	-	-	1,227,206	150,000
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,600,000	1,226,876
<u>1,713,259</u>	<u>905,931</u>	<u>806,607</u>	<u>901,933</u>	<u>2,116,531</u>	<u>1,093,962</u>	<u>6,821,906</u>	<u>881,697</u>
<u>1,944,533</u>	<u>918,515</u>	<u>807,286</u>	<u>902,283</u>	<u>2,214,501</u>	<u>1,093,962</u>	<u>14,740,464</u>	<u>5,272,123</u>
<u>1,988,632</u>	<u>918,515</u>	<u>807,286</u>	<u>902,283</u>	<u>2,226,140</u>	<u>5,876,804</u>	<u>34,482,827</u>	<u>6,911,071</u>

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2004**

	Building and Structures Construction Tax (Fund 429)	Development Enhancement (Fund 439)	Community Development Block Grant (Fund 441)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)	Transient Occupancy Tax (Fund 461)
<b>ASSETS</b>						
Equity in pooled cash and investments held in City Treasury	\$ 39,438,565	2,798,115	-	25,383	10,375,728	-
Other cash and investments	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles)	1,636,513	13,688	4,030,984	120	31,179	1,001,493
Due from outside agencies	-	-	-	-	27,596	-
Due from other funds	1,838,885	-	-	-	-	-
Inventories	-	-	-	-	-	-
Loans receivable (net)	-	823,997	7,040,543	301,532	-	-
Advances and deposits	346,000	-	-	-	-	-
Restricted assets:						
Other investments	-	-	104,868	-	-	-
Other assets	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 43,259,963</b>	<b>3,635,800</b>	<b>11,176,395</b>	<b>327,035</b>	<b>10,434,503</b>	<b>1,001,493</b>
<b>LIABILITIES</b>						
Accounts payable	1,020,516	-	729,166	1,417	281,782	-
Accrued salaries, wages and payroll taxes	212,612	3,139	151,494	-	173,602	-
Due to other funds	-	-	1,128,368	-	-	535,620
Deferred revenue	-	-	1,888,792	-	-	-
Advances, deposits and reimbursable credits	-	-	40,000	-	-	-
Advances from other funds	-	-	-	-	1,375,353	-
Other liabilities	-	-	-	-	-	-
<b>Total liabilities</b>	<b>1,233,128</b>	<b>3,139</b>	<b>3,937,820</b>	<b>1,417</b>	<b>1,830,737</b>	<b>535,620</b>
<b>FUND BALANCES</b>						
Reserved for:						
Encumbrances	14,796,420	-	3,725,667	-	429,474	79,272
Noncurrent advances, loans, and other assets	346,000	823,997	6,888,543	301,532	-	-
Restricted cash commitments	-	-	104,868	-	-	-
Unreserved:						
Designated for future expenditures	-	-	-	-	100,000	-
Undesignated	26,884,415	2,808,664	(3,480,503)	24,086	8,074,292	386,601
<b>Total fund balances</b>	<b>42,026,835</b>	<b>3,632,661</b>	<b>7,238,575</b>	<b>325,618</b>	<b>8,603,766</b>	<b>465,873</b>
<b>Total liabilities and fund balances</b>	<b>\$ 43,259,963</b>	<b>3,635,800</b>	<b>11,176,395</b>	<b>327,035</b>	<b>10,434,503</b>	<b>1,001,493</b>

Lake Cunningham (Fund 462)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Fund 536)	Stores Vehicle Maintenance and Operations (Funds 551-553)	Totals
1,779,580	552,242	85,139	8,704,008	252,032,312
-	-	-	5,450	751,661
8,376	2,680	371,752	48,693	25,614,628
-	-	-	-	40,099
-	-	530,000	-	11,747,285
-	-	-	1,831,823	1,831,823
-	-	-	-	8,316,072
-	-	-	-	353,105
-	-	-	-	104,868
-	-	-	-	163,968
<u>1,787,956</u>	<u>554,922</u>	<u>986,891</u>	<u>10,589,974</u>	<u>300,955,821</u>
703	-	440,029	851,043	19,572,881
1,482	-	286,083	204,021	1,825,290
-	-	-	-	4,080,523
-	-	804,406	1,032,200	7,482,445
-	-	-	-	16,780,272
-	-	-	-	1,375,353
-	-	-	-	3,405,532
<u>2,185</u>	<u>-</u>	<u>1,530,518</u>	<u>2,087,264</u>	<u>54,522,296</u>
8,437	34,909	382,605	2,451,522	42,378,203
-	-	-	1,831,823	11,576,206
-	-	-	-	104,868
-	-	-	-	40,507,055
<u>1,777,334</u>	<u>520,013</u>	<u>(926,232)</u>	<u>4,219,365</u>	<u>151,867,193</u>
<u>1,785,771</u>	<u>554,922</u>	<u>(543,627)</u>	<u>8,502,710</u>	<u>246,433,525</u>
<u>1,787,956</u>	<u>554,922</u>	<u>986,891</u>	<u>10,589,974</u>	<u>300,955,821</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, 2004**

	Emma Prusch Memorial Park (Fund 131)	Gift Trust (Fund 139)	Developer Fees (Fund 138)	William F. Prusch Jr. (Fund 151)
<b>REVENUES</b>				
Taxes and special assessments	\$ -	-	-	-
Intergovernmental	-	286,685	-	-
Charges for current services	-	-	-	-
Rent	72,852	-	-	-
Interest and other revenues	1,675	8,140	-	81
Total revenues	<u>74,527</u>	<u>294,825</u>	<u>-</u>	<u>81</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Capital maintenance	-	-	-	-
Community services	4,671	183,968	-	-
Sanitation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>4,671</u>	<u>183,968</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenue over (under) expenditures	<u>69,856</u>	<u>110,857</u>	<u>-</u>	<u>81</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEM</b>				
Loss at transition	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	69,856	110,857	-	81
Fund balances - beginning	<u>225,852</u>	<u>1,359,285</u>	<u>-</u>	<u>13,842</u>
Fund balances - ending	<u>\$ 295,708</u>	<u>1,470,142</u>	<u>-</u>	<u>13,923</u>

Employee Benefits (Funds 155-161)	Workforce Investment Act (Fund 290)	Construction and Property Conveyance Tax (Funds 377-398)	Special Assessment Maintenance Districts (Funds 351-369 371-373)	Special Assessment Special Services (Fund 350)	Subdivision Park Trust (Fund 375)	Emergency Reserve (Funds 405-407)	1943 Gas Tax Maintenance and Construction (Fund 409)
-	-	38,199,097	3,776,436	37,604	-	-	-
-	11,497,737	4,126,816	-	-	-	-	7,636,508
60,063,511	-	-	-	-	6,879,506	-	-
-	-	-	-	-	-	-	-
24,088	-	1,057,109	52,847	-	234,417	-	-
60,087,599	11,497,737	43,383,022	3,829,083	37,604	7,113,923	-	7,636,508
60,010,176	-	-	-	-	-	53,513	-
-	-	-	-	-	-	-	-
-	-	20,490,930	3,361,030	66,855	3,652,621	-	7,636,508
-	11,505,181	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	2,691,762	-	-	1,915,979	-	-
-	-	11,312	-	-	-	-	-
-	-	884	-	-	-	-	-
60,010,176	11,505,181	23,194,888	3,361,030	66,855	5,568,600	53,513	7,636,508
77,423	(7,444)	20,188,134	468,053	(29,251)	1,545,323	(53,513)	-
-	-	-	-	-	-	-	-
-	-	589,000	123,106	30,000	4,442,650	-	-
-	-	(7,225,369)	-	-	(827,000)	-	-
-	-	(6,636,369)	123,106	30,000	3,615,650	-	-
-	-	-	-	-	-	-	-
77,423	(7,444)	13,551,765	591,159	749	5,160,973	(53,513)	-
5,333,662	305,667	58,505,146	7,776,381	205,753	44,185,673	4,625,322	-
5,411,085	298,223	72,056,911	8,367,540	206,502	49,346,646	4,571,809	-

**City of San José**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2004**

	1964 Gas Tax Construction and Maintenance (Funds 410-411)	Library Benefit Assessment (Fund 412)	Storm Drainage Fee (Funds 413, 427)	Supplemental Local Law Enforcement (Fund 414)	Federal LLEBG Program (Fund 415)	Underground Utility (Fund 416)
<b>REVENUES</b>						
Taxes and special assessments	\$ -	6,170,853	-	-	-	-
Intergovernmental	9,451,188	-	4,000	1,998,894	760,489	1,267,456
Charges for current services	-	-	725,831	-	-	-
Rent	-	-	-	-	-	-
Interest and other revenues	-	19,019	7,555	8,383	1,303	-
Total revenues	9,451,188	6,189,872	737,386	2,007,277	761,792	1,267,456
<b>EXPENDITURES</b>						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	6,833,793	1,010,627	-
Capital maintenance	9,512,889	2,739,365	75,662	-	-	1,971,728
Community services	-	3,261,246	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital outlay	-	-	-	790,587	194,580	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	9,512,889	6,000,611	75,662	7,624,380	1,205,207	1,971,728
Excess (deficiency) of revenue over (under) expenditures	(61,701)	189,261	661,724	(5,617,103)	(443,415)	(704,272)
<b>OTHER FINANCING SOURCES (USES)</b>						
Loan proceeds	-	-	-	-	-	-
Transfers in	-	-	-	-	35,816	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	35,816	-
<b>SPECIAL ITEM</b>						
Loss at transition	-	-	-	-	-	-
Net change in fund balances	(61,701)	189,261	661,724	(5,617,103)	(407,599)	(704,272)
Fund balances - beginning	61,701	1,675,807	941,885	6,023,881	440,409	2,648,805
Fund balances - ending	\$ -	1,865,068	1,603,609	406,778	32,810	1,944,533

State Drug Forfeiture (Fund 417)	Federal Drug Forfeiture (Fund 419)	Residential Construction Tax Contribution (Fund 420)	Arterial and Major Collectors (Fund 421)	Community Facility Revenue (Funds 422,432)	Integrated Waste Management (Fund 423)	Tobacco Settlement (Fund 426)
-	-	286,083	-	-	-	-
-	-	-	-	-	276,812	-
-	-	-	98,863	5,161,660	66,934,786	-
-	-	-	-	1,582,500	-	-
220,016	16,925	-	12,587	1,137,511	149,666	9,925,614
220,016	16,925	286,083	111,450	7,881,671	67,361,264	9,925,614
-	-	-	-	9,896,579	-	12,216,545
254,954	-	-	-	-	-	-
-	-	212,129	72,266	118,292	-	-
-	-	-	-	-	-	-
-	-	-	-	-	64,130,798	-
81,160	-	-	449,261	-	-	-
-	-	-	-	291,666	-	-
-	-	-	-	-	-	-
336,114	-	212,129	521,527	10,306,537	64,130,798	12,216,545
(116,098)	16,925	73,954	(410,077)	(2,424,866)	3,230,466	(2,290,931)
-	-	-	-	3,200,000	-	-
-	-	-	-	1,169,288	-	-
-	-	-	-	(1,309,720)	-	(10,000,000)
-	-	-	-	3,059,568	-	(10,000,000)
-	-	-	-	(7,862,451)	-	-
(116,098)	16,925	73,954	(410,077)	(7,227,749)	3,230,466	(12,290,931)
1,034,613	790,361	828,329	2,624,578	8,321,711	11,509,998	17,563,054
918,515	807,286	902,283	2,214,501	1,093,962	14,740,464	5,272,123

**City of San José**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2004**

	Building and Structures Construction Tax (Fund 429)	Development Enhancement (Fund 439)	Community Development Block Grant (Fund 441)	Economic Development Administration Loans (Fund 444)	Storm Drainage Service Use Charge (Funds 446, 469)	Transient Occupancy Tax (Fund 461)
<b>REVENUES</b>						
Taxes and special assessments	\$ 8,986,544	-	-	-	-	8,454,187
Intergovernmental	1,778,248	-	14,594,952	12,884	-	-
Charges for current services	-	-	-	-	13,902,908	-
Rent	-	-	-	-	-	-
Interest and other revenues	1,351,195	53,632	-	-	52,574	28,325
Total revenues	<u>12,115,987</u>	<u>53,632</u>	<u>14,594,952</u>	<u>12,884</u>	<u>13,955,482</u>	<u>8,482,512</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	184,775	-	17,000	-	-
Public safety	-	-	-	-	-	-
Capital maintenance	6,585,608	-	4,533,349	-	433,433	-
Community services	-	-	9,680,132	-	-	4,456,338
Sanitation	-	-	-	-	11,714,222	-
Capital outlay	15,505,392	-	663,947	-	138,850	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>22,091,000</u>	<u>184,775</u>	<u>14,877,428</u>	<u>17,000</u>	<u>12,286,505</u>	<u>4,456,338</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(9,975,013)</u>	<u>(131,143)</u>	<u>(282,476)</u>	<u>(4,116)</u>	<u>1,668,977</u>	<u>4,026,174</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Loan proceeds	-	-	-	-	-	-
Transfers in	400,000	-	-	-	-	-
Transfers out	(327,774)	(31,422)	(237,503)	-	-	(5,003,695)
Total other financing sources (uses)	<u>72,226</u>	<u>(31,422)</u>	<u>(237,503)</u>	<u>-</u>	<u>-</u>	<u>(5,003,695)</u>
<b>SPECIAL ITEM</b>						
Loss at transition	-	-	-	-	-	-
Net change in fund balances	(9,902,787)	(162,565)	(519,979)	(4,116)	1,668,977	(977,521)
Fund balances - beginning	51,929,622	3,795,226	7,758,554	329,734	6,934,789	1,443,394
Fund balances - ending	<u>\$ 42,026,835</u>	<u>3,632,661</u>	<u>7,238,575</u>	<u>325,618</u>	<u>8,603,766</u>	<u>465,873</u>

Lake Cunningham (Fund 462)	Municipal Golf Courses (Fund 518)	Convention and Cultural Facilities (Fund 536)	Stores Vehicle Maintenance and Operations (Funds 551-553)	Totals
-	-	-	-	65,910,804
-	-	-	-	53,692,669
691,844	793,215	1,305,592	18,488,279	175,045,995
-	-	5,031,695	-	6,687,047
11,104	16,493	-	1,202	14,391,261
<u>702,948</u>	<u>809,708</u>	<u>6,337,287</u>	<u>18,489,481</u>	<u>315,727,776</u>
-	-	-	17,583,696	99,962,284
-	-	-	-	8,099,374
103,480	68,991	37,934	36,288	61,709,358
-	65,488	18,000,679	-	47,157,703
-	-	-	-	75,845,020
-	-	13,531	692,972	23,138,021
-	-	-	-	302,978
-	-	-	-	884
<u>103,480</u>	<u>134,479</u>	<u>18,052,144</u>	<u>18,312,956</u>	<u>316,215,622</u>
<u>599,468</u>	<u>675,229</u>	<u>(11,714,857)</u>	<u>176,525</u>	<u>(487,846)</u>
-	-	-	-	3,200,000
-	-	8,063,050	-	14,852,910
(226,000)	(1,558,090)	(400,000)	(2,921,000)	(30,067,573)
<u>(226,000)</u>	<u>(1,558,090)</u>	<u>7,663,050</u>	<u>(2,921,000)</u>	<u>(12,014,663)</u>
-	-	-	-	(7,862,451)
373,468	(882,861)	(4,051,807)	(2,744,475)	(20,364,960)
<u>1,412,303</u>	<u>1,437,783</u>	<u>3,508,180</u>	<u>11,247,185</u>	<u>266,798,485</u>
<u>1,785,771</u>	<u>554,922</u>	<u>(543,627)</u>	<u>8,502,710</u>	<u>246,433,525</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, 2004**

	Emma Prusch Memorial Park (Funds 131)			Gift Trust (Funds 139)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
<b>REVENUES</b>						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	170,436	286,685	116,249
Charges for current services	-	-	-	-	-	-
Rent	67,000	72,852	5,852	-	-	-
Gifts	-	-	-	-	-	-
Interest and other revenues	5,000	6,136	1,136	-	34,501	34,501
Contributions from Redevelopment Agency	-	-	-	-	-	-
Total revenues	<u>72,000</u>	<u>78,988</u>	<u>6,988</u>	<u>170,436</u>	<u>321,186</u>	<u>150,750</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	-	-	-	-	-
Community services	131,000	4,671	(126,329)	1,498,802	198,012	(1,300,790)
Public Safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	-	-	-
Other expenditures	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>131,000</u>	<u>4,671</u>	<u>(126,329)</u>	<u>1,498,802</u>	<u>198,012</u>	<u>(1,300,790)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(59,000)</u>	<u>74,317</u>	<u>133,317</u>	<u>(1,328,366)</u>	<u>123,174</u>	<u>1,451,540</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>(59,000)</u>	<u>74,317</u>	<u>133,317</u>	<u>(1,328,366)</u>	<u>123,174</u>	<u>1,451,540</u>
Fund balances - beginning		222,490			1,327,568	
Prior year encumbrances and other budgetary basis differences		-			14,044	
Fund balances - ending		<u>\$ 296,807</u>			<u>\$ 1,464,786</u>	

Employee Benefit (Funds 155-161)			Workforce Investment Act (Fund 290)			Construction and Property Conveyance (Funds 377-398)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	24,000,000	38,199,097	14,199,097
61,892,699	60,063,511	(1,829,188)	21,198,309	11,497,737	(9,700,572)	9,467,000	4,126,816	(5,340,184)
-	-	-	-	-	-	43,000	-	(43,000)
-	-	-	-	-	-	-	-	-
137,000	150,797	13,797	-	-	-	650,000	1,081,854	431,854
-	-	-	-	-	-	-	-	-
<u>62,029,699</u>	<u>60,214,308</u>	<u>(1,815,391)</u>	<u>21,198,309</u>	<u>11,497,737</u>	<u>(9,700,572)</u>	<u>34,160,000</u>	<u>43,407,767</u>	<u>9,247,767</u>
62,280,194	60,030,379	(2,249,815)	-	-	-	262,000	262,000	-
-	-	-	19,633,718	14,037,821	(5,595,897)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	43,123,386	26,827,180	(16,296,206)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	5,269,551	3,308,958	(1,960,593)
-	-	-	-	-	-	11,312	11,312	-
-	-	-	-	-	-	884	884	-
<u>62,280,194</u>	<u>60,030,379</u>	<u>(2,249,815)</u>	<u>19,633,718</u>	<u>14,037,821</u>	<u>(5,595,897)</u>	<u>48,667,133</u>	<u>30,410,334</u>	<u>(18,256,799)</u>
<u>(250,495)</u>	<u>183,929</u>	<u>434,424</u>	<u>1,564,591</u>	<u>(2,540,084)</u>	<u>(4,104,675)</u>	<u>(14,507,133)</u>	<u>12,997,433</u>	<u>27,504,566</u>
-	-	-	-	-	-	589,000	589,000	-
-	-	-	-	-	-	(3,251,643)	(7,225,369)	(3,973,726)
-	-	-	-	-	-	(2,662,643)	(6,636,369)	(3,973,726)
<u>(250,495)</u>	<u>183,929</u>	<u>434,424</u>	<u>1,564,591</u>	<u>(2,540,084)</u>	<u>(4,104,675)</u>	<u>(17,169,776)</u>	<u>6,361,064</u>	<u>23,530,840</u>
	2,758,059			(3,768,335)			50,794,114	
	14,186			4,074,002			7,526,967	
<u>\$ 2,956,174</u>			<u>\$ (2,234,417)</u>			<u>\$ 64,682,145</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, 2004**

	Special Assessment Maintenance Districts (Funds 351-369, 371-372)			Subdivision Park Trust (Fund 375)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
<b>REVENUES</b>						
Taxes and special assessments	\$ 3,455,923	3,776,436	320,513	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	150,000	6,879,506	6,729,506
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Interest and other revenues	458,407	190,619	(267,788)	-	1,025,956	1,025,956
Contributions from Redevelopment Agency	-	-	-	-	-	-
Total revenues	<u>3,914,330</u>	<u>3,967,055</u>	<u>52,725</u>	<u>150,000</u>	<u>7,905,462</u>	<u>7,755,462</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	5,208,869	4,348,818	(860,051)	8,385,247	4,890,194	(3,495,053)
Other expenditures	-	-	-	-	-	-
Capital outlay	-	-	-	2,205,191	1,915,979	(289,212)
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>5,208,869</u>	<u>4,348,818</u>	<u>(860,051)</u>	<u>10,590,438</u>	<u>6,806,173</u>	<u>(3,784,265)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,294,539)</u>	<u>(381,763)</u>	<u>912,776</u>	<u>(10,440,438)</u>	<u>1,099,289</u>	<u>11,539,727</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	123,106	123,106	-	-	4,442,650	4,442,650
Transfers out	-	-	-	(827,000)	(827,000)	-
Total other financing sources (uses)	<u>123,106</u>	<u>123,106</u>	<u>-</u>	<u>(827,000)</u>	<u>3,615,650</u>	<u>4,442,650</u>
Net change in fund balances	\$ <u>(1,171,433)</u>	<u>(258,657)</u>	<u>912,776</u>	<u>(11,267,438)</u>	<u>4,714,939</u>	<u>15,982,377</u>
Fund balances - beginning		6,993,571			42,244,609	
Prior year encumbrances and other budgetary basis differences		679,116			1,349,119	
Fund balances - ending	\$ <u>7,414,030</u>			\$ <u>48,308,667</u>		

Emergency Reserve (Funds 405-407)			1943 Gas Tax Maintenance and Construction (Fund 409)			1964 Gas Tax 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)
-	-	-	-	-	-	-	-	-
-	-	-	7,800,000	7,636,508	(163,492)	10,000,000	9,451,188	(548,812)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	7,800,000	7,636,508	(163,492)	10,000,000	9,451,188	(548,812)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	7,800,000	7,636,508	(163,492)	10,000,000	9,512,889	(487,111)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	7,800,000	7,636,508	(163,492)	10,000,000	9,512,889	(487,111)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(61,701)	(61,701)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(61,701)	(61,701)
-	4,571,809	-	-	-	-	-	61,701	-
-	-	-	-	-	-	-	-	-
\$	<u>4,571,809</u>		\$	<u>-</u>		\$	<u>-</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, 2004**

	Library Benefit Assessment (Fund 412)			Storm Drainage Fee (Funds 413, 427)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
<b>REVENUES</b>						
Taxes and special assessments	\$ 6,270,000	6,170,853	(99,147)	-	-	-
Intergovernmental	-	-	-	4,000	4,000	-
Charges for current services	-	-	-	327,000	725,831	398,831
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Interest and other revenues	-	19,206	19,206	-	11,907	11,907
Contributions from Redevelopment Agency	-	-	-	-	-	-
Total revenues	<u>6,270,000</u>	<u>6,190,059</u>	<u>(79,941)</u>	<u>331,000</u>	<u>741,738</u>	<u>410,738</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	-	-	-	-	-
Community services	4,123,750	3,271,442	(852,308)	-	-	-
Public Safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	3,539,319	2,740,684	(798,635)	629,500	190,162	(439,338)
Other expenditures	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>7,663,069</u>	<u>6,012,126</u>	<u>(1,650,943)</u>	<u>629,500</u>	<u>190,162</u>	<u>(439,338)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,393,069)</u>	<u>177,933</u>	<u>1,571,002</u>	<u>(298,500)</u>	<u>551,576</u>	<u>850,076</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>(1,393,069)</u>	<u>177,933</u>	<u>1,571,002</u>	<u>(298,500)</u>	<u>551,576</u>	<u>850,076</u>
Fund balances - beginning		1,632,283			882,409	
Prior year encumbrances and other budgetary basis differences		43,524			58,629	
Fund balances - ending		<u>\$ 1,853,740</u>			<u>\$ 1,492,614</u>	

Supplemental Local Law Enforcement (Fund 414)			Federal LLEBG Program (Fund 415)			Underground Utility (Fund 416)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
-	-	-	-	-	-	-	-	-
1,377,911	2,619,876	1,241,965	703,783	676,505	(27,278)	1,150,000	1,273,074	123,074
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
30,274	139,435	109,161	10,050	(6,395)	(16,445)	-	-	-
-	-	-	-	-	-	-	-	-
<u>1,408,185</u>	<u>2,759,311</u>	<u>1,351,126</u>	<u>713,833</u>	<u>670,110</u>	<u>(43,723)</u>	<u>1,150,000</u>	<u>1,273,074</u>	<u>123,074</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
8,096,016	6,926,703	(1,169,313)	1,520,030	1,068,253	(451,777)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,080,991	2,203,002	(877,989)
790,587	790,587	-	194,580	194,580	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>8,886,603</u>	<u>7,717,290</u>	<u>(1,169,313)</u>	<u>1,714,610</u>	<u>1,262,833</u>	<u>(451,777)</u>	<u>3,080,991</u>	<u>2,203,002</u>	<u>(877,989)</u>
<u>(7,478,418)</u>	<u>(4,957,979)</u>	<u>2,520,439</u>	<u>(1,000,777)</u>	<u>(592,723)</u>	<u>408,054</u>	<u>(1,930,991)</u>	<u>(929,928)</u>	<u>1,001,063</u>
-	-	-	110,983	35,816	(75,167)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	<u>110,983</u>	<u>35,816</u>	<u>(75,167)</u>	-	-	-
<u>(7,478,418)</u>	<u>(4,957,979)</u>	<u>2,520,439</u>	<u>(889,794)</u>	<u>(556,907)</u>	<u>332,887</u>	<u>(1,930,991)</u>	<u>(929,928)</u>	<u>1,001,063</u>
	2,032,679			637,273			1,921,814	
	5,690,430			268,796			726,991	
\$ <u>2,765,130</u>			\$ <u>349,162</u>			\$ <u>1,718,877</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, 2004**

	State Drug Forfeiture (Fund 417)			Federal Drug Forfeiture (Fund 419)		
	Budget	Budgetary Basis Actual	Variance Over Under	Budget	Budgetary Basis Actual	Variance Over Under
<b>REVENUES</b>						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	-	-	-	-	-	-
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Interest and other revenues	35,000	240,035	205,035	25,000	32,674	7,674
Contributions from Redevelopment Agency	-	-	-	-	-	-
Total revenues	<u>35,000</u>	<u>240,035</u>	<u>205,035</u>	<u>25,000</u>	<u>32,674</u>	<u>7,674</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Public Safety	470,442	267,538	(202,904)	8,752	679	(8,073)
Sanitation	-	-	-	-	-	-
Capital maintenance	-	-	-	-	-	-
Other expenditures	-	-	-	-	-	-
Capital outlay	81,160	81,160	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>551,602</u>	<u>348,698</u>	<u>(202,904)</u>	<u>8,752</u>	<u>679</u>	<u>(8,073)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(516,602)</u>	<u>(108,663)</u>	<u>407,939</u>	<u>16,248</u>	<u>31,995</u>	<u>15,747</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>(516,602)</u>	<u>(108,663)</u>	<u>407,939</u>	<u>16,248</u>	<u>31,995</u>	<u>15,747</u>
Fund balances - beginning		892,737			769,855	
Prior year encumbrances and other budgetary basis differences		126,402			8,752	
Fund balances - ending	\$	<u>910,476</u>		\$	<u>810,602</u>	

Residential Construction Tax Contribution (Fund 420)			Arterial and Major Collectors (Fund 421)			Community Facility Revenue (Funds 422,432)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
111,000	286,083	175,083	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	100,000	98,863	(1,137)	-	-	-
-	-	-	-	-	-	1,582,500	1,582,500	-
-	-	-	78,000	63,489	(14,511)	-	-	-
-	-	-	-	-	-	3,278,785	1,236,251	(2,042,534)
-	-	-	-	-	-	-	-	-
<u>111,000</u>	<u>286,083</u>	<u>175,083</u>	<u>178,000</u>	<u>162,352</u>	<u>(15,648)</u>	<u>4,861,285</u>	<u>2,818,751</u>	<u>(2,042,534)</u>
-	-	-	-	-	-	1,392,000	725,118	(666,882)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
508,361	212,479	(295,882)	80,000	72,266	(7,734)	151,164	112,013	(39,151)
-	-	-	-	-	-	-	-	-
-	-	-	606,075	547,231	(58,844)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>508,361</u>	<u>212,479</u>	<u>(295,882)</u>	<u>686,075</u>	<u>619,497</u>	<u>(66,578)</u>	<u>1,543,164</u>	<u>837,131</u>	<u>(706,033)</u>
<u>(397,361)</u>	<u>73,604</u>	<u>470,965</u>	<u>(508,075)</u>	<u>(457,145)</u>	<u>50,930</u>	<u>3,318,121</u>	<u>1,981,620</u>	<u>(1,336,501)</u>
-	-	-	-	-	-	1,169,288	1,169,288	-
-	-	-	-	-	-	<u>(2,489,779)</u>	<u>(1,309,720)</u>	<u>1,180,059</u>
-	-	-	-	-	-	<u>(1,320,491)</u>	<u>(140,432)</u>	<u>1,180,059</u>
<u>(397,361)</u>	<u>73,604</u>	<u>470,965</u>	<u>(508,075)</u>	<u>(457,145)</u>	<u>50,930</u>	<u>1,997,630</u>	<u>1,841,188</u>	<u>(156,442)</u>
	825,968			2,478,610			2,578,349	
	2,361			106,075			12,500	
<u>\$ 901,933</u>			<u>\$ 2,127,540</u>			<u>\$ 4,432,037</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, 2004**

	Integrated Waste Management (Fund 423)			Tobacco Settlement (Fund 426)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
<b>REVENUES</b>						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	259,985	276,812	16,827	-	-	-
Charges for current services	67,076,510	67,426,231	349,721	-	-	-
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Interest and other revenues	470,544	149,666	(320,878)	11,465,000	10,249,467	(1,215,533)
Contributions from Redevelopment Agency	-	-	-	-	-	-
Total revenues	<u>67,807,039</u>	<u>67,852,709</u>	<u>45,670</u>	<u>11,465,000</u>	<u>10,249,467</u>	<u>(1,215,533)</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	-	-	15,615,090	15,230,095	(384,995)
Community services	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Sanitation	73,185,730	69,222,150	(3,963,580)	-	-	-
Capital maintenance	-	-	-	-	-	-
Other expenditures	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>73,185,730</u>	<u>69,222,150</u>	<u>(3,963,580)</u>	<u>15,615,090</u>	<u>15,230,095</u>	<u>(384,995)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,378,691)</u>	<u>(1,369,441)</u>	<u>4,009,250</u>	<u>(4,150,090)</u>	<u>(4,980,628)</u>	<u>(830,538)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	(10,000,000)	(10,000,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000,000)</u>	<u>(10,000,000)</u>	<u>-</u>
Net change in fund balances	\$ <u>(5,378,691)</u>	<u>(1,369,441)</u>	<u>4,009,250</u>	<u>(14,150,090)</u>	<u>(14,980,628)</u>	<u>(830,538)</u>
Fund balances - beginning		6,820,157			14,607,344	
Prior year encumbrances and other budgetary basis differences		4,054,255			2,516,894	
Fund balances - ending		<u>\$ 9,504,971</u>			<u>\$ 2,143,610</u>	

Building and Structures Construction Tax (Fund 429)			Development Enhancement (Fund 439)			Community Development Block Grant (Fund 441)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
7,273,000	8,986,544	1,713,544	-	-	-	-	-	-
2,611,000	1,778,248	(832,752)	-	-	-	13,932,000	14,484,635	552,635
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,191,000	2,322,459	131,459	355,000	358,938	3,938	-	-	-
-	-	-	-	-	-	-	-	-
<u>12,075,000</u>	<u>13,087,251</u>	<u>1,012,251</u>	<u>355,000</u>	<u>358,938</u>	<u>3,938</u>	<u>13,932,000</u>	<u>14,484,635</u>	<u>552,635</u>
-	-	-	1,050,000	504,025	(545,975)	-	-	-
-	-	-	-	-	-	12,619,541	11,061,487	(1,558,054)
-	-	-	-	-	-	-	-	-
22,852,830	16,696,138	(6,156,692)	-	-	-	9,356,270	7,144,867	(2,211,403)
-	-	-	-	-	-	-	-	-
36,501,903	20,537,282	(15,964,621)	-	-	-	1,931,456	1,218,191	(713,265)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>59,354,733</u>	<u>37,233,420</u>	<u>(22,121,313)</u>	<u>1,050,000</u>	<u>504,025</u>	<u>(545,975)</u>	<u>23,907,267</u>	<u>19,424,545</u>	<u>(4,482,722)</u>
<u>(47,279,733)</u>	<u>(24,146,169)</u>	<u>23,133,564</u>	<u>(695,000)</u>	<u>(145,087)</u>	<u>549,913</u>	<u>(9,975,267)</u>	<u>(4,939,910)</u>	<u>5,035,357</u>
400,000	400,000	-	-	-	-	-	-	-
(327,774)	(327,774)	-	(31,422)	(31,422)	-	(237,503)	(237,503)	-
72,226	72,226	-	(31,422)	(31,422)	-	(237,503)	(237,503)	-
<u>(47,207,507)</u>	<u>(24,073,943)</u>	<u>23,133,564</u>	<u>(726,422)</u>	<u>(176,509)</u>	<u>549,913</u>	<u>(10,212,770)</u>	<u>(5,177,413)</u>	<u>5,035,357</u>
	40,578,714			2,993,125			12,897,293	
	10,583,350			6,156			3,084,913	
\$ <u>27,088,121</u>			\$ <u>2,822,772</u>			\$ <u>10,804,793</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, 2004**

	<b>Economic Development Administration Loans</b>			<b>Storm Drainage Service Use Charge</b>		
	<b>(Fund 444)</b>			<b>(Funds 446, 469)</b>		
		Budgetary Basis	Variance Over		Budgetary Basis	Variance Over
	Budget	Actual	(Under)	Budget	Actual	(Under)
<b>REVENUES</b>						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	58,000	73,108	15,108	-	-	-
Charges for current services	-	-	-	13,704,085	13,902,908	198,823
Rent	-	-	-	-	-	-
Gifts	-	-	-	-	-	-
Interest and other revenues	-	-	-	183,000	156,181	(26,819)
Contributions from Redevelopment Agency	-	-	-	-	-	-
Total revenues	<u>58,000</u>	<u>73,108</u>	<u>15,108</u>	<u>13,887,085</u>	<u>14,059,089</u>	<u>172,004</u>
<b>EXPENDITURES</b>						
Current:						
General government	76,064	75,000	(1,064)	-	-	-
Community services	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-
Sanitation	-	-	-	13,799,732	12,136,349	(1,663,383)
Capital maintenance	-	-	-	894,381	440,780	(453,601)
Other expenditures	-	-	-	-	-	-
Capital outlay	-	-	-	2,607,200	138,850	(2,468,350)
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>76,064</u>	<u>75,000</u>	<u>(1,064)</u>	<u>17,301,313</u>	<u>12,715,979</u>	<u>(4,585,334)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(18,064)</u>	<u>(1,892)</u>	<u>16,172</u>	<u>(3,414,228)</u>	<u>1,343,110</u>	<u>4,757,338</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	1,853,000	-	(1,853,000)
Transfers out	-	-	-	(1,853,000)	-	1,853,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>(18,064)</u>	<u>(1,892)</u>	<u>16,172</u>	<u>(3,414,228)</u>	<u>1,343,110</u>	<u>4,757,338</u>
Fund balances - beginning		26,102			6,003,468	
Prior year encumbrances and other budgetary basis differences		-			858,633	
Fund balances - ending	\$ <u>24,210</u>			\$ <u>8,205,211</u>		

Transient Occupancy Tax (Fund 461)			Lake Cunningham (Fund 462)			Municipal Golf Courses (Fund 518)		
Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
9,187,750	8,454,187	(733,563)	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	620,000	691,844	71,844	1,344,000	793,215	(550,785)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	38,541	38,541	40,000	40,757	757	-	39,539	39,539
-	-	-	-	-	-	-	-	-
9,187,750	8,492,728	(695,022)	660,000	732,601	72,601	1,344,000	832,754	(511,246)
-	-	-	-	-	-	-	-	-
4,678,039	4,535,610	(142,429)	-	-	-	125,393	86,488	(38,905)
-	-	-	-	-	-	-	-	-
-	-	-	555,620	111,917	(443,703)	126,661	82,900	(43,761)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
4,678,039	4,535,610	(142,429)	555,620	111,917	(443,703)	252,054	169,388	(82,666)
-	-	-	-	-	-	-	-	-
4,509,711	3,957,118	(552,593)	104,380	620,684	516,304	1,091,946	663,366	(428,580)
-	-	-	-	-	-	-	-	-
(5,003,695)	(5,003,695)	-	(226,000)	(226,000)	-	-	(1,558,090)	(1,558,090)
(5,003,695)	(5,003,695)	-	(226,000)	(226,000)	-	-	(1,558,090)	(1,558,090)
(493,984)	(1,046,577)	(552,593)	(121,620)	394,684	516,304	1,091,946	(894,724)	(1,986,670)
-	1,306,430	-	-	1,321,007	-	-	1,391,837	-
-	130,348	-	-	70,275	-	-	25,662	-
\$ 390,201			\$ 1,785,966			\$ 522,775		

**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, 2004**

	Convention and Cultural Facilities (Fund 536)			Stores Vehicle Maintenance and Operations (Funds 551-553)		
	Budget	Budgetary Basis Actual	Variance Over (Under)	Budget	Budgetary Basis Actual	Variance Over (Under)
<b>REVENUES</b>						
Taxes and special assessments	\$ -	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for current services	1,606,903	1,305,592	(301,311)	19,772,531	19,520,479	(252,052)
Rent	6,451,097	5,031,695	(1,419,402)	-	-	-
Gifts	-	-	-	-	-	-
Interest and other revenues	242,000	53,505	(188,495)	-	5,304	5,304
Contributions from Redevelopment Agency	-	-	-	-	-	-
Total revenues	<u>8,300,000</u>	<u>6,390,792</u>	<u>(1,909,208)</u>	<u>19,772,531</u>	<u>19,525,783</u>	<u>(246,748)</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	-	-	20,370,662	19,210,937	(1,159,725)
Community services	18,723,839	18,375,294	(348,545)	-	-	-
Public Safety	-	-	-	-	-	-
Sanitation	-	-	-	-	-	-
Capital maintenance	45,925	45,924	(1)	395,500	36,288	(359,212)
Other expenditures	-	-	-	-	-	-
Capital outlay	13,531	13,531	-	1,725,172	1,725,172	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>18,783,295</u>	<u>18,434,749</u>	<u>(348,546)</u>	<u>22,491,334</u>	<u>20,972,397</u>	<u>(1,518,937)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,483,295)</u>	<u>(12,043,957)</u>	<u>(1,560,662)</u>	<u>(2,718,803)</u>	<u>(1,446,614)</u>	<u>1,272,189</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	8,202,250	8,063,050	(139,200)	-	-	-
Transfers out	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>	<u>(2,933,598)</u>	<u>(2,921,000)</u>	<u>12,598</u>
Total other financing sources (uses)	<u>7,802,250</u>	<u>7,663,050</u>	<u>(139,200)</u>	<u>(2,933,598)</u>	<u>(2,921,000)</u>	<u>12,598</u>
Net change in fund balances	\$ <u>(2,681,045)</u>	<u>(4,380,907)</u>	<u>(1,699,862)</u>	<u>(5,652,401)</u>	<u>(4,367,614)</u>	<u>1,284,787</u>
Fund balances - beginning		3,358,862			7,406,416	
Prior year encumbrances and other budgetary basis differences		401,964			1,769,106	
Fund balances - ending		\$ <u>(620,081)</u>			\$ <u>4,807,908</u>	

# Nonmajor Debt Service Funds

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Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

2001 Series E Communications Center Refunding – Debt issued to refund the outstanding balance of the 1991 Certificate of Participation related to the construction of a new police and fire communications center.

2000 Series B Camden Park Refunding – Debt issued to refund the outstanding balance of the 1992 ABAG Certificate of Participation relating to the financing of the acquisition of land for Camden Park.

1993 A & B Community Facilities Financing - Debt issued to finance the acquisition, construction, and improvements of the Hayes Mansion and the Ice Rink Center. Debt repayments are funded by transfers from certain Construction and Conveyance Tax Funds and from base rental revenues received from the operations of the Hayes Mansion and the Ice Rink Center.

1993 COPS - Accelerated Street Improvements - Debt issued to finance various street improvements in the City. Debt repayments are funded by gas tax revenues.

2000 Series C Ice Centre Refunding – Debt refinancing for construction of Ice Centre recreation facility. Debt repayments are funded by lease payments under the project lease.

2001 General Obligation Bonds Parks and Libraries – Debt issued for construction of various library and parks projects. Debt repayments are funded by ad valorem property taxes.

San José Financing Authority - Debt issued by the City of San José Financing Authority to finance the acquisition, construction, and improvements of various City community facilities.

## Nonmajor Debt Service Funds

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Debt Service Funds**  
**June 30, 2004**

	2001 Series E Communications Center Refunding (Fund 201)	2000 Series B Camden Park Refunding (Fund 203)	1993 A&B Community Facilities Financing (Fund 204)
<b>ASSETS</b>			
Equity in pooled cash and investments held in City Treasury	\$ 139,400	225,662	1,045,666
Other investments	-	-	-
Receivables (net of allowances for uncollectibles)	672	1,089	3,575
Due from outside agencies	-	-	-
Total assets	<u>\$ 140,072</u>	<u>226,751</u>	<u>1,049,241</u>
<b>LIABILITIES</b>			
Accounts payable	-	-	-
Advances from other funds	-	-	-
Other liabilities	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Reserved for encumbrances	-	-	-
Reserved for debt service	140,072	226,751	1,049,241
Total fund balances	<u>140,072</u>	<u>226,751</u>	<u>1,049,241</u>
Total liabilities and fund balances	<u>\$ 140,072</u>	<u>226,751</u>	<u>1,049,241</u>

1993 COP Accelerated Street Improvements (Fund 205)	2000 Series C Ice Centre Refunding (Fund 206)	2001 GO Bonds Parks & Libraries (Fund 209)	San José Financing Authority	Totals
7,013	1,390,981	12,326,728	265,783	15,401,233
-	-	206	98,303,501	98,303,707
34	6,693	97,955	399	110,417
-	-	35,142	-	35,142
<u>7,047</u>	<u>1,397,674</u>	<u>12,460,031</u>	<u>98,569,683</u>	<u>113,850,499</u>
-	17,919	-	6,560	24,479
-	-	-	3,733,754	3,733,754
-	-	-	22,673,000	22,673,000
<u>-</u>	<u>17,919</u>	<u>-</u>	<u>26,413,314</u>	<u>26,431,233</u>
-	-	-	123,353	123,353
<u>7,047</u>	<u>1,379,755</u>	<u>12,460,031</u>	<u>72,033,016</u>	<u>87,295,913</u>
<u>7,047</u>	<u>1,379,755</u>	<u>12,460,031</u>	<u>72,156,369</u>	<u>87,419,266</u>
<u>7,047</u>	<u>1,397,674</u>	<u>12,460,031</u>	<u>98,569,683</u>	<u>113,850,499</u>

**City of San José**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2004**

	2001 Series E Communications Center Refunding (Fund 201)	2000 Series B Camden Park Refunding (Fund 203)	1993 A&B Community Facilities Financing (Fund 204)
<b>REVENUES</b>			
Property taxes	\$ -	-	-
Interest and other revenues	6,523	3,224	1,930
Total revenues	<u>6,523</u>	<u>3,224</u>	<u>1,930</u>
<b>EXPENDITURES</b>			
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	2,300	-
Bond issuance costs	-	-	-
Payment to refunded bond escrow agent	-	-	-
Total expenditures	<u>-</u>	<u>2,300</u>	<u>-</u>
Excess (deficiency) of revenues over(under) expenditures	<u>6,523</u>	<u>924</u>	<u>1,930</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	-	-	-
Proceeds from refunding bonds	-	-	-
Bond premium	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfers in	2,369,400	218,863	1,405,921
Transfers out	<u>(2,285,682)</u>	<u>(214,689)</u>	<u>(1,323,072)</u>
Total other financing sources (uses)	<u>83,718</u>	<u>4,174</u>	<u>82,849</u>
Net change in fund balances	90,241	5,098	84,779
Fund balances - beginning	<u>49,831</u>	<u>221,653</u>	<u>964,462</u>
Fund balances - ending	<u>\$ 140,072</u>	<u>226,751</u>	<u>1,049,241</u>

1993 COPS Accelerated Street Improvements (Fund 205)	2000 Series C Ice Centre Refunding (Fund 206)	2001 GO Bonds Parks & Libraries (Fund 209)	San José Financing Authority	Totals
-	-	12,886,042	-	12,886,042
1,349	7,258	74,403	2,340,412	2,435,099
1,349	7,258	12,960,445	2,340,412	15,321,141
-	-	6,240,000	7,833,738	14,073,738
-	96,234	8,476,047	27,004,735	35,579,316
-	-	-	1,611,333	1,611,333
-	-	-	2,964,098	2,964,098
-	96,234	14,716,047	39,413,904	54,228,485
1,349	(88,976)	(1,755,602)	(37,073,492)	(38,907,344)
-	-	-	1,225,000	1,225,000
-	-	-	22,625,000	22,625,000
-	-	-	86,044	86,044
-	-	-	(20,257,740)	(20,257,740)
96,015	-	-	12,202,788	16,292,987
(120,000)	(176,987)	-	(21,992,361)	(26,112,791)
(23,985)	(176,987)	-	(6,111,269)	(6,141,500)
(22,636)	(265,963)	(1,755,602)	(43,184,761)	(45,048,844)
29,683	1,645,718	14,215,633	115,341,130	132,468,110
7,047	1,379,755	12,460,031	72,156,369	87,419,266

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# Nonmajor Capital Project Funds

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Capital Project Funds are used to account for resources designated to acquire or construct general fixed assets and major improvements other than those financed by the Enterprise, Internal Service, and Trust Funds. Redevelopment Agency capital projects account for the majority of expenditures in this fund.

Capital Project Funds established by the City of San José fall into the following categories:

Fiber Optics Development Fund - Established to account for the installation of a fiber optic conduit system which the City will own and lease to telecommunication companies and other users.

San Antonio Fund – Used to account for the construction and installation of public improvements and acquisition of land related to the San Antonio Redevelopment Project .

Capital Improvement Funds - Used to account for assessment charges for the construction of the Alviso Ring Levee.

Civic Center Parking Fund – Used to account for construction of a new civic center parking facility.

Hayes Mansion Phase III Funds – Used to account for proceeds of the San José Financing Authority 2001 Series B, C and D Lease Revenue Bonds financing improvements to the Hayes Renaissance Conference Center.

Redevelopment Agency Capital Projects Fund – Used to account for various capital projects in coordination with the Redevelopment Agency.

Julian Stockton Fund – Used to account for capital project construction for Julian and Stockton streets.

Route 85/87 Fund – Used to account for capital project construction at Route 85 and Route 87 junction.

Construction Excise Tax Fund - Used to account for revenues and expenditures related to traffic maintenance and improvements.

Park Center Project Contingency Fund - Used to account for the established contingency reserve for the Park Center Redevelopment projects pursuant to and for the purposes set forth in the Cooperation Agreement between the City of San José and the San José Redevelopment Agency.

Community Facilities Construction - Used to account for all monies received relating to the renovation of the Hayes Mansion, and the construction of the Community Ice Rink, Berryessa Community Center, and Murdock Park projects.

Parks Bond Projects - Used to account for general obligation bond proceeds for various parks construction projects.

Branch Libraries Bond Projects – Used to account for general obligation bond proceeds for various library construction projects.

Civic Center Improvement - Used to account for commercial paper proceeds for the new City Hall technology, furniture, equipment and relocation cost.

Neighborhood Security Bond Projects – Used to account for general obligation bond proceeds to improve various libraries, parks and public safety facilities.

City Hall Renovation Constructions – Used to account for improvements to the existing City Hall.

San José Financing Authority – Established to account for the proceeds of the Authority's bonds issued for the construction of various capital improvements.

## Nonmajor Capital Project Funds

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Capital Project Funds**  
**June 30, 2004**

	<b>Fiber Optics Development (Fund 007)</b>	<b>San Antonio (Fund 403)</b>	<b>Capital Improvements (Funds 408, 424)</b>
<b>ASSETS</b>			
Equity in pooled cash and investments held in City Treasury	\$ 790,339	94,833	448,787
Receivables (net of allowance for uncollectibles)	3,813	457	19
Due from other funds	-	-	-
Loans receivable, net	-	-	-
Advances and deposits	-	-	4,472
Total current assets	<u>794,152</u>	<u>95,290</u>	<u>453,278</u>
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	-	-	-
Other investments	-	-	-
Total assets	<u><u>794,152</u></u>	<u><u>95,290</u></u>	<u><u>453,278</u></u>
<b>LIABILITIES</b>			
Accounts payable	-	-	-
Accrued salaries, wages and payroll taxes	-	-	-
Due to other funds	-	-	-
Advances from other funds	3,152,000	-	-
Total liabilities	<u>3,152,000</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE</b>			
Reserved for:			
Encumbrances	-	-	-
Noncurrent advances and loans	-	-	4,472
Unreserved:			
Undesignated	(2,357,848)	95,290	448,806
Total fund balance	<u>(2,357,848)</u>	<u>95,290</u>	<u>453,278</u>
Total liabilities and fund balance	<u>\$ 794,152</u>	<u>95,290</u>	<u>453,278</u>

<b>Civic Center Parking (Fund 433)</b>	<b>Hayes Mansion Phase III (Fund 434)</b>	<b>RDA Capital Projects (Fund 450)</b>	<b>Julian Stockton (Fund 453)</b>
-	-	23,127,863	31,593
-	-	114,607	152
-	-	-	-
-	-	-	-
-	-	-	-
-	-	23,242,470	31,745
-	-	-	-
6,488,151	2,254,648	-	-
6,488,151	2,254,648	23,242,470	31,745
38	-	3,081,549	-
1,286	2,742	54,659	-
3,688,601	1,461,517	-	-
-	-	-	-
3,689,925	1,464,259	3,136,208	-
423,217	2,001	6,818,287	-
-	-	-	-
2,375,009	788,388	13,287,975	31,745
2,798,226	790,389	20,106,262	31,745
6,488,151	2,254,648	23,242,470	31,745

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Capital Project Funds**  
**June 30, 2004**

	<b>Route 85/87 (Fund 455)</b>	<b>Construction Excise Tax (Funds 464, 465, 470)</b>	<b>Park Center Project Contingency (Fund 466)</b>
<b>ASSETS</b>			
Equity in pooled cash and investments held in City Treasury	\$ 90,846	8,378,745	143,689
Receivables (net of allowance for uncollectibles)	438	1,067,465	693
Due from other funds	-	21,381,223	-
Loans receivable, net	-	2,041,112	-
Advances and deposits	-	92,500	-
Total current assets	<u>91,284</u>	<u>32,961,045</u>	<u>144,382</u>
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	-	87,037	-
Other investments	-	-	-
Total assets	<u>91,284</u>	<u>33,048,082</u>	<u>144,382</u>
<b>LIABILITIES</b>			
Accounts payable	-	823,361	-
Accrued salaries, wages and payroll taxes	-	199,328	-
Due to other funds	-	-	-
Advances from other funds	-	-	-
Total liabilities	<u>-</u>	<u>1,022,689</u>	<u>-</u>
<b>FUND BALANCE</b>			
Reserved for:			
Encumbrances	-	4,281,419	-
Noncurrent advances and loans	-	2,133,612	-
Unreserved:			
Undesignated	91,284	25,610,362	144,382
Total fund balance	<u>91,284</u>	<u>32,025,393</u>	<u>144,382</u>
Total liabilities and fund balance	<u>\$ 91,284</u>	<u>33,048,082</u>	<u>144,382</u>

<b>Community Facilities Construction (Funds 467, 468)</b>	<b>Parks Bond Projects (Fund 471)</b>	<b>Branch Libraries Bond Projects (Fund 472)</b>	<b>Civic Center Improvement (Fund 473)</b>	<b>Neighborhood Security Bond Projects (Fund 475)</b>
-	-	1,611,083	-	-
-	99,660	58,720	-	64,027
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	99,660	1,669,803	-	64,027
-	20,658,563	10,843,368	-	13,271,296
-	30,370,104	19,663,127	-	25,334,865
-	51,128,327	32,176,298	-	38,670,188
-	1,799,998	1,168,028	28,679	413,338
-	84,696	65,469	-	68,250
-	7,283,346	6,450,000	985,424	8,077,174
-	-	-	-	-
-	9,168,040	7,683,497	1,014,103	8,558,762
-	21,096,214	29,615,685	6,928,475	1,924,847
-	-	-	-	-
-	20,864,073	(5,122,884)	(7,942,578)	28,186,579
-	41,960,287	24,492,801	(1,014,103)	30,111,426
-	51,128,327	32,176,298	-	38,670,188

**City of San José**  
**Combining Balance Sheet**  
**Nonmajor Capital Project Funds**  
**June 30, 2004**

	<b>City Hall Renovation Construction (Fund 485)</b>	<b>San José Financing Authority (Fund 857-858)</b>	<b>Totals</b>
<b>ASSETS</b>			
Equity in pooled cash and investments held in City Treasury	\$ -	-	34,717,778
Receivables (net of allowance for uncollectibles)	-	-	1,410,051
Due from other funds	-	-	21,381,223
Loans receivable, net	-	-	2,041,112
Advances and deposits	-	-	96,972
Total current assets	<u>-</u>	<u>-</u>	<u>59,647,136</u>
Restricted assets:			
Equity in pooled cash and investments held in City Treasury	-	-	44,860,264
Other investments	139,520	7,816,000	92,066,415
Total assets	<u>139,520</u>	<u>7,816,000</u>	<u>196,573,815</u>
<b>LIABILITIES</b>			
Accounts payable	68,824	-	7,383,815
Accrued salaries, wages and payroll taxes	-	-	476,430
Due to other funds	5,057	-	27,951,119
Advances from other funds	-	-	3,152,000
Total liabilities	<u>73,881</u>	<u>-</u>	<u>38,963,364</u>
<b>FUND BALANCE</b>			
Reserved for:			
Encumbrances	33,260	-	71,123,405
Noncurrent advances and loans	-	-	2,138,084
Unreserved:			
Undesignated	32,379	7,816,000	84,348,962
Total fund balance	<u>65,639</u>	<u>7,816,000</u>	<u>157,610,451</u>
Total liabilities and fund balance	<u>\$ 139,520</u>	<u>7,816,000</u>	<u>196,573,815</u>

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**City of San José**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Capital Project Funds**  
**For The Year Ended June 30, 2004**

	Fiber Optics Development (Fund 007)	San Antonio (Fund 403)	Capital Improvements (Funds 408, 424)
<b>REVENUES</b>			
Taxes	\$ -	-	-
Intergovernmental	-	-	-
Charges for current services	-	-	-
Interest and other revenues	4,612	553	23
Total revenues	<u>4,612</u>	<u>553</u>	<u>23</u>
<b>EXPENDITURES</b>			
Current:			
Capital maintenance	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	4,612	553	23
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	4,612	553	23
Fund balances - beginning	(2,362,460)	94,737	453,255
Fund balances - ending	<u>\$ (2,357,848)</u>	<u>95,290</u>	<u>453,278</u>

<b>Civic Center Parking (Fund 433)</b>	<b>Hayes Mansion Phase III (Fund 434)</b>	<b>RDA Capital Projects (Fund 450)</b>	<b>Julian Stockton (Fund 453)</b>
-	-	-	-
-	-	-	-
-	-	-	-
116,439	12,648	60,550	185
<u>116,439</u>	<u>12,648</u>	<u>60,550</u>	<u>185</u>
-	813,361	3,553,650	-
1,148,337	69,121	20,850,653	-
<u>1,148,337</u>	<u>882,482</u>	<u>24,404,303</u>	<u>-</u>
(1,031,898)	(869,834)	(24,343,753)	185
-	-	-	-
790,000	3,009	14,544,690	-
(1,701,394)	(8,414)	(2,921,926)	-
<u>(911,394)</u>	<u>(5,405)</u>	<u>11,622,764</u>	<u>-</u>
(1,943,292)	(875,239)	(12,720,989)	185
4,741,518	1,665,628	32,827,251	31,560
<u>2,798,226</u>	<u>790,389</u>	<u>20,106,262</u>	<u>31,745</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, 2004**

	Route 85/87 (Fund 455)	Construction Excise Tax (Funds 464, 465, 470)	Park Center Project Contingency (Fund 466)
<b>REVENUES</b>			
Taxes	\$ -	13,962,903	-
Intergovernmental	-	1,320,695	-
Charges for current services	-	108,238	-
Interest and other revenues	530	3,698,305	838
Total revenues	<u>530</u>	<u>19,090,141</u>	<u>838</u>
<b>EXPENDITURES</b>			
Current:			
Capital maintenance	-	15,762,482	-
Capital outlay	-	4,195,826	-
Total expenditures	<u>-</u>	<u>19,958,308</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	530	(868,167)	838
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	-	-	-
Transfers in	-	-	-
Transfers out	-	(5,427,000)	-
Total other financing sources (uses)	<u>-</u>	<u>(5,427,000)</u>	<u>-</u>
Net change in fund balances	530	(6,295,167)	838
Fund balances - beginning	90,754	38,320,560	143,544
Fund balances - ending	<u>\$ 91,284</u>	<u>32,025,393</u>	<u>144,382</u>

<b>Community Facilities Construction (Funds 467, 468)</b>	<b>Parks Bond Projects (Fund 471)</b>	<b>Branch Libraries Bond Projects (Fund 472)</b>	<b>Civic Center Improvement (Fund 473)</b>	<b>Neighborhood Security Bond Projects (Fund 475)</b>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,015	16,887	102,310	-	-
<u>1,015</u>	<u>16,887</u>	<u>102,310</u>	<u>-</u>	<u>-</u>
-	-	-	1,014,103	4,520,687
-	22,119,420	21,590,072	-	3,376,607
<u>-</u>	<u>22,119,420</u>	<u>21,590,072</u>	<u>1,014,103</u>	<u>7,897,294</u>
1,015	(22,102,533)	(21,487,762)	(1,014,103)	(7,897,294)
-	-	-	-	-
-	-	-	-	-
(192,823)	-	-	-	(1,075,000)
<u>(192,823)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,075,000)</u>
(191,808)	(22,102,533)	(21,487,762)	(1,014,103)	(8,972,294)
191,808	64,062,820	45,980,563	-	39,083,720
<u>-</u>	<u>41,960,287</u>	<u>24,492,801</u>	<u>(1,014,103)</u>	<u>30,111,426</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, 2004**

	<b>City Hall Renovation Construction (Fund 485)</b>	<b>San José Financing Authority (Fund 857-858)</b>	<b>Totals</b>
<b>REVENUES</b>			
Taxes	\$ -	-	13,962,903
Intergovernmental	-	-	1,320,695
Charges for current services	-	-	108,238
Interest and other revenues	420	27,632	4,042,947
Total revenues	<u>420</u>	<u>27,632</u>	<u>19,434,783</u>
<b>EXPENDITURES</b>			
Current:			
Capital maintenance	226,036	184,000	26,074,319
Capital outlay	-	-	73,350,036
Total expenditures	<u>226,036</u>	<u>184,000</u>	<u>99,424,355</u>
Excess (deficiency) of revenues over (under) expenditures	(225,616)	(156,368)	(79,989,572)
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	-	8,000,000	8,000,000
Transfers in	600,000	-	15,937,699
Transfers out	-	-	(11,326,557)
Total other financing sources (uses)	<u>600,000</u>	<u>8,000,000</u>	<u>12,611,142</u>
Net change in fund balances	374,384	7,843,632	(67,378,430)
Fund balances - beginning	(308,745)	(27,632)	224,988,881
Fund balances - ending	<u>\$ 65,639</u>	<u>7,816,000</u>	<u>157,610,451</u>

# Trust and Agency Funds

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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 pensions trust funds, and agency funds.

Federated Retirement Funds - The City of San José Federated Retirement Funds were established to account for the accumulation of resources to be used for retirement annuity payments to all full-time and some eligible part-time City of San José employees, except members of the Police and Fire Department Retirement System.

Police and Fire Retirement Funds - The City of San José Police and Fire Retirement Funds were established to account for the accumulation of resources to be used for retirement annuity payments to all sworn officers of the City of San José's Police and Fire departments.

RDA Arena Capital Reserve Fund - This fund was established to account for Arena Facilities monies that will be used to budget and defray Arena Facilities expenditures relating to normal capital repairs and replacement for the San José Arena.

Municipal Health Fund - The Municipal Health Fund was established to account for money received for the Medicare Waiver Demonstration Project funded by the Health Care Financing Administration (HCFA) of the U.S. Dept. of Health and Human Services and disbursements made by the City to various health care clinics on behalf of HCFA.

## Trust and Agency Funds

**City of San José**  
**Pension Trust Funds**  
**Combined Statement of Pension Net Assets**  
**June 30, 2004**

	<b>Federated Retirement System (Fund 134 and 140)</b>	<b>Police and Fire Plan (Fund 135 and 141)</b>	<b>Totals</b>
<b>ASSETS</b>			
Investments at fair value:			
Investments, excluding securities lending collateral	\$ 1,424,706,250	1,980,877,417	3,405,583,667
Securities lending collateral	132,352,204	199,463,210	331,815,414
Receivables (net of allowance for uncollectables):			
Accrued investment income	6,455,138	7,793,899	14,249,037
Employee contributions	476,273	738,309	1,214,582
Employer contributions	1,315,502	990,752	2,306,254
Due from brokers	162,646,631	17,649,990	180,296,621
Other	1,358,560	712,197	2,070,757
Total assets	<u>1,729,310,558</u>	<u>2,208,225,774</u>	<u>3,937,536,332</u>
<b>LIABILITIES</b>			
Accounts payable:			
Due to brokers	188,663,280	94,820,288	283,483,568
Securities lending collateral, due to borrowers	132,352,204	199,463,210	331,815,414
Advances, deposits, and reimbursable credits	100,274	275,622	375,896
Other liabilities	1,470,751	3,432,494	4,903,245
Total liabilities	<u>322,586,509</u>	<u>297,991,614</u>	<u>620,578,123</u>
<b>NET ASSETS HELD IN TRUST FUND FOR PENSION BENEFITS</b>			
Reserved for retirement plans:			
Employees' pension benefits	1,332,155,211	1,877,676,324	3,209,831,535
Employees' postemployment health care benefits	74,568,838	32,557,836	107,126,674
Net assets held in trust for pension benefits	<u>\$ 1,406,724,049</u>	<u>1,910,234,160</u>	<u>3,316,958,209</u>

**City of San José**  
**Pension Trust Funds**  
**Combined Statement of Changes in Pension Net Assets**  
**Year Ended June 30, 2004**

	<b>Federated Retirement System (Fund 134 and 140)</b>	<b>Police and Fire Plan (Fund 135 and 141)</b>	<b>Totals</b>
<b>ADDITIONS</b>			
Investment income:			
Interest	\$ 22,355,296	27,961,475	50,316,771
Dividends	6,235,202	14,951,049	21,186,251
Net rental income	6,257,688	7,233,437	13,491,125
Net appreciation in fair value of plan investments	173,061,907	214,102,105	387,164,012
Investment expenses	(4,700,063)	(7,945,000)	(12,645,063)
Securities lending activities:			
Securities lending income	1,812,640	2,011,155	3,823,795
Securities lending expenses	(1,584,233)	(1,470,369)	(3,054,602)
Contributions:			
Employer	43,481,463	28,903,732	72,385,195
Employees	15,584,860	20,929,341	36,514,201
Total additions	<u>262,504,760</u>	<u>306,676,925</u>	<u>569,181,685</u>
<b>DEDUCTIONS</b>			
General and administrative	1,910,773	2,088,625	3,999,398
Health insurance	11,438,080	9,527,516	20,965,596
Refunds to terminated employees	1,188,505	132,286	1,320,791
Retirement and other benefits paid:			
Death benefits paid	5,454,193	3,975,891	9,430,084
Retirement benefits paid	53,577,726	61,449,822	115,027,548
Total deductions	<u>73,569,277</u>	<u>77,174,140</u>	<u>150,743,417</u>
Net increase	188,935,483	229,502,785	418,438,268
Net assets held in trust for pension benefits			
Beginning of year	1,217,788,566	1,680,731,375	2,898,519,941
End of year	<u>\$ 1,406,724,049</u>	<u>1,910,234,160</u>	<u>3,316,958,209</u>

**City of San José**  
**Federated Retirement System**  
**Combining Statement of Defined Benefit**  
**and Postemployment HealthCare Plan Net Assets**  
**June 30, 2004**

	<b>Federated Retirement (Fund 134)</b>		
	<b>Defined Benefit Pension Plan</b>	<b>Postemployment HealthCare Plan</b>	<b>Total Fund 134</b>
<b>ASSETS</b>			
Investments at fair value:			
Investments, excluding securities lending collateral	\$ 994,530,221	75,418,385	1,069,948,606
Securities lending collateral	94,093,635	7,135,419	101,229,054
Receivables (net of allowance for uncollectables):			
Accrued investment income	4,589,439	348,032	4,937,471
Employee contributions	273,776	97,509	371,285
Employer contributions	917,667	120,264	1,037,931
Due from brokers	115,630,978	8,768,664	124,399,642
Other	966,763	73,313	1,040,076
Total assets	<u>1,211,002,479</u>	<u>91,961,586</u>	<u>1,302,964,065</u>
<b>LIABILITIES</b>			
Accounts payable:			
Due to brokers	134,127,101	10,171,284	144,298,385
Securities lending collateral, due to borrowers	94,093,635	7,135,419	101,229,054
Advances, deposits and reimbursable credits	73,016	5,537	78,553
Other liabilities	1,061,646	80,508	1,142,154
Total liabilities	<u>229,355,398</u>	<u>17,392,748</u>	<u>246,748,146</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFIT</b>			
Reserved for retirement plans:			
Employees' pension benefits	981,647,081	-	981,647,081
Employees' postemployment healthcare benefits	-	74,568,838	74,568,838
Net assets held in trust for pension benefits	<u>\$ 981,647,081</u>	<u>74,568,838</u>	<u>1,056,215,919</u>

**Federated Cost of Living  
(Fund 140)**

Defined Benefit Pension Plan	Postemployment HealthCare Plan	Total Fund 140	Totals
354,757,644	-	354,757,644	1,424,706,250
31,123,150	-	31,123,150	132,352,204
1,517,667	-	1,517,667	6,455,138
104,988	-	104,988	476,273
277,571	-	277,571	1,315,502
38,246,989	-	38,246,989	162,646,631
318,484	-	318,484	1,358,560
<u>426,346,493</u>	<u>-</u>	<u>426,346,493</u>	<u>1,729,310,558</u>
44,364,895	-	44,364,895	188,663,280
31,123,150	-	31,123,150	132,352,204
21,721	-	21,721	100,274
328,597	-	328,597	1,470,751
<u>75,838,363</u>	<u>-</u>	<u>75,838,363</u>	<u>322,586,509</u>
350,508,130	-	350,508,130	1,332,155,211
-	-	-	74,568,838
<u>350,508,130</u>	<u>-</u>	<u>350,508,130</u>	<u>1,406,724,049</u>

**City of San José**  
**Federated Retirement System**  
**Combining Statement of Defined Benefit and Postemployment HealthCare**  
**Changes in Net Plan Assets**  
**Year Ended June 30, 2004**

	<b>Federated Retirement (Fund 134)</b>		
	<u>Defined Benefit Pension Plan</u>	<u>Postemployment HealthCare Plan</u>	<u>Total Fund 134</u>
<b>ADDITIONS</b>			
Investment income:			
Interest	\$ 15,872,836	1,241,665	17,114,501
Dividends	4,428,212	346,401	4,774,613
Net rental income	4,447,484	347,909	4,795,393
Net appreciation in fair value of plan investments	119,883,751	9,378,019	129,261,770
Investment expenses	(3,358,305)	(262,707)	(3,621,012)
Securities lending activities:			
Securities lending income	1,288,165	100,768	1,388,933
Securities lending expenses	(1,125,869)	(88,072)	(1,213,941)
Contributions:			
Employer	30,125,717	3,948,100	34,073,817
Employees	8,958,762	3,190,792	12,149,554
Total additions	<u>180,520,753</u>	<u>18,202,875</u>	<u>198,723,628</u>
<b>DEDUCTIONS</b>			
General and administrative	1,427,367	111,657	1,539,024
Health insurance	-	11,438,080	11,438,080
Refunds to terminated employees	928,263	-	928,263
Retirement and other benefits paid:			
Death benefits paid	5,454,193	-	5,454,193
Retirement benefits paid	41,060,369	-	41,060,369
Total deductions	<u>48,870,192</u>	<u>11,549,737</u>	<u>60,419,929</u>
Net increase	131,650,561	6,653,138	138,303,699
Net assets held in trust for pension benefit			
Beginning of year	849,996,520	67,915,700	917,912,220
End of year	<u>\$ 981,647,081</u>	<u>74,568,838</u>	<u>1,056,215,919</u>

Federated Cost of Living (Fund 140)			
Defined Benefit Pension Plan	Postemployment HealthCare Plan	Total Fund 140	Totals
5,240,795	-	5,240,795	22,355,296
1,460,589	-	1,460,589	6,235,202
1,462,295	-	1,462,295	6,257,688
43,800,137	-	43,800,137	173,061,907
(1,079,051)	-	(1,079,051)	(4,700,063)
423,707	-	423,707	1,812,640
(370,292)	-	(370,292)	(1,584,233)
9,407,646	-	9,407,646	43,481,463
3,435,306	-	3,435,306	15,584,860
<u>63,781,132</u>	<u>-</u>	<u>63,781,132</u>	<u>262,504,760</u>
371,749	-	371,749	1,910,773
-	-	-	11,438,080
260,242	-	260,242	1,188,505
-	-	-	5,454,193
12,517,357	-	12,517,357	53,577,726
<u>13,149,348</u>	<u>-</u>	<u>13,149,348</u>	<u>73,569,277</u>
50,631,784	-	50,631,784	188,935,483
299,876,346	-	299,876,346	1,217,788,566
<u>350,508,130</u>	<u>-</u>	<u>350,508,130</u>	<u>1,406,724,049</u>

**City of San José**  
**Police and Fire Retirement Plan**  
**Combining Statement of**  
**Defined Benefit and Postemployment HealthCare Plan Net Assets**  
**June 30, 2004**

	<b>Police and Fire Retirement (Fund 135)</b>		
	<b>Defined Benefit Pension Plan</b>	<b>Postemployment HealthCare Plan</b>	<b>Total Fund 135</b>
<b>ASSETS</b>			
Investments at fair value:			
Investments, excluding securities lending collateral	\$ 1,394,572,680	33,502,112	1,428,074,792
Securities lending collateral	140,102,481	3,365,711	143,468,192
Receivables (net of allowance for uncollectables):			
Accrued investment income	5,474,583	131,517	5,606,100
Employee contributions	443,660	131,643	575,303
Employer contributions	552,313	152,386	704,699
Due from brokers	12,397,311	297,823	12,695,134
Other	277,880	6,676	284,556
Total assets	<u>1,553,820,908</u>	<u>37,587,868</u>	<u>1,591,408,776</u>
<b>LIABILITIES</b>			
Accounts payable:			
Due to brokers	66,601,543	1,599,983	68,201,526
Securities lending collateral, due to borrowers	140,102,481	3,365,711	143,468,192
Advances, deposits and reimbursable credits	211,544	5,082	216,626
Other liabilities	2,466,580	59,256	2,525,836
Total liabilities	<u>209,382,148</u>	<u>5,030,032</u>	<u>214,412,180</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFIT</b>			
Reserved for retirement plans:			
Employees' pension benefits	1,344,438,760	-	1,344,438,760
Employees' postemployment health care benefits	-	32,557,836	32,557,836
Net assets held in trust for pension benefit	<u>\$ 1,344,438,760</u>	<u>32,557,836</u>	<u>1,376,996,596</u>

Police and Fire Cost of Living (Fund 141)			
Defined Benefit Pension Plan	Postemployment HealthCare Plan	Total Fund 141	Totals
552,802,625	-	552,802,625	1,980,877,417
55,995,018	-	55,995,018	199,463,210
2,187,799	-	2,187,799	7,793,899
163,006	-	163,006	738,309
286,053	-	286,053	990,752
4,954,856	-	4,954,856	17,649,990
427,641	-	427,641	712,197
<u>616,816,998</u>	<u>-</u>	<u>616,816,998</u>	<u>2,208,225,774</u>
26,618,762	-	26,618,762	94,820,288
55,995,018	-	55,995,018	199,463,210
58,996	-	58,996	275,622
906,658	-	906,658	3,432,494
<u>83,579,434</u>	<u>-</u>	<u>83,579,434</u>	<u>297,991,614</u>
533,237,564	-	533,237,564	1,877,676,324
-	-	-	32,557,836
<u>533,237,564</u>	<u>-</u>	<u>533,237,564</u>	<u>1,910,234,160</u>

**City of San José**  
**Police and Fire Retirement Plan**  
**Combining Statement of Defined Benefit and Postemployment HealthCare**  
**Changes in Plan Net Assets**  
**Year Ended June 30, 2004**

	<b>Police and Fire Retirement (Fund 135)</b>		
	<b>Defined Benefit Pension Plan</b>	<b>Post Employment HealthCare Plan</b>	<b>Total Fund 135</b>
<b>ADDITIONS</b>			
Investment income:			
Interest	\$ 19,662,881	481,805	20,144,686
Dividends	10,513,710	257,620	10,771,330
Net rental income	5,077,822	124,423	5,202,245
Net appreciation in fair value of plan investments	150,145,215	3,679,051	153,824,266
Investment expenses	(5,656,400)	(138,600)	(5,795,000)
Securities lending activities:			
Securities lending income	1,415,464	34,683	1,450,147
Securities lending expenses	(1,034,897)	(25,358)	(1,060,255)
Contributions:			
Employer	16,279,455	4,491,585	20,771,040
Employees	12,455,162	3,695,712	16,150,874
Total additions	<u>208,858,412</u>	<u>12,600,921</u>	<u>221,459,333</u>
<b>DEDUCTIONS</b>			
General and administrative	1,616,846	39,618	1,656,464
Health insurance	-	9,527,516	9,527,516
Refunds to terminated employees	99,883	-	99,883
Retirement and other benefits paid:			
Death benefits paid	3,975,891	-	3,975,891
Retirement benefits paid	47,903,563	-	47,903,563
Total deductions	<u>53,596,183</u>	<u>9,567,134</u>	<u>63,163,317</u>
Net increase	155,262,229	3,033,787	158,296,016
Net assets held in trust for pension benefits			
Beginning of year	1,189,176,531	29,524,049	1,218,700,580
End of year	<u>\$ 1,344,438,760</u>	<u>32,557,836</u>	<u>1,376,996,596</u>

Police and Fire Cost of Living (Fund 141)			
Defined Benefit Pension Plan	Post Employment HealthCare Plan	Total Fund 141	Total
7,816,789	-	7,816,789	27,961,475
4,179,719	-	4,179,719	14,951,049
2,031,192	-	2,031,192	7,233,437
60,277,839	-	60,277,839	214,102,105
(2,150,000)	-	(2,150,000)	(7,945,000)
561,008	-	561,008	2,011,155
(410,114)	-	(410,114)	(1,470,369)
8,132,692	-	8,132,692	28,903,732
4,778,467	-	4,778,467	20,929,341
<u>85,217,592</u>	<u>-</u>	<u>85,217,592</u>	<u>306,676,925</u>
432,161	-	432,161	2,088,625
-	-	-	9,527,516
32,403	-	32,403	132,286
-	-	-	3,975,891
13,546,259	-	13,546,259	61,449,822
<u>14,010,823</u>	<u>-</u>	<u>14,010,823</u>	<u>77,174,140</u>
71,206,769	-	71,206,769	229,502,785
462,030,795	-	462,030,795	1,680,731,375
<u>533,237,564</u>	<u>-</u>	<u>533,237,564</u>	<u>1,910,234,160</u>

**City of San José**  
**Statement of Net Assets**  
**Agency Funds**  
**June 30, 2004**

	<u>Municipal Health Services</u>	<u>Arena Capital Reserve</u>	<u>Total</u>
<b>ASSETS</b>			
Equity in pooled cash and investments held in City Treasury	\$ 2,812,413	1,629,456	4,441,869
Receivables ( net of allowances for uncollectibles):			
Accrued interest	13,406	7,861	21,267
Total assets	<u>2,825,819</u>	<u>1,637,317</u>	<u>4,463,136</u>
<b>LIABILITIES</b>			
Accounts payable	1,370,393	-	1,370,393
Accrued salaries, wages, and payroll taxes	8,926	-	8,926
Other liabilities	1,446,500	1,637,317	3,083,817
Total liabilities	\$ <u>2,825,819</u>	<u>1,637,317</u>	<u>4,463,136</u>

**City of San José**  
**Combining Statement of Changes in Assets and Liabilities**  
**For The Year Ended June 30, 2004**

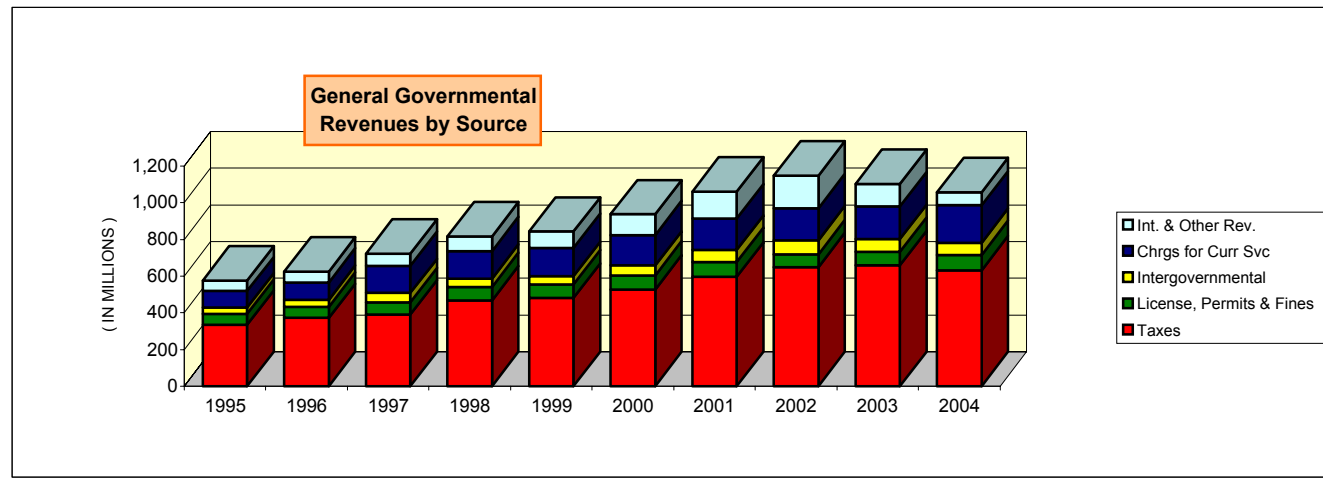
<u>Municipal Health Services (Fund 132)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>ASSETS</b>				
Equity in pooled cash and investments held in City Treasury	\$ 1,990,933	7,520,099	6,698,619	2,812,413
Receivables ( net of allowances for uncollectibles):				
Accrued interest	13,995	13,406	13,995	13,406
Total assets	<u>2,004,928</u>	<u>7,533,505</u>	<u>6,712,614</u>	<u>2,825,819</u>
<b>LIABILITIES</b>				
Accounts payable	1,124,772	8,701,803	8,456,182	1,370,393
Accrued salaries, wages, and payroll taxes	4,777	8,926	4,777	8,926
Other liabilities	875,379	7,458,700	6,887,579	1,446,500
Total liabilities	<u>\$ 2,004,928</u>	<u>16,169,429</u>	<u>15,348,538</u>	<u>2,825,819</u>
 <b>Arena Capital Reserve (Fund 459)</b>				
<b>ASSETS</b>				
Equity in pooled cash and investments held in City Treasury	\$ 1,491,426	797,219	659,189	1,629,456
Receivables ( net of allowances for uncollectibles):				
Accrued interest	11,409	7,861	11,409	7,861
Total assets	<u>1,502,835</u>	<u>805,080</u>	<u>670,598</u>	<u>1,637,317</u>
<b>LIABILITIES</b>				
Accounts payable	-	617,700	617,700	-
Other liabilities	1,502,835	17,585	(116,897)	1,637,317
Total liabilities	<u>\$ 1,502,835</u>	<u>635,285</u>	<u>500,803</u>	<u>1,637,317</u>
 <b>Total Agency Funds</b>				
<b>ASSETS</b>				
Equity in pooled cash and investments held in City Treasury	\$ 3,482,359	8,317,318	7,357,808	4,441,869
Receivables ( net of allowances for uncollectibles):				
Accrued interest	25,404	21,267	25,404	21,267
Total assets	<u>3,507,763</u>	<u>8,338,585</u>	<u>7,383,212</u>	<u>4,463,136</u>
<b>LIABILITIES</b>				
Accounts payable	1,124,772	9,319,503	9,073,882	1,370,393
Accrued salaries, wages, and payroll taxes	4,777	8,926	4,777	8,926
Other liabilities	2,378,214	7,476,285	6,770,682	3,083,817
Total liabilities	<u>\$ 3,507,763</u>	<u>16,804,714</u>	<u>15,849,341</u>	<u>4,463,136</u>

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# Statistical Section

CITY OF SAN JOSE  
GENERAL GOVERNMENTAL REVENUES BY SOURCE  
GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS  
LAST TEN FISCAL YEARS  
(\$000'S)

SCHEDULE I



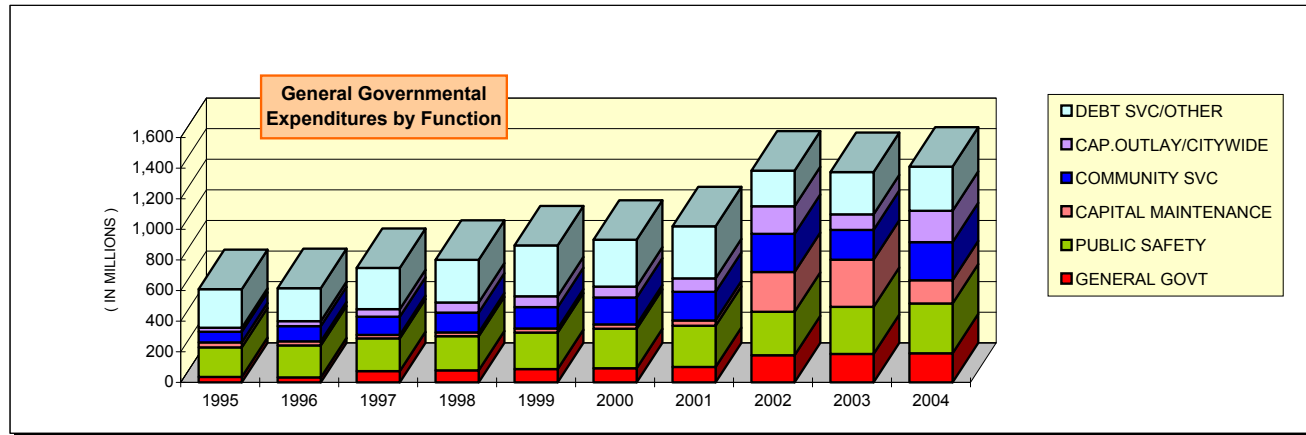
Fiscal Year	Taxes	% of Total	Licenses, Permits & Fines	% of Total	Inter-Governmental	% of Total	Charges for Current Services	% of Total	Interest & Other Revenue	% of Total	Total
1995	\$335,451	58.2%	\$58,130	10.1%	\$34,350	6.0%	\$89,958	15.6%	\$58,097	10.1%	\$575,986
1996	371,810	59.5%	61,396	9.8%	39,189	6.3%	93,606	15.0%	58,446	9.4%	624,447
1997	390,469	54.1%	66,557	9.2%	50,831	7.0%	147,882	20.5%	66,614	9.2%	722,353
1998	467,995	57.4%	73,433	9.0%	44,999	5.5%	149,744	18.4%	78,882	9.7%	815,053
1999	481,990	57.2%	73,919	8.8%	44,215	5.2%	153,944	18.3%	88,203	10.5%	842,271
2000	526,659	56.2%	75,641	8.1%	55,143	5.9%	167,232	17.9%	112,018	12.0%	936,693
2001 (1)	596,790	56.3%	79,143	7.5%	65,844	6.2%	172,720	16.3%	145,768	13.7%	1,060,265
2002 (2)	648,707	56.5%	70,803	6.2%	75,745	6.6%	173,727	15.1%	179,207	15.6%	1,148,189
2003	659,178	59.8%	73,687	6.7%	69,352	6.3%	177,366	16.1%	122,274	11.1%	1,101,857
2004	632,769	59.9%	83,631	7.9%	65,933	6.2%	202,816	19.2%	71,914	6.8%	1,057,063

(1) Pre-GASB 34 implementation, the schedule includes General, Special Revenue and Debt Service Funds.

(2) Post GASB 34 implementation, the schedule includes General Fund, Housing Activities Major Fund, Redevelopment Agency Major Fund, Special Assessment District Major Fund, Nonmajor Special Revenue and Nonmajor Debt Service Funds.

CITY OF SAN JOSE  
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION  
GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS  
LAST TEN FISCAL YEARS  
(\$000's)

SCHEDULE II



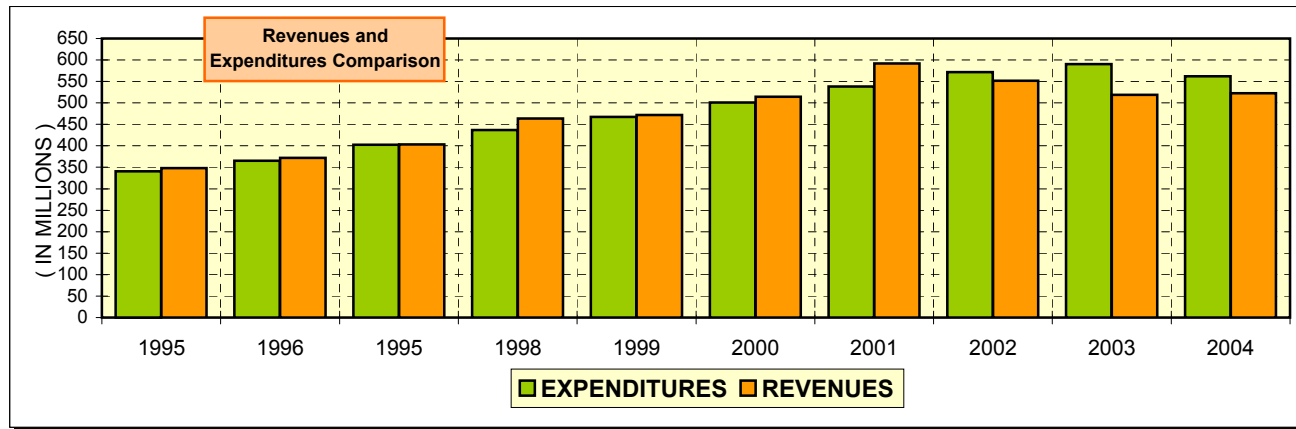
Fiscal Year	General Gov't	% of Total	Public Safety	% of Total	Capital Maint.	% of Total	Comm. Services	% of Total	Capital Outlay	% of Total	Debt Service	% of Total	Citywide	% of Total	Other	% of Total	Total
1995	\$35,081	5.8	\$193,539	31.8	\$32,433	5.3	\$69,813	11.5	\$25,960	4.3	\$109,859	18.0	-	0.0	\$142,365	23.4	\$609,050
1996	32,523	5.3	208,832	33.9	26,490	4.3	99,408	16.2	32,482	5.3	99,168	16.1	-	0.0	116,532	18.9	615,435
1997	73,214	9.8	214,180	28.7	22,531	3.0	119,098	15.9	49,507	6.6	106,193	14.2	-	0.0	162,801	21.8	747,524
1998	78,122	9.8	223,415	27.9	24,961	3.1	129,467	16.2	65,789	8.2	107,055	13.4	-	0.0	171,996	21.5	800,805
1999	86,624	9.7	238,914	26.7	26,285	2.9	139,783	15.6	70,721	7.9	152,631	17.1	-	0.0	179,888	20.1	894,846
2000	92,317	9.9	258,351	27.7	28,008	3.0	175,857	18.9	71,392	7.7	126,408	13.6	-	0.0	179,642	19.3	931,975
2001 (1)	100,463	9.8	269,139	26.4	34,534	3.4	187,503	18.4	88,091	8.6	133,546	13.1	-	0.0	206,665	20.3	1,019,941
2002 (2)	176,880	12.8	284,259	20.5	260,061	18.8	249,222	18.0	180,639	13.1	149,950	10.8	-	0.0	82,760	6.0	1,383,771
2003	185,256	13.5	307,992	22.4	308,116	22.4	194,959	14.2	101,845	7.4	199,361	14.5	-	0.0	76,799	5.6	1,374,328
2004	190,132	13.5	325,301	23.1	151,633	10.8	249,079	17.7	205,186	14.6	210,698	14.9	-	0.0	77,507	5.5	1,409,536

(1) Pre-GASB 34 implementation, the schedule includes General, Special Revenue and Debt Service Funds.

(2) Post GASB 34 implementation, the schedule includes General Fund, Housing Activities Major Fund, Redevelopment Agency Major Fund, Special Assessment District Major Fund, Nonmajor Special Revenue and Nonmajor Debt Service Funds.

CITY OF SAN JOSE  
GENERAL FUND REVENUES AND EXPENDITURES  
LAST TEN FISCAL YEARS  
( \$ 000's )

SCHEDULE III



Fiscal Year	Revenues	% Increase/ (Decrease)	Expenditures	% Increase/ (Decrease)
1995	\$348,106	(9.0)	\$340,941	(10.6)
1996	372,152	6.9	365,111	7.1
1997	403,222	8.3	402,657	10.3
1998	464,013	15.1	436,776	8.5
1999	472,132	1.7	467,288	7.0
2000	514,247	8.9	501,213	7.3
2001	591,740	15.1	538,047	7.3
2002	551,468	(6.8)	571,922	6.3
2003	519,017	(5.9)	590,169	3.2
2004	522,700	0.7	562,391	(4.7)

Source: Finance Department, City of San José

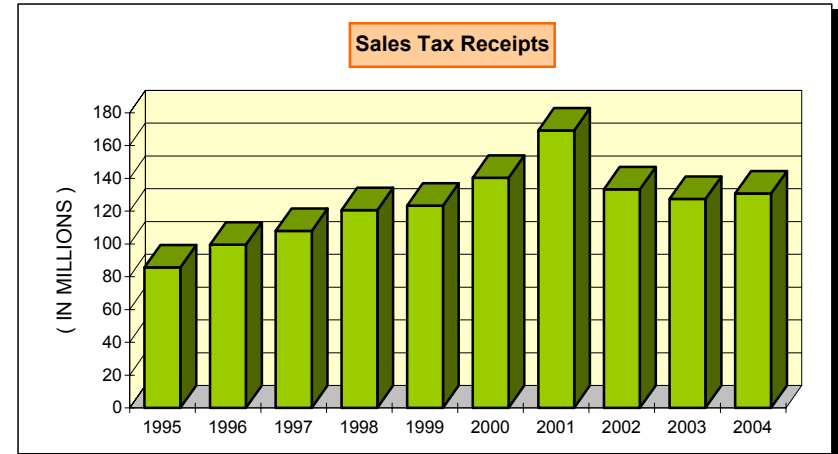
CITY OF SAN JOSE  
LAST TEN FISCAL YEARS  
( \$ 000's )

SCHEDULE IV

SALES TAX RECEIPTS

Fiscal Year	Revenues	Increase / (Decrease) from Preceding Year	% Increase / (Decrease) from Preceding Year	Revenue Per Capita
1995	\$85,668	\$5,044	6.3	\$101.26
1996	99,558	13,890	16.2	117.21
1997	108,000	8,442	8.5	123.67
1998	120,697	12,697	11.8	135.01
1999	123,306	2,609	2.2	135.64
2000	140,307	17,001	13.8	151.91
2001	169,217	28,910	20.6	189.08
2002	133,241	-35,976	-21.3	145.15
2003	127,457	-5,784	-4.3	137.79
2004	130,698	3,241	2.5	141.11

Source: Finance Department, City of San José

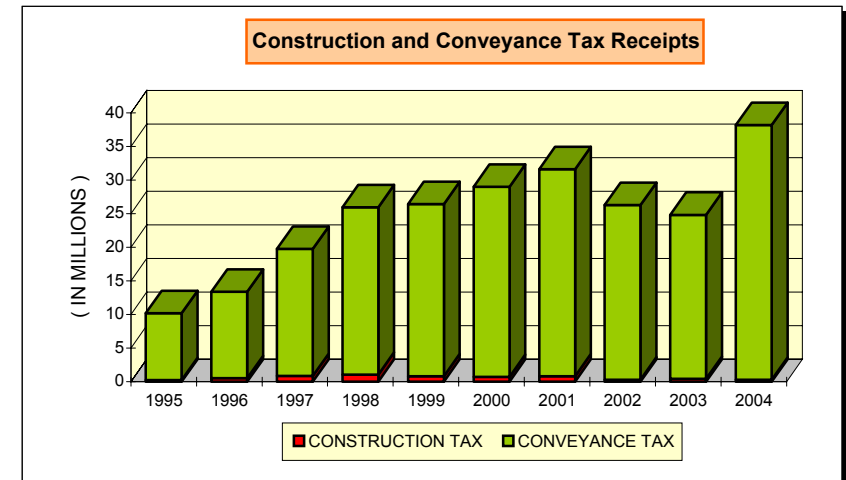


CONSTRUCTION AND CONVEYANCE TAXES

(COUNCIL DISTRICTS)

Fiscal Year	Construction Tax	Real Property Conveyance Tax	Total
1995	\$239	\$9,936	\$10,175
1996	528	12,840	13,368
1997	836	18,926	19,762
1998	1,038	24,920	25,958
1999	831	25,580	26,411
2000	703	28,278	28,981
2001	787	30,846	31,633
2002	309	25,962	26,271
2003	407	24,428	24,835
2004	294	37,905	38,199

Source: Finance Department, City of San José



CITY OF SAN JOSE  
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS  
 ( \$ 000's )

SCHEDULE V

Fiscal Year	Gross Assessed Value	Exemptions	Net Assessed Value	Estimated Actual Value	Ratio of Assessed Value to Estimated Actual Value	% of Gross Assessed Value Growth
1995	\$46,074,404	\$1,922,527	\$44,151,877	\$46,074,404	100.0 %	(0.62%)
1996	47,400,940	2,062,794	45,338,146	47,400,940	100.0 %	2.88%
1997	49,441,848	993,260	48,448,588	49,441,848	100.0 %	4.31%
1998	53,669,315	1,183,528	52,485,787	53,669,315	100.0 %	8.55%
1999	59,777,691	1,337,056	58,440,635	59,777,691	100.0 %	11.38%
2000	65,316,993	1,369,112	63,947,881	65,316,993	100.0 %	9.27%
2001	72,432,107	1,480,468	70,951,639	72,432,107	100.0 %	10.89%
2002	83,699,432	1,844,586	81,854,846	83,699,432	100.0 %	15.56%
2003	88,634,267	1,985,707	86,648,560	88,634,267	100.0 %	5.90%
2004	92,414,521	2,373,902	90,040,619	92,414,521	100.0 %	4.27%

Source: Department of Finance, County of Santa Clara

CITY OF SAN JOSE  
 TEN LARGEST LOCAL SECURED PROPERTY TAXPAYERS  
 ( \$ 000's )

Company	Type of Business	Net Assessed Property Valuation	Percent of Total
Cisco Technology Inc.	Networking Equipment	\$ 790,831	0.88%
IBM Corporation	Computers and peripherals	553,655	0.61%
Sobrato Development Co.	Real estate and land development	457,511	0.51%
VF Mall LLC	Real estate and land development	428,468	0.48%
Spieker Properties	Real estate and land development	419,380	0.47%
Carramerica Realty Corp.	Real estate and land development	359,065	0.40%
Mission West Properties LP	Real estate and land development	328,340	0.36%
Frit San Jose Town & Country Village	Real estate and land development	325,144	0.36%
Irvine Community Development Co.	Real estate and land development	291,484	0.32%
Bay Area Apartment Communities Inc.	Real estate and land development	262,334	0.29%
Total assessed property valuation, local secured net		\$ 4,216,212	4.68%
Total City of San José assessed property valuation, fiscal year 2003-04		\$ 90,040,619	

Source: California Municipal Statistics, Inc.

CITY OF SAN JOSE  
LAST TEN FISCAL YEARS  
( \$ 000's )

SCHEDULE VI

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS

Fiscal Year	Outstanding Assessments Beginning of Fiscal Year	Current Assessments Due	Current Assessments Collected	Ratio of Collections to Amount Due	Outstanding Assessments End of Fiscal Year
1995	\$122,843	\$14,480	\$13,912	96.1%	\$113,190
1996	113,190	14,657	14,278	97.4%	104,979
1997	104,979	14,003	13,770	98.3%	93,466
1998	93,466	13,096	12,791	97.7%	87,888
1999	87,888	12,482	12,261	98.2%	78,736
2000	78,736	10,555	10,284	97.4%	70,420
2001	70,420	9,745	9,435	96.8%	63,232
2002	63,232	9,275	9,002	97.1%	95,436
2003	95,436	8,463	8,303	98.1%	80,563
2004	80,563	8,897	8,816	99.1%	85,162

Source: Finance Department, City of San José

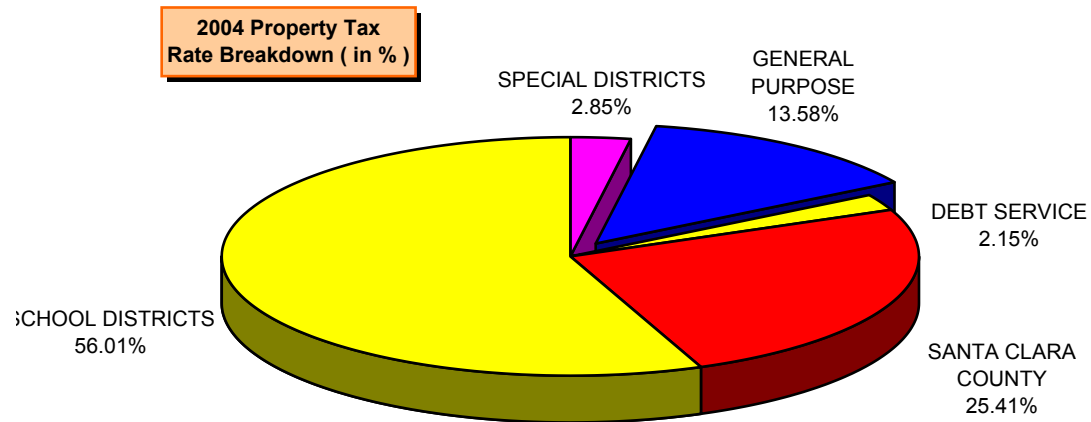
PROPERTY TAX LEVIES AND COLLECTIONS

Fiscal Year	Gross Tax Levy	Current Tax Collections	% of Current Levy Collected	Total Tax Collections (Including Delinquencies)
1995	\$48,734	\$48,738	100.0	\$48,870
1996	50,070	48,987	97.8	49,121
1997	56,010	46,804	83.6	46,954
1998	56,157	55,906	99.6	55,906
1999	65,071	64,815	99.6	64,815
2000	71,504	71,971	100.7	71,971
2001	80,510	80,694	100.2	80,694
2002	88,526	88,286	99.7	88,286
2003	93,189	93,592	100.4	93,592
2004	97,748	95,407	97.6	95,649

Source: Finance Department, Santa Clara County

CITY OF SAN JOSE  
PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS

SCHEDULE VII



<u>Fiscal Year</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City of San Jose:										
General purpose	0.155	0.155	0.155	0.155	0.155	0.155	0.155	0.155	0.155	0.156
Debt service	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.009	0.019	0.025
	0.155	0.155	0.155	0.155	0.155	0.155	0.155	0.164	0.174	0.181
Santa Clara County	0.287	0.287	0.287	0.292	0.292	0.285	0.289	0.290	0.292	0.292
School districts	0.573	0.569	0.569	0.574	0.589	0.605	0.608	0.622	0.667	0.643
Special districts	0.033	0.034	0.034	0.033	0.032	0.032	0.031	0.030	0.032	0.033
	1.048	1.045	1.045	1.054	1.068	1.077	1.083	1.105	1.166	1.148

The above tax rates are applied per \$100 of assessed valuation.

Source: Department of Finance, County of Santa Clara

CITY OF SAN JOSE  
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT  
JUNE 30, 2004

SCHEDULE VIII

	<u>% Applicable</u>	<u>Debt (\$)</u>
<u>Direct Debt:</u>		
City of San José General Obligation Bonds	100.000	\$ 178,480,000
Total Gross Direct Debt		\$ 178,480,000 <sup>(1)</sup>
<u>Overlapping Debt:</u>		
	<u>% Applicable</u>	<u>Debt (\$)</u>
Santa Clara County General Fund Obligations	38.618	\$ 243,308,847
Santa Clara County Board of Education Certificates of Participation	38.618	7,148,192
Santa Clara County Flood Control & Water Conservation District, Zone W-1	46.175	2,694,311
Gavilan Joint Community College District	7.819	2,345,700
San José Community College District and Certificates of Participation	Various	121,714,143
Foothill Community College District	4.402	8,338,933
San José Unified School District and Certificates of Participation	97.751	324,630,027
Morgan Hill Unified School District	20.781	14,978,478
Santa Clara Unified School District and Certificates of Participation	4.591	5,971,284
East Side Union High School District	94.549	220,559,131
Fremont Union High School District	9.184	12,298,294
Los Gatos Union School District	1.730	1,004,265
Los Gatos Joint Union H.S. District and Certificates of Participation	0.763	581,100
Alum Rock Union School District and Certificates of Participation	75.015	36,586,690
Berryessa Union School District	93.222	46,655,775
Burbank School District	19.227	326,859
Cambrian School District	66.832	10,375,609
Campbell Union High School District	59.610	43,962,375
Campbell Union School District	45.570	35,979,022
Cupertino Union School District and Certificates of Participation	15.930	20,512,193
Evergreen School District	99.417	85,393,935
Evergreen School District Community Facilities District #92-1	100.000	6,135,000
Franklin-McKinley School District and Certificates of Participation	97.817	60,357,268
Milpitas Unified School District	0.0003	17,474
Moreland School District and Certificates of Participation	75.306	42,332,729
Mount Pleasant School District	87.046	9,383,559
Oak Grove School District	99.781	68,579,299
Orchard School District	100.000	31,660,697
Union School District	72.290	45,243,878
Santa Clara Valley Water District Benefit Assessment District	38.618	76,119,940
Other Special Districts	0.017	19,859
Total Overlapping Debt		\$ 1,585,214,866
Net Direct and Overlapping Debt		\$ 1,763,694,866

<u>Debt Ratios:</u>		<u>% of</u>
	<u>Per Capita</u> <sup>(2)</sup>	<u>Assessed Value</u> <sup>(3)</sup>
Gross Direct Debt	\$ 192.70	0.1931%
Net Direct and Overlapping Bonded Debt	\$ 1,904.23	1.9085%

(1) Excludes revenue, mortgage revenue and tax allocation bonds, non-bonded capital lease obligations and special assessment bonds.

(2) Population of the City of San José at 1/1/2004 was 926,200

(3) 2003-2004 gross assessed value: \$92,414,521,000

Source: California Municipal Statistics, Inc.

CITY OF SAN JOSE  
STATEMENT OF LEGAL DEBT MARGIN  
JUNE 30, 2004

SCHEDULE IX

Calculation of Debt Limit

Total assessed value for fiscal year 2003-04	\$ 92,414,521,000
Debt limit at 15 % of assessed value (1)	x .15
Debt limit applicable to fiscal year 2003-04	<u>\$ 13,862,178,150</u>

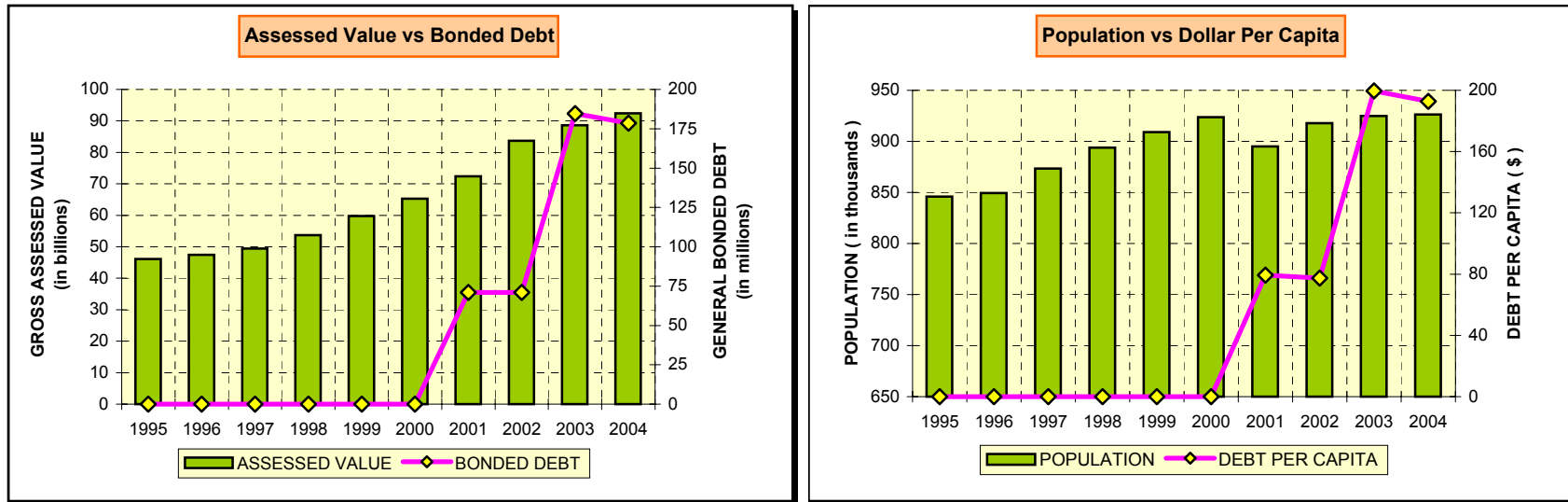
Calculation of Legal Debt Margin

Debt limit applicable to fiscal year 2003-04	\$ 13,862,178,150
Less: total general obligation bonds	<u>178,480,000</u>
Legal debt margin	<u>\$ 13,683,698,150</u>

- 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.

CITY OF SAN JOSE  
BONDED DEBT COMPARED TO ASSESSED VALUE AND PER CAPITA  
LAST TEN FISCAL YEARS  
(\$ 000's)

SCHEDULE X

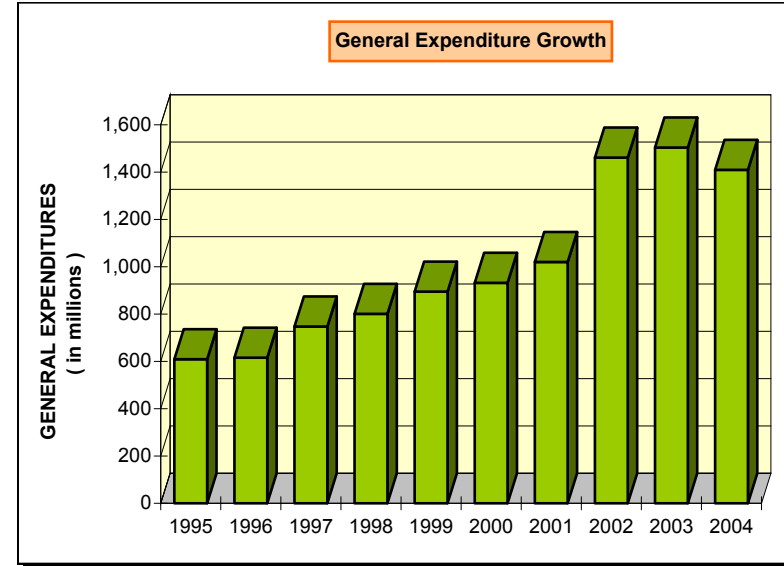
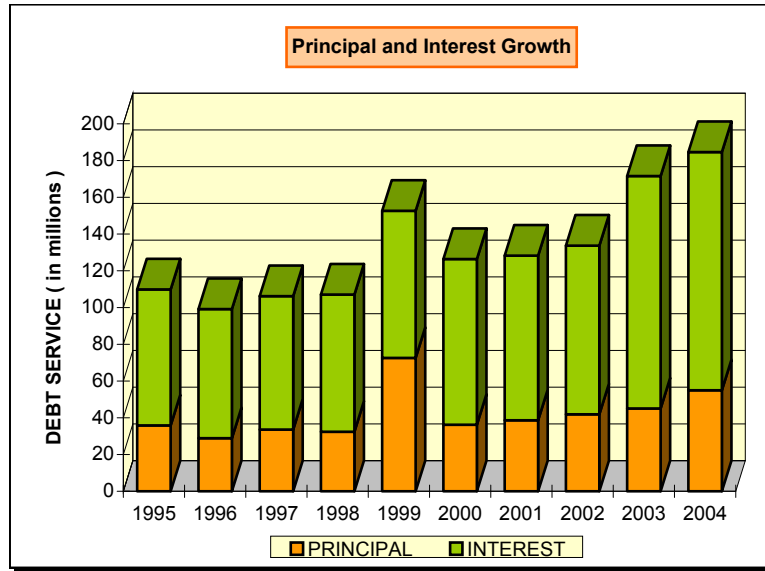


Fiscal Year	Gross Assessed Value	Tax Supported General Bonded Debt	Ratio of Debt to Assessed Value	Population	Debt Per Capita
1995	\$ 46,074,404	\$ 0	0.0000%	845,991	\$ 0.00
1996	47,400,940	0	0.0000%	849,363	0.00
1997	49,441,848	0	0.0000%	873,286	0.00
1998	53,669,315	0	0.0000%	893,969	0.00
1999	59,777,691	0	0.0000%	909,100	0.00
2000	65,316,993	0	0.0000%	923,591	0.00
2001	72,432,107	71,000	0.0980%	894,943	79.33
2002	83,699,432	71,000	0.0848%	917,971	77.34
2003	88,634,267	184,720	0.2084%	925,000	199.70
2004	92,414,521	178,480	0.1931%	926,200	192.70

Source: Finance Department, City of San José

CITY OF SAN JOSE  
RATIO OF ANNUAL DEBT SERVICE TO TOTAL GENERAL EXPENDITURES  
LAST TEN FISCAL YEARS  
(\$000's)

SCHEDULE XI

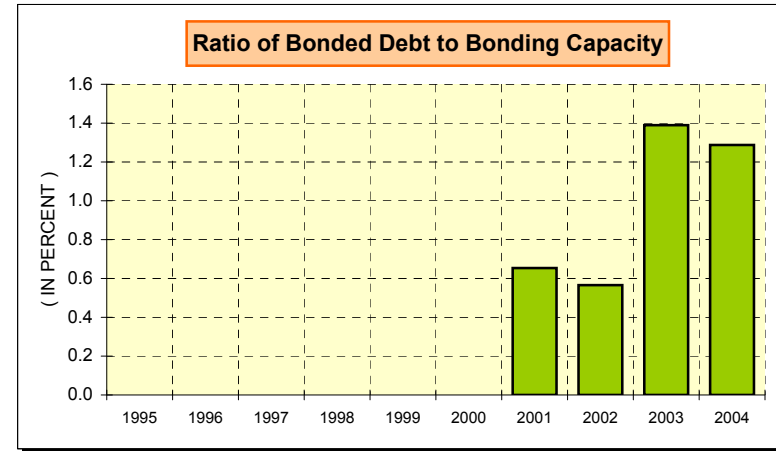
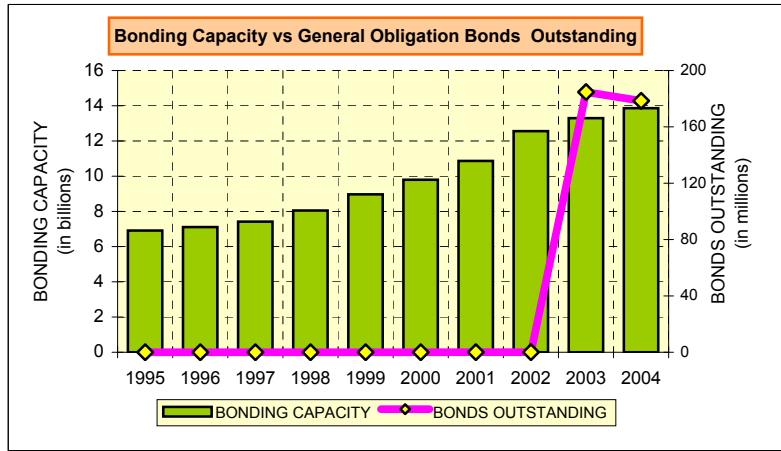


Fiscal Year	Debt Service			Total General Expenditures	Debt Service to Total General Expenditures
	Principal	Interest	Total		
1995	\$ 35,831	\$ 74,028	\$ 109,859	\$ 609,050	18.04%
1996	28,889	70,279	99,168	615,435	16.11%
1997	33,591	72,601	106,192	747,263	14.21%
1998	32,398	74,657	107,055	800,805	13.37%
1999	72,595	80,036	152,631	894,846	17.06%
2000	36,205	90,203	126,408	931,975	13.56%
2001	38,649	89,611	128,260	1,019,941	12.58%
2002	41,897	91,800	133,697	1,461,471	9.15%
2003	45,056	126,531	171,587	1,503,929	11.41%
2004	54,966	129,641	184,607	1,409,536	13.10%

Source: Finance Department, City of San José

CITY OF SAN JOSE  
RATIO OF GENERAL BONDED DEBT TO BONDING CAPACITY  
LAST TEN FISCAL YEARS  
(\$000's)

SCHEDULE XII



Fiscal Year	General Obligation Bonds	Capacity (1)	% Bonded Debt to Bonding Capacity
1995	\$ 0	\$ 6,911,161	0.000 %
1996	0	7,110,141	0.000 %
1997	0	7,416,277	0.000 %
1998	0	8,050,397	0.000 %
1999	0	8,966,654	0.000 %
2000	0	9,797,549	0.000 %
2001	71,000	10,864,816	0.653 %
2002	71,000	12,554,915	0.566 %
2003	184,720	13,295,140	1.389 %
2004 (2)	178,480	13,862,178	1.288 %

(1) 15% of gross assessed valuation.

(2) The City has issued general obligation bonds for library and park improvements as authorized by the voters in November 2000, and for public safety projects as authorized by the voters in March 2002.

Source: Finance Department, City of San José

CITY OF SAN JOSE  
REVENUE BOND COVERAGE  
LAST TEN FISCAL YEARS  
(\$000's)

SCHEDULE XIII  
(Continued)

**NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT**

<u>Year</u>	<u>Gross Revenues (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1995	\$59,471	\$29,200	\$30,271	\$4,611	\$9,452	\$14,063	2.2
1996	64,570	31,407	33,163	4,708	9,168	13,876	2.4
1997	74,453	34,486	39,967	4,938	8,888	13,826	2.9
1998	75,542	38,212	37,330	5,183	8,566	13,749	2.7
1999	85,118	44,345	40,773	5,458	7,985	13,443	3.0
2000	91,389	50,932	40,457	5,801	7,710	13,511	3.0
2001	124,537	61,248	63,289	6,041	7,382	13,423	4.7
2002	115,856	71,564	44,292	6,124	7,884	14,008	3.2
2003	127,816	73,300	54,516	6,610	11,036	17,646	3.1
2004	125,664	71,313	54,351	5,993	11,460	17,453	3.1

1) Includes operating and other revenues and prior year's surplus, excludes Passenger Facility Charges.

2) Includes operating expenses less depreciation and expenses paid from sources other than revenues.

Source: Finance and Administration, Norman Y. Mineta San José International Airport, City of San José

**MUNICIPAL WATER SYSTEM**

<u>Year</u>	<u>Gross Revenues (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1995	\$10,946	\$8,668	\$2,278	\$8	\$4	\$12	189.8
1996	12,615	9,592	3,023	8	4	12	251.9
1997	14,944	10,683	4,261	9	3	12	355.1
1998	14,949	10,599	4,350	0	0	0	0.0
1999	14,822	9,999	4,823	0	0	0	0.0
2000	16,294	13,247	3,047	0	0	0	0.0
2001	19,526	14,644	4,882	0	0	0	0.0
2002	18,580	12,999	5,581	0	0	0	0.0
2003	18,233	13,500	4,733	0	0	0	0.0
2004	20,080	16,837	3,243	0	0	0	0.0

1) Includes operating and other revenues.

2) Includes operating expenses less depreciation and amortization.

Source: Finance Department, City of San José

CITY OF SAN JOSE  
REVENUE BOND COVERAGE  
LAST TEN FISCAL YEARS  
(\$000's)

SCHEDULE XIII  
(Continued)

**PARKING SYSTEM**

<u>Year</u>	<u>Gross Revenues (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1995	\$5,765	\$4,529	\$1,236	\$950	\$167	\$1,117	1.1
1996	5,977	4,127	1,850	1,025	107	1,132	1.6
1997	6,570	4,369	2,201	885	43	928	2.4
1998	6,857	4,359	2,498	250	6	256	9.8
1999	7,066	4,597	2,469	0	0	0	0.0
2000	7,680	5,093	2,587	0	0	0	0.0
2001	9,383	8,923	460	0	0	0	0.0
2002	9,134	6,443	2,691	0	0	0	0.0
2003	10,861	7,001	3,860	0	0	0	0.0
2004	9,710	7,710	2,000	0	0	0	0.0

1) Includes operating and other revenues.

2) Includes operating expenses less depreciation and amortization.

Source: Finance Department, City of San José

**WASTEWATER TREATMENT SYSTEM**

<u>Year</u>	<u>Gross Revenues (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1995	\$105,868	\$64,351	\$41,517	\$6,135	\$4,851	\$10,986	3.8
1996	126,831	72,389	54,442	17,960	6,435	24,395	2.2
1997	127,653	80,588	47,065	7,185	8,720	15,905	3.0
1998	124,394	54,890	69,504	7,675	8,229	15,904	4.4
1999	126,552	84,662	41,890	8,775	6,737	15,512	2.7
2000	126,552	84,662	41,890	12,269	7,683	19,952	2.1
2001	121,070	80,220	40,850	12,781	7,269	20,050	2.0
2002	118,409	84,059	34,350	13,385	5,881	19,266	1.8
2003	112,333	78,798	33,535	8,994	5,385	14,379	2.3
2004	101,281	78,393	22,888	6,920	5,057	11,977	1.9

1) Includes operating and other revenues.

2) Includes operating expenses less depreciation and amortization.

Source: Environmental Services Department, City of San José

CITY OF SAN JOSE  
GENERAL CITY INFORMATION  
JUNE 30, 2004

SCHEDULE XIV  
(Continued)

HISTORICAL DATA

Incorporated as a Pueblo (under the Spanish Government)	November 29, 1777
Incorporated as a City	March 27, 1850
Named the State's First Capital	September 9, 1850

AREA

As of January 1, 2004 (see schedule XV)	177.00 sq. mi.
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ELEVATION

Minimum	Sea Level
Maximum	4,372 feet

CLIMATE

Annual mean temperature	60 degrees
Rainfall	14.40"

POPULATION

As of January 1, 2004 (see schedule XV)	926,200
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ELECTIONS

Registered voters	383,545
Votes cast (Measure D - March 2, 2004)	131,604
<i>(Source: Registrar of Voters, Santa Clara County)</i>	

PERSONNEL

	Full Time (City Funded)	Part Time Employees	Total Employees
City Council Staff	87	10	97
City Manager's Office	85	10	95
City Auditor's Office	17	6	23
City Attorney's Office	88	3	91
City Clerk's Office	13	-	13
Information Technology	106	3	109
Planning, Building & Code Enforcement Department	320	16	336
Police Department	1,752	210	1,962
Independent Police Auditor	6	-	6
Fire Department	771	4	775
Library Department	197	346	543
Finance Department	104	2	106
Employee Services	59	87	146
Airport	357	5	362
Convention, Arts and Entertainment	115	3	118
General Services Department	310	15	325
Transportation	450	30	480
Public Works Department	415	25	440
Office of Economic Development	53	1	54
Environmental Services Department	391	10	401
Parks, Recreation and Neighborhood Services	393	1,551	1,944
Housing Department	64	6	70
Retirement Services	22	1	23
Totals 6/30/2004	6,175	2,344	8,519
Totals 6/30/2003	6,357	2,694	9,051
Increase (decrease)	(182)	(350)	(532)

POLICE PROTECTION

Ratio of uniformed officers to 1,000 population	1.47
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CITY OF SAN JOSE  
GENERAL CITY INFORMATION  
JUNE 30, 2004

SCHEDULE XIV  
(Concluded)

FIRE PROTECTION

Stations	31
Companies	44
Pieces of equipment	96

BUILDING PERMITS

	<u>Number Issued</u>	<u>Value</u>
New buildings	1,166	\$ 473,149,068
Building alterations	8,924	\$ 331,486,068

BUSINESS TAX CERTIFICATES

Number of certificates	53,318
Value	\$ 37,387,239

SAN JOSE INTERNATIONAL AIRPORT

Acres available for aviation	1,050
Number of terminals	2
Square feet of terminals	473,800
Number of auto parking spaces (surface lot and garage)	8,224
Number of passengers (annual)	10,926,986
Number of commercial airlines	12
Number of cargo airlines	4

PARKING

Number of meters	2,236
Parking lots	16 (2,615 total spaces)
Parking garages	5 (4,748 total spaces)

RECREATION

Park sites	162
Park acreage	3,600
Playgrounds - schools	515
Playgrounds - parks	192
Community centers	20
Senior centers	5
Swimming pools (schools not included)	6
Tennis courts - schools	185
Tennis courts - parks	96
Golf courses	3
Sports centers	4
Youth centers	6

LIBRARIES

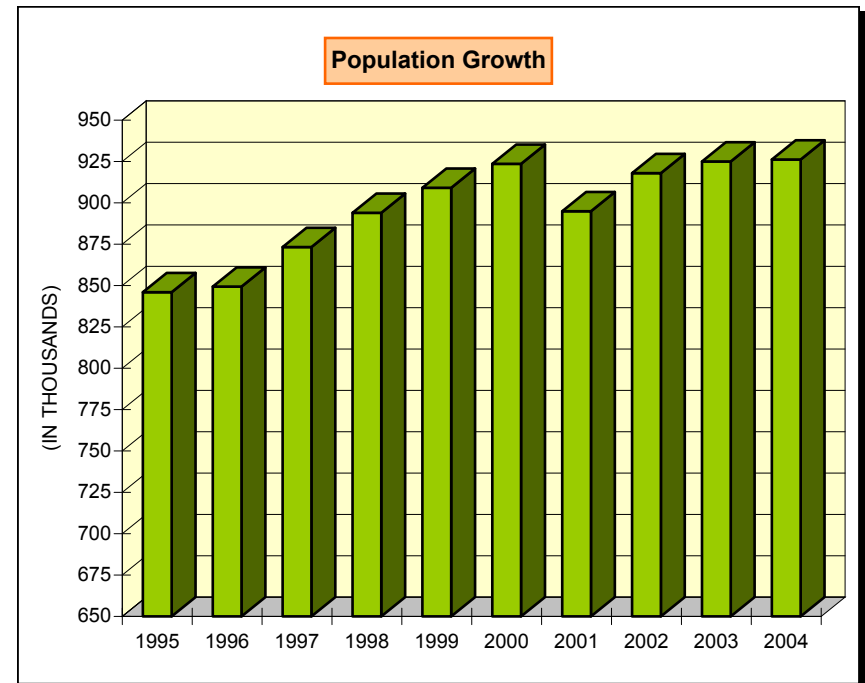
Number of outlets	1 Main Library, 16 Branches
Circulation	14,170,776
Number of reference questions answered	529,641
Number of personnel (full and part-time)	543

Source: Finance Department, City of San José

CITY OF SAN JOSE  
POPULATION AND AREA OF THE CITY

SCHEDULE XV

Fiscal Year	Date	Population	Area in Square Miles
1777		66	
1900		21,500	5.47
1950		95,280	16.98
1960		204,196	54.47
1970		459,913	136.20
1980	Jan 01	629,546	158.10
1981	Jan 01	646,660	161.08
1982	Jan 01	656,793	161.05
1983	Jan 01	671,800	162.75
1984	Jan 01	683,800	167.88
1985	Jan 01	696,021	168.62
1986	Jan 01	713,385	170.71
1987	Jan 01	719,466	171.19
1988	Jan 01	732,792	171.62
1989	Jan 01	738,399	172.31
1990	Jan 01	749,820	172.90
1991	Jan 01	791,645	173.60
1992	Jan 01	803,038	173.63
1993	Jan 01	822,013	174.21
1994	Jan 01	835,529	174.21
1995	Jan 01	845,991	174.43
1996	Jan 01	849,363	175.35
1997	Jan 01	873,286	176.60
1998	Jan 01	893,969	176.60
1999	Jan 01	909,100	179.35
2000	Jan 01	923,591	177.00
2001 (*)	Jan 01	894,943	177.00
2002 (**)	Jan 01	917,971	177.00
2003 (**)	Jan 01	925,000	177.00
2004 (**)	Jan 01	926,200	177.00



Source: City of San José Planning Department, Census 2000 (\*),  
State Department of Finance (\*\*)

CITY OF SAN JOSE  
PROPERTY VALUE AND CONSTRUCTION  
LAST TEN FISCAL YEARS  
( \$ 000's )

SCHEDULE XVI

Fiscal Year	Property Value			Construction		
	Gross <u>Assessed Value</u>	<u>Exemptions</u>	Net <u>Assessed Value</u>	<u>Assessed Valuation</u>	% Change <u>in Valuation</u>	# of <u>Permits</u>
1995	\$46,074,404	\$1,922,527	\$44,151,877	\$435,771	(8.39)	8,178
1996	47,400,940	2,062,794	45,338,146	769,120	76.50	9,479
1997	49,441,848	993,260	48,448,588	1,100,591	43.10	10,993
1998	53,669,315	1,183,528	52,485,787	1,411,948	28.29	12,962
1999	59,777,691	1,337,056	58,440,635	1,237,682	(12.34)	13,181
2000	65,316,993	1,369,112	63,947,881	1,325,056	7.06	12,450
2001	72,432,107	1,480,468	70,951,639	1,689,404	27.50	10,191
2002	83,699,432	1,844,586	81,854,846	995,661	(41.06)	8,757
2003	88,634,267	1,985,707	86,648,560	924,673	(7.13)	9,999
2004	92,414,521	2,373,902	90,040,619	804,635	(12.98)	10,090

*Property value source: Department of Finance, County of Santa Clara*

*Construction valuation source: Planning, Building & Code Enforcement, City of San José*

CITY OF SAN JOSE  
STATEMENT OF INSURANCE COVERAGE  
June 30, 2004

SCHEDULE XVII

TYPE	COVERAGE	LIMITS	DEDUCTIBLE	INSURANCE CO.	POLICY NO.	EXPIRATION DATE	PREMIUM
Airport	Automobile	\$1,000,000	\$ -	Westchester Fire	D35912538	10/01/04	\$ 118,857
Airport	Airport Primary liability	50,000,000	100,000	Ace Property & Casualty	AAPN00055621	10/01/04	408,672
Airport	Airport Excess liability	150,000,000	-	Lloyds	L9900347	10/01/04	Incl. Above
Airport	Automobile - Shuttle Buses (Liability)	Incl. Above	-		Incl. Above	Incl. Above	Incl. Above
Airport	Automobile - Shuttle Buses (Physical Damage)	Actual Cash Value	25,000	Westchedter Fire	D35912538	10/01/04	55,067
Airport	Customs Bond	100,000	-	Travelers Casualty	460302754	01/17/05	2,000
Airport No. Concourse - OCIP	Liability - Primary	4,000,000	250,000	National Union	Binder 5504	03/31/07	522,346
Airport No. Concourse - OCIP	Liability - Excess	150,000,000	-	Various	Various	03/31/07	1,706,180
Airport No. Concourse - OCIP	Workers' Compensation - Employers Liability	Statutory - \$2 million	-	National Union	Binder 5353	03/31/07	1,715,446
City - Building & Contents	Property - Including Employee Dishonesty	750,000,000	100,000	Allianz/Royal	CLP3002102/K2HD325200	10/01/04	1,924,508
City	Boiler & Machinery	100,000,000	100,000	Pacific Indemnity	76417192	10/01/04	64,663
City	Notary Bond	15,000	-	Western Surety	N54082166	10/01/04	50
City	Notary Bond	15,000	-	Western Surety	N23366325	06/10/07	50
Parking Garages	Bldgs., including earthquake	25,000,000	5,000,000	Various	Various	10/01/04	188,354
45 N. Market Street							
280 S. Second Street							
75 N. Third Street							
Water Pollution	Automobile	1,000,000	-	United States Fire Ins.	133665853-5	10/01/04	130,187
Police Aircraft	Liability	50,000,000	-	Westchester	ACL770952	10/01/04	161,214
Helicopter	Hull (In-Motion/ Not In-Motion)	1,750,000	43,750/ 1,000	Westchester	B02062507089	10/01/04	incl. above
Cessna	Hull (In-Motion/ Not In-Motion)	257,000	500/ 100	Westchester	B02062507089	10/01/04	incl. above
Life Insurance	Accidental Death & Dismemberment	1,250,000	Per Accident	CIGNA	ABL633484	10/01/04	14,773
City	Flood - Specific Locations Only	Various	2,000	Omaha Property & Cas.	Various	03/04/05	16,151
City	Police Secondary Employment Prof. Liab.	2,000,000	10,000	Steadfast Ins. Co.	EOC3627782-01	10/01/04	515,551
City	Fiduciary Liability	1,000,000	1,000	Chubb Custom Ins. Co.	8169-3032	04/11/05	5,775
Library	Builders' Risk - Berryessa	6,648,000	10,000	Westchester (ACE)	I2066812A001	01/15/05	67,173
Community Center	Builders' Risk - Gardner Satellite	3,540,000	5,000	Fireman's Fund	MXI98109835	08/15/04	9,051
Residence & Barn	Builders' Risk - LeFevre Residence & Barn	1,050,000	10,000	Fireman's Fund	MXI98109834	08/30/04	10,488
New City Hall - OCIP	Liability - Primary	4,000,000	-	National Union	GL933-22-51-RA	07/01/05	3,256,203
New City Hall - OCIP	Liability - Excess	100,000,000	-	Various	Various	07/01/05	933,063
New City Hall - OCIP	Workers' Compensation - Employers Liability	Statutory	-	AIG	WC708-54-30	07/01/05	incl. above
New City Hall - OCIP	Owners Protective Professional Indemnity	10,000,000	250,000	Zurich	EOC4910547	07/01/05	580,781
New City Hall - OCIP	Builders' Risk (Fire Insurance)	242,000,000	50,000	Zurich	IM455061300	07/10/05	1,191,915

Source: Finance Department, City of San José

CITY OF SAN JOSE  
TEN LARGEST PUBLIC COMPANIES BY REVENUE  
( \$ 000's )

SCHEDULE XVIII

Company	Type of Business		Revenues Last 4 Quarters	4 Qtrs. Ended
Cisco Systems	Networking equipment	\$	19,819,000	1/31
Sanmina-SCI	Electronic manufacturing services		10,795,000	12/27
Calpine	Power-generation facilities		8,920,000	12/31
Knight Ridder	Newspaper publisher		2,946,000	12/29
Bell Microproducts	Electronics distributor		2,230,000	12/31
eBay	Internet-based auction services		2,165,000	12/31
Adobe Systems	Software for printing and display		1,421,000	3/5
Atmel	Semiconductors		1,331,000	12/31
Xilinx	Programmable logic devices		1,300,000	1/3
KLA-Tencor	Semiconductor manufacturing equip.		1,269,000	12/31

Source: The Silicon Valley 150